March Madness Caps the First Quarter of 2021

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Executive Summary

- March Madness in financial markets led to solid gains across equities and even pushed Small Caps to the top of the brackets; bonds dropped off the leader boards
- A roaring economy drove corporate earnings to shatter Wall Street growth expectations by a double-digit error spread margin
- U.S. and European manufacturing led the way, boding well for corporate earnings and global economic growth
- The Gamechanger Consumer did not disappoint, posting historical retail sales increases driven by solid jobs growth
- We are in a housing boom - testimony to the strength of the consumer

Markets saw their own March Madness

Markets were ablaze from the start of the first quarter but reached such a fever pitch during the last month of the period that March Madness is the only way describe it. Small cap stocks dribbled their way past all comers by the second week of March to achieve a stunning seven-handle return, which drove their year-to-date performance to nearly 20%, or more than triple their slow-moving granddad, the S&P 500. Not to be outdone, bond yields pivoted from down low to up high for a jumper that absolutely left the growth stocks flat-footed. This gave Russell 1000 Value* stocks a down court pass that they turned into a slam-dunk basket over Russell 1000 Growth* stocks, trouncing them by 10.2 percentage points for the month.

If that weren't enough excitement, while the financial sector surged as the traditional leader of Value, it was the deep-Value energy sector that came off the bench and stole the show, putting up 30% to trounce all comers. The jumper by bonds that benefited Value, caused a price injury on the longer-end of the curve, sending 20-plus year U.S Treasury bonds back to the bench with a -13.9% return. It may have been the market's bold inflation call that wreaked havoc in the stands, putting commodities - especially oil and copper - back into the game. The Federal Reserve strenuously objected from the sidelines to the inflation call but, was unceremoniously ignored.

In summary for the first quarter of 2021, the markets were as follows

- Equities, on average, surged 8.3%, led by small- and mid-cap stocks, with Emerging Markets the worst performer but still positive. There was a significant rotation out of Growth stocks and into Value across all capitalizations, which was a gusher for energy stocks and benefited the financial sector as well.
- Fixed income dropped 5.5% due to inflation fears, as yields on the 10-year U.S. Treasury more than double from 0.87% to 1.70%. This hurt long-duration U.S. Treasury bonds (20-plus years), which were the biggest contributor to the negative performance. Only High Yield bonds were able to eke out a positive return for the quarter on strengthening economic growth.
- Commodities crude oil, copper and gasoline jumped on robust signs of economic growth and inflation, while gold eased as the "fear gauge" - The CBOE Volatility Index (VIX)* - dropped by 14.73% to 19.40, just under its historical average.

*The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe. The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. The CBOE Volatility Index (VIX) is a real-time index that represents expectations for the relative strength of near-term price changes of the S&P 500 index. Because it is derived from the prices of S&P 500 index options with near-term expiration dates, it generates a 30-day forward projection of volatility.

Figure 1. Markets in the First Quarter of 2021

	Q1 2021	2020	3 years	5 years
Equity				
S&P 500	6.2	18.4	16.8	16.3
S&P Midcap	13.5	13.7	13.4	14.4
S&P Smallcap	18.2	11.3	13.7	15.6
Global REITs	6.1	-8.2	6.1	4.8
EAFE	3.6	8.3	6.6	9.4
Emerging Mkts	2.3	18.7	6.9	12.5
Average	8.3	10.4	10.6	12.2
Fixed Income				
Corporate	-4.6	9.9	6.2	4.9
U.S. Treasury 20+	-13.9	18.1	5.9	3.2
Global Aggregate	-4.5	9.2	2.8	2.7
High Yield	0.8	7.1	6.8	8.1
Average	-5.5	11.1	5.4	4.7
Overall Average	2.5	10.7	8.4	9.1

Source: FactSet, FTSE NAREIT, Voya Investment Management. The Overall Average model allocation includes 10 asset classes, equally weighted: S&P 500, S&P 400 Midcap, S&P 600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Bloomberg Barclays U.S. Corporate Bonds, Bloomberg Barclays U.S. Treasury Bonds, Bloomberg Barclays Global Aggregate Bonds, Bloomberg Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than one year. Past performance is no guarantee of future results. An investment cannot be made in an index.

