March 2021

Here are selected year to date return numbers through the end of February.

Stock Indexes

	(As of 02/28/21)*
Dow Jones Industrials	1.10%
S&P 500 Index	1.50%
NASDAQ Composite	2.40%
	(**As of 02/28/21)***
Russell 1000 Growth Index	-0.76%
Russell 1000 Value Index	5.07%
	(As of 02/28/21)*
Russell 2000 Index	11.58%
Russell 2000 Growth Index	8.28%
Russell 2000 Value Index	15.15%

Bond Index	**(As of 02/28/21)***
Barclays Cap. Aggregate Bond Composite Index	-2.15%

(Source: The Wall Street Journal & Russell Investments websites)

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

I believe there have been three significant narratives in the U.S. financial markets so far this year.

1. Change in growth/value leadership.
2. Change in large cap/smallcap leadership.
3. Rising long term interest rates.

I. From the end of 2010 to the end of 2020 the Russell 1000 Value Index doubled, while the Russell 1000 Growth Index quadrupled. **Source: The Wall Street Journal** This was a decade where names like Amazon, Netflix, Facebook, and Tesla dominated the U.S. stock market headlines.

As you would expect this led to a significant difference in valuation. At the end of February, the Russell 1000 Value Index traded at 21.89 times the past 12 months' earnings, according to FTSE Russell. For the Russell 1000 Growth Index, that figure was 37.22.

The U.S. equity market worm has turned.

Through the end of February, the year to date return for the 1000 Growth Index was -0.51%, while its value counterpart return was 5.07%. **Source: Blackrock**

Of course, no one knows if this is simply a market head fake, or if this is the beginning of a change in U.S. equity leadership, reminiscent of what occurred when the so-called dot-com bubble burst in March 2000. Value then outperformed growth until the global financial crisis in 2008.

II. Another interesting phenomenon involves small cap and large cap U.S. stocks. In addition to the aforementioned growth/value performance, large cap stocks have done better than their small cap brothers and sisters.

As of March 12, 2021, the small cap Russell 2000 has returned 19.33%, while the Dow Jones Industrial Average and the S&P 500 Index have returned 7.60% and 5.32% respectively.

This may be a reversion to the mean. The trailing price earnings ratio for the large cap Russell 1000 is 27.7 versus 22.83 for the Russell 2000. **Source: BMO Global Asset Management**

As always, I have no idea what will happen. Time will tell humility borne out of years of painful experience.

III. I have written previously about my concerns for the bond market.

This year we celebrate the 40th anniversary of the peak in interest rates when the benchmark 10 year Treasury was priced to yield at above 15%. Amazing!

We have enjoyed a tailwind of falling rates and falling inflation. This has helped returns for real estate, stocks, and bonds. I remember my 9 7/8% mortgage obtained in 1978. I considered myself lucky to have a rate below 10%. Once again, Amazing!

This year things have changed. While the Federal Reserve is publicly committed to holding the Fed Funds rate at 0-0.25%, and thus your money market fund returns near zero, longer term interest rates have risen.

The value of a 30 year U.S. Treasury bond fell 15.6% in just three months. That is almost a decade of income it offered three months earlier. **Source: The Wall Street Journal**

Through March 12, 2021 several bond market returns are in the red.

Year to date total return

U.S. Aggregate	-3.35%
Intermediate government/credit	-1.75%
U.S. Treasury	-4.06%
Investment Grade Corporate	-5.10%

Source: BMO Global Asset Management

Some economists believe this is an indicator that investors are becoming increasingly optimistic about the outlook for the U.S. economy. That is good news for stocks and less so for bonds.

Finally, here are three interesting sets of numbers I recently encountered.

President Trump declared the **coronavirus pandemic** a "**national emergency**" on Friday 3/13/20. Over the **1-year since that announcement,** i.e., Monday 3/16/20 through Friday 3/12/21/ the S&P 500 **gained +48.0% (**total return), in spite of a horrible **12/0% loss** (total return) on Monday 3/16/20) **Source: BTN Research**

In the **1-year** since the declaration of a **"national emergency"** on 3/13/20, the **U.S. national debt** has increased **$4.46** trillion from **$23.44** trillion to **$27.90** trillion.
Source: Treasury Department

Money market funds in the United States, including retail and institutional funds, both taxable and tax-free, have increased **$615 billion** (to $4.39 trillion) over the **last 12 months** through Friday 3/12/21, an **average increase** of **$12 billion a week**.
Source: Investment Company Institute

And finally, I was recently chatting with a friend and client named Bill. He asked me to share this.

When Bill called and I asked him how he was doing, he said he was watching too much television and spending too much time online. Bill is retired.

He said "experts" were predicting the collapse of the U.S. economy. The federal government is going to confiscate everybody's IRA's, Roth IRA's, and 401K plans. The government is going to get rid of cash/currency.

Bill keeps seeing some fellow standing on the bow of a battleship saying to sell everything you own and buy gold coins.

And the final blow is to watch Jo Namath selling Medicare insurance, and Tom Selleck peddling reverse mortgages.

At the end of our 45 minute conversation we agreed, the best course of action is to watch less television and get off the internet.

My parents always told me I was watching too much TV.

Thanks for taking the time to read my monthly newsletter and for listening in on Money Talk.

Warmest regards,

Carl

Carl W. Stuart
Investment Advisor

- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative. of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
- The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities.
- The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
- The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material, is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Carl W. Stuart. There is no guarantee that these statements, opinions, or forecasts provided herein will prove to be correct.
- All investing involves some degree of risk, investors may incur a profit or loss regardless of the strategy or strategies employed. Investments mentioned may not be suitable for all investors.