RAYMOND JAMES

Monthly Market Review

Rising Treasury Yields Driven By 'Rosier' Outlook For The Economy

February 2021

Inflation Fears Became A 'Thorn' In The Equity Market's Side In Final Trading Days Of The Month

Monthly Highlights

- US COVID-19 Trends Improve As 72+ Million Vaccinations Are Administered to Date.
- $1.9 Trillion Rescue Stimulus Package Passes the House & Moves to the Senate for Further Debate.
- The Fed Balance Sheet Reaches a New Record Level in Efforts to Maintain the Recovery's Pace.
- ISM Manufacturing Index Reaches Highest Level Since February 2018 Due to New Orders Strength.
- Retail Sales Post Best Month Since June 2020.
- 10-Year Treasury Yield Rises 37 Basis Points To Reach the Highest Level Since February 2020.
- Municipal Bond Spreads Decline to the Lowest Level Since April 2010 Intra-Month.
- Better Than Expected 4Q20 Earnings Lead to a New Record High for the S&P 500.
- Market Volatility Index Closes Below 20 for the First Time Since the Pandemic Began Before Spiking at Month End Due to Inflation Fears.
- Small-Cap Equities Outperform Large-Cap Equities for Sixth Consecutive Month—Longest Streak Since 2003.
- US Dollar Falls to the Lowest Level Since 2018.
- Copper Prices Reach the Highest Level Since 2011.
- Crude Oil Posts Best Month Since May 2009 as Prices Reach the Highest Level Since May 2019.

Economy | Powell's 'Heart-To-Heart' With Congress Confirms The Fed's QE Stance.

- The second reading of **4Q20 GDP** was revised higher (+4.1% quarter-over-quarter (QoQ)), but the economy still ended the year ~2.4% below pre-pandemic levels. Personal consumption (+2.4%) was relatively weak despite the holiday season; however, business fixed investment (+14.0%) was a source of strength.
- The US surpassed 28 million **COVID-19** cases, but the 7-day average for new cases declined to the lowest level since October (~68k.)
- The US has administered over 72 million **vaccines**, with the daily inoculation rate rising to 1.6 million.
- Johnson & Johnson's vaccine was granted Emergency Use Authorization from the FDA, and the company plans to ship 20 million doses by the end of March.
- The **Fed's balance sheet** reached a record ~$7.6 trillion as bond purchases continue. Chair Powell confirmed the Fed's accommodative stance would not waiver as the economy is still "a long way" from the inflation and employment goals set forth.
- The $1.9 trillion 'Rescue' stimulus deal passed the House, and moves to the Senate for debate.
- **February ISM Manufacturing** (60.8) remained in expansion (a level above 50) for the ninth month due to strength in new orders (64.8 vs. 61.1 in January).
- **The US gained 49k jobs** in January, and the unemployment rate fell further to 6.3%.
- **Jobless claims** fell below the 800k threshold for the first time since January and declined to the lowest level since November (730k) in the final week of the month.
- The pace of **headline inflation** (+1.4% YoY) rose slightly, reaching the fastest pace since September. The pace of **Core CPI** (+1.4% YoY) fell slightly, and is still well below the February pace (+2.4% YoY). Despite muted results, fears of inflation in the months ahead started to emerge.
- **Consumer confidence** (91.3) rose to the highest level since November due to strength in the "present situation" subsector, which posted its first and best monthly gain since October due to vaccine progress.
- **Core retail sales** (ex. food, autos, and gas, +6.0% month-over-month (MoM)) posted their best month since June after three months of declines. The year-over-year pace (+11.8%) is nearly triple the 10-year average (+4.1%).
- **Housing data** was positive as building permits (+10.7%), new home sales (+4.3%), and existing home sales (+0.6%) increased, while housing starts (-6.0%) declined. The pace of home price gains (S&P Case Shiller Home Price Index +10.1% YoY) rose for the sixth straight month, reaching the fastest pace since April 2014.
- **China's Manufacturing PMI** (50.6) remained in expansion territory (a level above 50) but declined to the lowest level since February 2020.
- **Euro Zone Manufacturing PMI** (57.7) rose to the highest level since February 2018. Euro zone economic sentiment (93.4) improved for the second consecutive month, and rose to the highest level since March 2020.

Fixed Income | Rising Treasury Yields Show 'No Love' Toward Most Sectors.