Figure 2. Equity Markets Surged

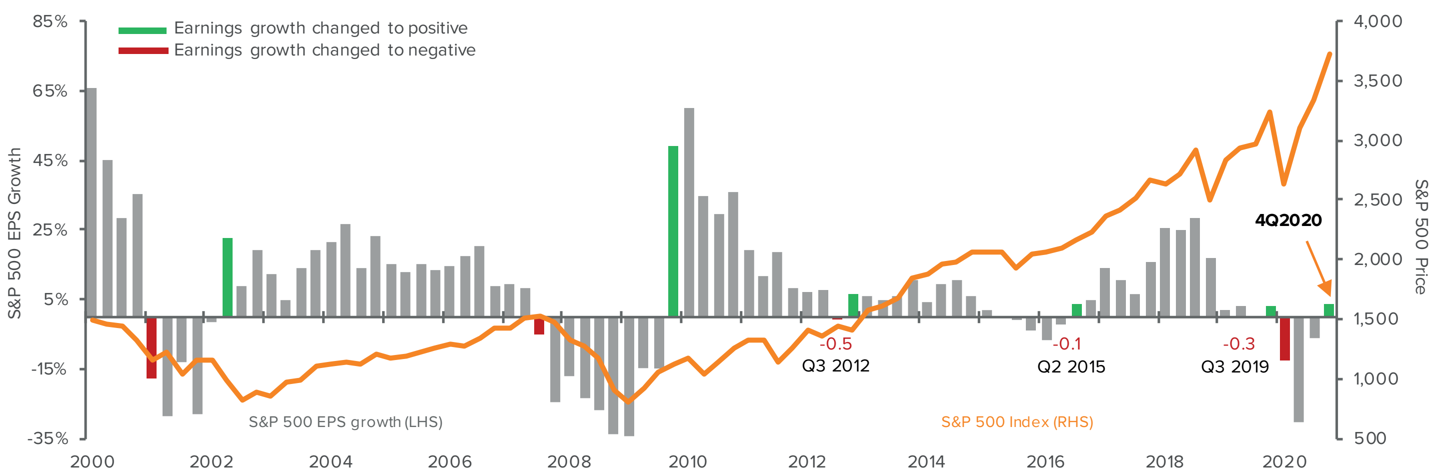
	Q1 2021	2020	3 years	5 years
Broad Market				
Dow Industrial	8.3	9.7	13.6	16.0
S&P 500	6.2	18.4	16.8	16.3
S&P 100 (OEX)	5.1	21.5	18.2	17.0
Nasdaq Composite	3.0	44.9	24.5	23.4
Large-Cap				
Russell 1000	5.9	21.0	17.3	16.7
Russell 1000 Value	11.3	2.8	11.0	11.7
Russell 1000 Growth	0.9	38.5	22.8	21.0
Mid-Cap				
Russell Mid-Cap	8.1	17.1	14.7	14.7
Russell Mid-Cap Value	13.1	5.0	10.7	11.6
Russell Mid-Cap Growth	-0.6	35.6	19.4	18.4
Small-Cap				
Russell 2000	12.7	20.0	14.8	16.4
Russell 2000 Value	21.2	4.6	11.6	13.6
Russell 2000 Growth	4.9	34.6	17.2	18.6
Overall Average	7.7	21.1	16.3	16.6

Source: FactSet, FTSE NAREIT, Voya Investment Management. The Overall Average model allocation includes 10 asset classes, equally weighted: S&P 500, S&P 400 Midcap, S&P 600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Bloomberg Barclays U.S. Corporate Bonds, Bloomberg Barclays U.S. Treasury Bonds, Bloomberg Barclays Global Aggregate Bonds, Bloomberg Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than one year. **Past performance is no guarantee of future results. An investment cannot be made in an index.**

Advancing Corporate Earnings

As the economy roared back, it brought S&P 500 corporate earnings growth with it. According to the latest Refinitiv report, with 498 of S&P 500 companies reporting, actual 4Q20 EPS growth was 4.1%, which defied the January 8, 2021 Wall Street consensus estimate of -9.8% -- a one-eighty directional mistake and an error spread of 13.9%. The bottom line is, don't rely on error-prone Wall Street earnings growth estimates; use actual data for decision-making.

Figure 3. Fundamentals Drive Markets



Source: Refinitiv – Thomson Reuters and FactSet, Voya Investment Management. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The S&P 500 index is a gauge of the U.S. stock market that includes 500 leading companies in major industries of the U.S. economy. Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.

Broadening Manufacturing

The first quarter was a blockbuster for U.S. and European manufacturing, which is good news as manufacturing tends to be a leading indicator of U.S. corporate earnings strength and influences global economic strength. Indeed, ISM Manufacturing for March rose to the highest since 1983 to 64.7 while the regional Philly Fed manufacturing index surged 28.7 points to a whopping 51.8 in March, its best print since the 58.5 in March of 1973. Back to the national ISM

- The jobs index rose to a three-year high of 59.6;
- New orders rose to a 17 year high of 68.0;
- Prices paid ticked down from a 13-year high of 86.0 to 85.8.

