ASTORIA PortfolioAdvisors

Index Performance

- In February, US Small-Caps and US Mid-Caps were amongst the leaders (up 7.63% and 6.68%, respectively). Other notable moves include US Large-Caps, International Developed equities, and Broad-based Emerging Markets which increased by 2.78%, 2.55%, and 0.79%, respectively. Meanwhile, China fell 0.47%.

- US bonds struggled as Investment Grade Corporate Bonds decreased by 2.26%, the US Aggregate Bond Index declined by 1.53%, and High Yield Credit fell 0.24%.

- Commodities produced mixed returns. Crude Oil surged 17.42% and Broad-based Commodities climbed 6.30% while Silver fell 1.32% and Gold declined by 6.26%.

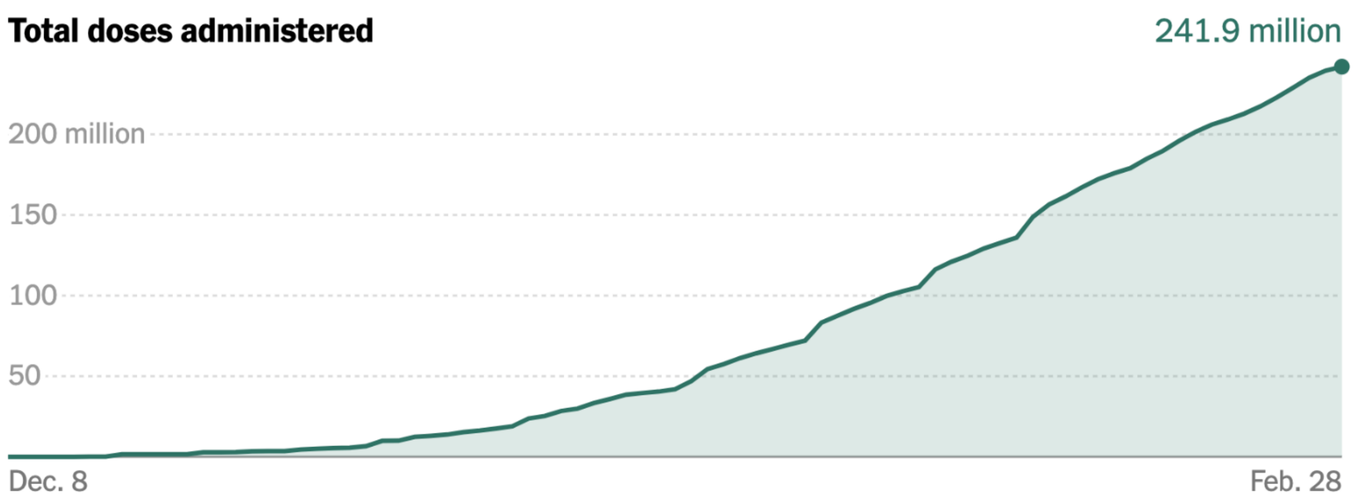
Rising Rates: US interest rates rose in February amid increasing inflation and thus optimism regarding the outlook of the US economy. The yield on the 10-year US Treasury reached over 1.6% on February 25th, its highest level in the past year.

Powell's view on Inflation? Although stocks took a hit over concerns of high inflation and a potential shift in monetary policy, Federal Reserve chairman Jerome Powell expressed that the economy is still far from a full recovery, despite its recent progress. In his testimony to Congress, Powell emphasized that a surge in asset prices doesn't necessarily lead to inflation since it is more of a "year-over-year" outcome. He also stated that it could take more than three years for inflation to reach the Fed's 2% target and stressed that the Fed's policy is geared towards restoring the economy to full employment.

Bitcoin: After soaring to an all-time high of over $58,000 and surpassing $1 trillion in market value, Bitcoin fell as some investors expressed worry of its swift increase in price. This was likely influenced by US Treasury Secretary Janet Yellen who voiced that Bitcoin is an "inefficient way of conducting transactions" and that it is a speculative and volatile asset. Even after Tesla announced its $1.5bln purchase of Bitcoin earlier in the month, Elon Musk later commented that Bitcoin's price appeared to be high. As of February 16th, data from a J.P. Morgan report indicates that only $11bln of the $700bln + of inflows into Bitcoin since September 2020 are institution-based, which suggests that Bitcoin's price movement could be heavily attributed to retail momentum-based trading.

COVID-19 Vaccinations: Globally, more than 241.9mln doses of the COVID-19 vaccine have been administered. While distribution of the vaccine in the US experienced a slow start, more than 7.5% of the population has been fully inoculated as of February 28th.

Exhibit 1



Source: The New York Times

Out of Growth, into Value

Investors have begun fleeing both US Treasury bonds and US growth stocks, specifically technology names. When interest rates rise, the present value of future cash flows decreases which in turn causes long duration assets to decline in value. The discounted long-dated earnings of growth stocks become less attractive as interest rates materially rise. Hence, market participants have rotated into more value-oriented names, particularly cyclical stocks like energy, industrials, financials, and materials.

Pause on the Small-Cap rally?

Since October 30, 2020, Small-Cap stocks (up 46%) have rallied and outperformed Large-Cap stocks (up 17%). Not only are Small-Cap stocks currently cheaper than Large-Cap stocks, but more importantly, they are sensitive to the economy. As the economy accelerates, Small-Caps are expected to experience greater tailwinds relative to their Large-Cap peers. Though in February, the Small-Cap rally seemed to take a pause as rates materially increased. Keep in mind Small-Cap companies use more debt for funding rather than equity, and as rates increase, the cost of borrowing increases. However, analysts suggest that Small-Caps will continue to outperform given their inexpensive valuations and potential for earnings growth which is likely to be further fueled by financial stimulus.

Earnings and Revenue

According to Morgan Stanley research, the 4Q20 US reporting season remains on track to deliver outsized earnings and revenue beats for a third straight quarter. As of February 24th, approximately 76% of companies in MS Chief Quantitative Strategy's universe, which represents 88% of the market cap, have reported Q4 earnings. Of those, 63% have surprised to the upside on earnings, beating estimates by 17.1%. 56% have done so on revenue, beating estimates by 2.4%.

US Retail Sales

US Retail Sales grew 5.3% in the month of January, significantly exceeding economists' estimates of 1.2%. The sizable increase can be attributed to the second government stimulus package of $900bln signed by former President Donald Trump, which included direct payments of $600 for each qualifying individual. Given US Retail Sales have been declining month-over-month since September 2020, the January report marks the first increase in 3 months. This is an encouraging sign for the US economy as consumer spending represents a significant portion of GDP and is likewise used to gauge the health of the economy.

More Government Stimulus?

On Saturday, President Joe Biden's $1.9 trillion stimulus package was approved by the House of Representatives. Next, the bill will go to an evenly split Senate which is expected to debate and amend the plan. The House then has to agree with the revisions of the Senate before President Biden can sign the bill into law. The timeliness of legislative decision making will be crucial in the next few weeks as jobless benefits currently in place expire on March 14th. A few provisions highlighted the relief package include direct payments of $1,400 per individual, an extension of federal unemployment benefits, an expansion of child income tax credits, and $15 federal minimum wage (although Republicans and even some Democrats are uncertain if a wage increase should be included in the bill).