Heacock & Jones
Financial Services, Inc.

Market Commentary - March 2021

Following are the year to date results of the major market indexes:

	YTD
Dow Jones Industrial Average	7.76%
Standard & Poor's 500	6.17%
NASDAQ Composite	2.78%
Wilshire 5000	6.08%
MSCI EAFE (International Index)	2.83%
Barclays Aggregate **Bond** Index	- 3.37%

On December 27, 2020, the Consolidated Appropriations Act created $2.3 trillion of stimulus funding. On March 11, 2021, the American Rescue Plan created an additional $1.9 trillion of stimulus funding, effectively increasing total pandemic stimulus funding to $7.2 trillion!! Government Debt-to-GDP now exceeds 130%.

Following the Federal Reserve's March 17, 2021 meeting, they explicitly intend to maintain the Federal Funds rate at 0.1% through 2023. They also plan to continue monthly bond purchases (quantitative easing) of $120 billion as a tool to keep short term interest rates low. Since the onset of the pandemic, the Fed has increased the money supply by $3.5 trillion, effectively an 88% increase!! By comparison, in the 2008 financial crisis, the Fed added $1.25 trillion in money supply.

The Centers for Disease Control projects that 78% of the U.S. population will have received a first or single vaccination dose by July 2, 2021. As state lockdowns are lifted, employment will improve and consumer spending will return to more normal activity. The combined Government stimulus funding, Federal Reserve stimulus, and distribution of vaccinations will provide a boost to economic activity for the next several months. Wall Street's reaction is to "Let the party roll on!"

Meanwhile, inflation continues to percolate, which is putting upward pressure on longer term mortgage rates. The Federal Reserve is content to allow inflation, and thus prices, to move higher. Their immediate priority is to restore full employment. Given the Fed's complacent view on inflation, without any intervention by them, higher prices will persist for several months or longer.

Mortgage rates have moved up about 0.5% and will not return to their January lows for another couple years. Before rates move higher, consider refinancing mortgages soon. However, in the long term, there is too much government debt for rates to stay high.

Paul Heacock, CFA

"Prosperity derives from the hard work, creativity and ingenuity of a country's people, not by the federal government spending funds that it does not have."
— Adam Smith

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