- The **Bloomberg Barclays US Aggregate Index** (-1.4% MoM) declined for the second consecutive month and posted its worst decline since November 2016. Although investment-grade spreads and high-yield spreads both narrowed, rising Treasury yields weighed on the broader fixed income market.
- **International sovereign bonds** (G7 ex. US -2.5%) posted their worst month since November 2016 on the back of rising global sovereign bond yields.
- **Treasurys** (-1.8%) declined for the third consecutive month and posted their worst month since November 2016 as the 10-year Treasury yield rose 37 basis points to the highest level since February 2020. Treasury yields rose due to improving economic activity.
- **US investment-grade bonds** (-1.7% MoM) posted their worst month since March despite spreads narrowing 36 basis points throughout the month. The weakness was led by the Utilities sector (-2.5%).
- **Municipals** (-1.6% MoM) declined for the first time since October despite municipal bond spreads narrowing to the lowest levels since April 2010 intra-month. All three sectors (GO, Revenue, HY) declined.
- **Emerging market bonds** (-1.4% USD MoM) declined for the second consecutive month and posted their worst monthly loss since March due to rising sovereign yields and inflationary fears.
- **TIPS** (-0.7% MoM) posted their first decline since October and worst month since March but outpaced Treasurys for the tenth time in eleven months.
- **High-yield bonds** (+0.4% MoM) rallied for the tenth time over the last eleven months due to strength in the Energy sector. High-yield spreads narrowed an additional 7 basis points during the month, falling to the lowest levels since January of last year.

Equities | Investors Still 'Smitten' With Small Cap Amid Reopening Optimism.

- **Global equities** (MSCI All Country World Index +2.3% USD MoM) rallied for the third time in four months as economic activity and vaccine supply improved across the globe. However, rising sovereign yields amid inflation fears sparked volatility at month-end.
- **US Small-Cap** equities (Russell 2000 +6.2% MoM) rallied for the tenth time in eleven months and outpaced large-cap equities for the sixth consecutive month—the longest streak since 2003.
- **U.S Large-Cap** equities (S&P 500 +2.8% MoM) were on pace for their best month since November before rising Treasury yields amid inflation fears caused the S&P 500 to decline 2.9% in the final two trading days of the month. Better than expected 4Q20 earnings, improving economic activity and ramped up vaccine dissemination led to a new record high intra-month.
- 7 of 11 **S&P 500 sectors** were positive, with elevated dispersion at the sector level. The Energy sector (+22.7%) was the best performer while the Utilities (-6.1%) sector was the worst performer.
- **European** equities (MSCI Europe ex UK +2.1% USD MoM) rallied for the third time in four months but underperformed global equities for the fourth time over the last five months.
- **Japanese equities** (MSCI Japan +1.5% USD MoM) rallied for the third time in four months, but were outpaced by global equities for the third month.
- **EM equities** (MSCI EM +0.8% USD MoM) rallied for the tenth time over the last eleven months but were outpaced by the developed markets (MSCI EAFE USD +2.3% MoM) for the first time in three months.
- Within EM, **Asia** (MSCI Asia ex JP +1.3% USD MoM) outperformed **LATAM** (MSCI LATAM -3.0% USD MoM) for the second consecutive month.

Commodities | Investors 'Enamored' With Oil Rally As Further Vaccine Progress Is Made.

- The **Bloomberg Barclays Commodity Index** (+6.5% MoM) rallied for the ninth time in ten months and posted its best month since August. Further vaccine progress, which should allow a sustainable reopening in the months ahead, benefitted the asset class.
- The **US Dollar Index** (+0.3% MoM) rallied for the second straight month. After declining to the lowest level since April 2018 last month, elevated volatility due to rising Treasury yields heightened demand for less volatile assets, which led the dollar to strengthen.
- The **Bloomberg Energy Index** (+15.4% MoM) posted its best month since May 2009. OPEC and Russia had agreed to keep production levels steady, and US production was impacted by severe storms. With the global economy making further progress toward a sustainable reopening, improving demand allowed crude oil prices to rally (+17.8%) to the highest level since May 2019. Strength in natural gas prices (+9.6%) due to colder weather also led the index higher.
- The **Bloomberg Industrial Metals Index** (+10.1% USD MoM) posted its tenth month of gains over the last eleven months as copper prices (+15.1%) rose to the highest level since August 2011 intra-month.
- The **Bloomberg Softs Index** (+9.2% MoM) rose for the eighth time in the last nine months due to strength in sugar prices (+3.9% MoM).
- The **Bloomberg Grains Index** (+0.7% MoM) rallied for the seventh consecutive month due to strength in soybean oil (+11.9%) and soybean (+2.5%) prices.
- The **Bloomberg Precious Metals Index** (-5.5% MoM) declined for the fifth time in six months as gold prices (-6.6% MoM) receded further from the recent historic high of $2,069/oz. Weakness in silver prices (-1.8% MoM) also led the index lower.

Figure 1: Retail Sales Post Best Month Since June 2020

After three consecutive months of declines, core retail sales rebounded to post the best month since June of last year.