Meanwhile, Eurozone manufacturing PMI printed a record high of 62.5 in March, led by Germany's jump to a record high of 66.6%, as well as France's and Italy's solid readings of 59.8 and 59.3, respectively. America and Europe just combined for a one-two punch to boost global economic growth, which bodes well for the future

Consumer the Gamechanger

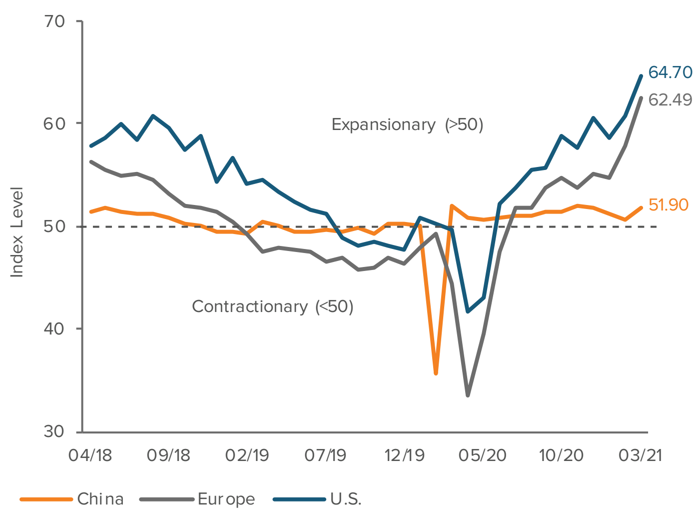
The consumer did not disappoint either. U.S. consumer confidence surged 19.3 points to 109.7 in March, much stronger than expected and finally breaking out of its doldrums. The last two monthly levels for Retail Sales are the highest in history, despite the February drop from the lofty January level of $579 billion for the month – wow.

Consumer spending is predicated on job growth and was given a boost by the massive March U.S. nonfarm payrolls report blowout, in which payrolls climbed 916,000. This after the 468,000 in February (revised up from 379,000) and the 233,000 (revised up from 166,000) increase in January, bringing the net upward revision for the first two months of the year to 156,000. The unemployment rate fell to 6.0% from 6.2%. The labor force surged 347,000 following the 50,000 rebound in February.

Meanwhile, jobs and still-low mortgage rates have been an elixir for the housing market. All major housing indicators were sitting near highs last seen during the big housing boom that ended in 2006. Home prices continue to rise sharply despite the usual seasonal winter price pull-back. Yes, we are having a Housing Boom. There, I said it out loud.

Figure 4. Blockbuster Manufacturing in the U.S. and Europe.

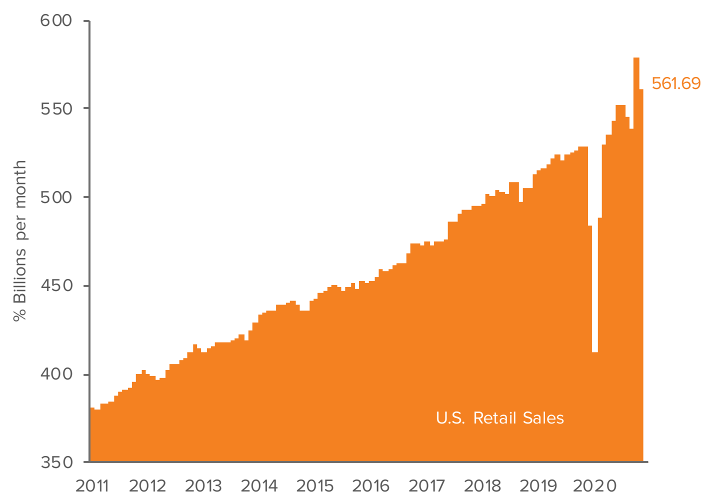
Global manufacturing PMIs



Source: FactSet, Voya Investment Management, as of 10/02/20. ECB = European Central Bank

Figure 5. Consumer as a Gamechanger

At about 70% of GDP, the U.S. consumer is a gamer changer



Source: FactSet. U.S. retail sales, as of 02/26/2021

Robinhood or LTCM?

It may not be surprising that the first quarter of 2021 was a time when the hedge funds were taken down by the retail investor, intertwining the names Robinhood, GameStop, Reddit and Melvin Capital forever. It was also a time that experienced the biggest margin call in history on Archegos Capital Management, which imploded on a multi-billion dollar fiasco reminiscent of the leverage that brought down Long-Term Capital Management (LTCM) in 1998. This was not investing, it was speculation.

As of publication, this liquidity feeding-frenzy shows no signs of abating, as the Federal Reserve feels compelled to pump $150 billion per month into the bond markets; the U.S. fiscal spending increase of $1.9 trillion and another $4 trillion in new infrastructure spending forthcoming. What could go wrong?

Conclusion

Corporate earnings are advancing, manufacturing is broadening and the consumer is - and continues to be - the gamechanger. And it is not just in the U.S., it is global. The world economy is back. As the relentless stimulus seeks to cure Covid-19, U.S. state budgets, and U.S. Infrastructure the one beneficiary for the time being is the stock market. This may be a once in a generation boom, so we advise to capitalize on it now and worry about the unintended consequences in the future. March Madness is a fun time of year for watching Men's and Woman's NCAA basketball, and this time, the stock market too

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