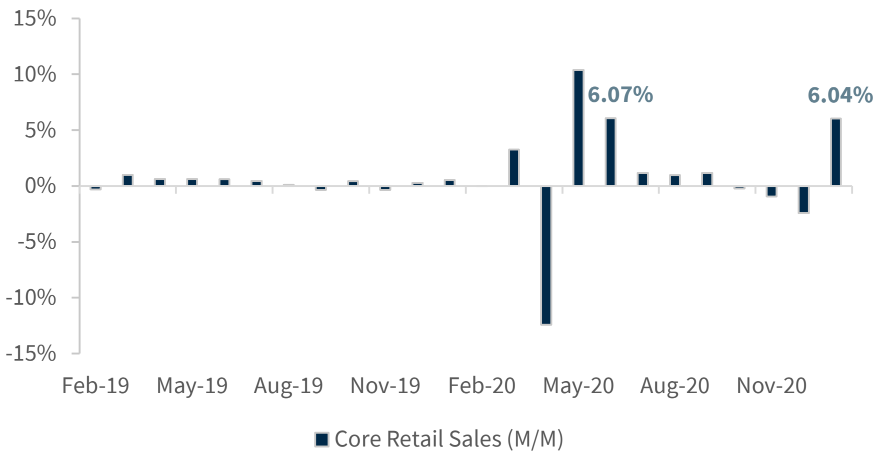

Figure 2: Trend of Sector Dispersion Still Intact

7 of the 11 S&P 500 sectors were positive for the month, with dispersion still evident. The Energy sector (+22.7%) was the best performer while Utilities (-6.1%) was the worst.

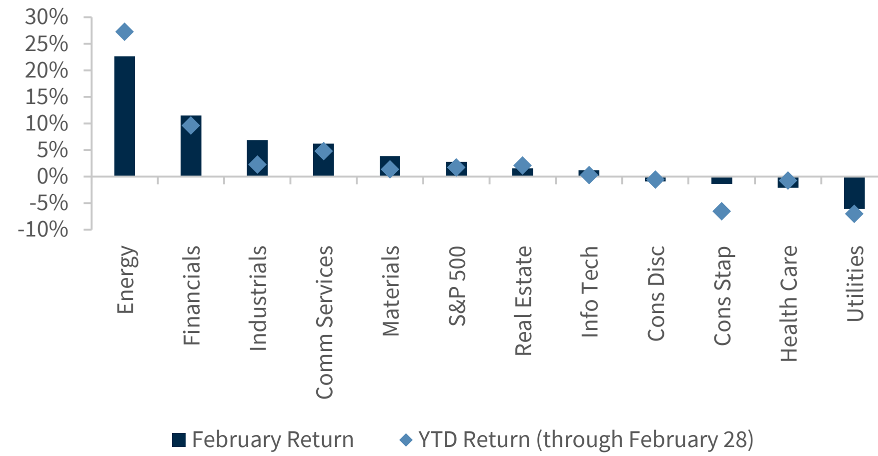

Figure 3: 10-Year Treasury Yield Rises To Post-Pandemic High

The 10-year Treasury yield rose 37 basis points to the highest level since February 2020 as fears of inflation in the months ahead induced volatility in the financial markets.

Figure 4: Copper Prices Reach Highest Level Since 2011 Intra-Month

The Bloomberg Industrial Metals Index rallied over 10% as copper prices soared to the highest level since August 2011 intra-month.

Fixed Income | Sovereign Bond Yields On The Rise

	February	YTD	1 Year	3 Year	5 Year	10 Year
High Yield	0.4%	0.7%	9.4%	6.6%	9.1%	6.5%
TIPS	-0.7%	-0.1%	6.0%	5.3%	3.7%	2.7%
EM Bonds	-1.4%	-2.3%	2.7%	5.3%	6.2%	5.7%
US Aggregate	-1.4%	-2.2%	1.4%	5.3%	3.6%	3.6%
Municipals	-1.6%	-1.0%	1.1%	4.8%	3.4%	4.4%
US Investment Grade	-1.7%	-3.0%	2.8%	6.9%	5.9%	5.2%
Treasuries	-1.8%	-2.8%	-0.1%	5.0%	2.6%	3.1%
International Bonds	-2.5%	-3.9%	3.0%	1.7%	2.6%	0.9%

Equities | Small Cap Outperforms Large Cap

	February	YTD	1 Year	3 Year	5 Year	10 Year
Russell 2000 Value	9.4%	15.2%	41.1%	10.1%	14.2%	9.7%
Russell 2000	6.2%	11.6%	51.0%	14.9%	17.8%	11.9%
Russell 1000 Value	6.0%	5.1%	22.2%	8.2%	11.8%	10.4%
Russell 2000 Growth	3.3%	8.3%	58.9%	18.9%	21.0%	13.8%
DJ Industrial Average	3.2%	1.1%	21.7%	7.3%	13.2%	9.7%
Russell 1000	2.9%	2.1%	34.3%	15.0%	17.2%	13.6%
S&P 500	2.8%	1.7%	31.3%	14.1%	16.6%	13.4%
Russell 1000 Growth	0.0%	-0.8%	44.3%	21.0%	22.0%	16.4%

Commodities & FX | Oil Prices Continue Reopening Rally

	February	YTD	1 Year	3 Year	5 Year	10 Year
Crude Oil (WTI)	17.8%	26.8%	37.4%	-0.1%	13.4%	-4.5%
BBG Energy Index	15.4%	21.7%	-7.6%	-12.4%	-2.9%	-14.4%
Copper	15.1%	16.3%	61.1%	9.3%	14.0%	-0.9%
BBG Industrial Metals	10.1%	10.1%	41.7%	2.6%	9.8%	-3.6%
BBG Commodity Index	6.5%	9.3%	20.1%	-1.1%	2.5%	-6.5%
US Dollar Index	0.3%	1.0%	-7.4%	0.1%	-1.5%	1.7%
BBG Precious Metals	-5.5%	-7.0%	16.3%	8.0%	5.8%	-0.7%
Gold	-6.6%	-8.8%	10.3%	9.5%	7.2%	2.1%

International Equities (in USD) | Developed Markets Outperform EM Equities

	February	YTD	1 Year	3 Year	5 Year	10 Year
MSCI UK	3.6%	3.4%	9.2%	0.0%	4.9%	2.8%
MSCI AC World	2.3%	1.9%	30.9%	10.9%	14.8%	9.4%
MSCI EAFE	2.3%	1.2%	23.0%	5.1%	10.3%	5.5%
MSCI Europe ex UK	2.1%	0.3%	24.7%	6.4%	11.1%	6.2%
MSCI Japan	1.5%	0.5%	28.9%	5.6%	11.6%	6.4%
MSCI Asia ex JP	1.3%	5.4%	42.4%	9.6%	17.0%	7.9%
MSCI EM	0.8%	3.9%	36.5%	6.7%	15.7%	4.8%
MSCI LATAM	-3.0%	-9.5%	-5.8%	-7.4%	7.7%	-3.9%

S&P 500 Sectors | Energy Sector Boosted By Higher Oil Prices

	February	YTD	1 Year	3 Year	5 Year	10 Year
Energy	22.7%	27.3%	11.1%	-5.8%	0.3%	-1.7%
Financials	11.5%	9.6%	24.6%	6.2%	15.8%	11.2%
Industrials	6.9%	2.3%	25.9%	8.0%	13.2%	11.5%
Communication Services	6.2%	4.8%	37.1%	17.2%	10.7%	10.6%
Materials	3.9%	1.4%	42.4%	9.7%	14.2%	8.9%
Real Estate	1.5%	2.1%	5.1%	11.2%	8.9%	9.2%
Information Technology	1.2%	0.3%	49.7%	26.1%	29.3%	20.0%
Consumer Discretionary	-0.9%	-0.5%	42.5%	17.5%	18.4%	17.0%
Consumer Staples	-1.4%	-6.5%	12.3%	8.9%	7.4%	10.9%
Health Care	-2.1%	-0.7%	24.1%	12.4%	13.0%	15.4%
Utilities	-6.1%	-7.0%	-2.8%	9.7%	8.5%	10.2%

Key Asset Class Levels

	February	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	3,811	3,756	3,116	2,780	1,948	1,320
DJIA	30,932	30,606	26,958	25,709	16,640	12,130
MSCI AC World	657	646	540	528	373	342
S&P 500 Dividend Yield	1.55	1.55	2.00	1.93	2.45	2.00
1-3M T-Bills (Cash, in %)	0.04	0.06	1.55	1.57	0.27	0.11
2YR Treasury Yield (in %)	0.14	0.12	1.15	2.21	0.80	0.69
10YR Treasury Yield (in %)	1.46	0.91	1.31	2.86	1.76	3.43
30Yr Treasury Yield (in %)	2.19	1.64	1.80	3.15	2.64	4.52
EURUSD	1.21	1.22	1.09	1.23	1.09	1.37
Crude Oil - WTI ($/bbl)	61	49	49	64	33	98
Gold ($/oz)	1722	1895	1643	1333	1220	1409

Data as of February 28, 2021: Asset classes ranked by February performance.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

INTERNATIONAL DISCLOSURES

DATA SOURCES:

FactSet, as of 2/28/2021

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