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Stocks finished February higher, even after significant weakness late in the month. Large cap stocks in the S&P 500 index finished the month, up 2.76%. Small cap stocks in the Russell 2000 continued to outperform large caps with an impressive 6.23% gain. International stocks in the MSCI EAFE index also performed well, up 2.24% in February. Emerging market stocks were also up with a smaller gain of just 0.76%. The Barclays US Aggregate Bond Index stumbled in the face of rising bond yields and finished down -1.44%. The 10-year treasury yield continued to climb higher and ended February at 1.46%.

The daily number of confirmed new cases of COVID-19 has declined sharply since the beginning of January. This has come as a bit of a surprise to medical experts who predicted a new wave to follow holiday gatherings. The decline also began too soon to be attributed to a ramp up in vaccinations. Some now believe that the number of people who have been infected is as much as 4 times higher than the number of confirmed cases resulting in antibodies occurring in a larger percentage of the population than previously thought. This theory gains even more credibility when you consider that the decline in new infections seems to be worldwide.

We now have vaccinations approved for emergency use by 3 companies. Daily vaccinations are exceeding 2 million per day and 80 million doses have now been administered in the US alone. States are beginning to ease restrictions in a meaningful way, and it is now possible that most restrictions will be reduced or eliminated by summer in many states.

As restrictions are withdrawn and confidence returns, we will undoubtedly see the economy improve from a restoration of normal activity. Pent-up demand, especially in the travel and leisure sector should extend activity further. We are already seeing a dramatic increase in hotel, flight, and cruise reservations. We are also seeing an increased interest in dining out and that will increase further as weather improves this spring.

Even with the recovery underway we are still seeing a strong federal government response from both the Federal Reserve as well as stimulus payments to individuals and state and local governments. Government spending will ultimately pump trillions of additional dollars into the economy due to the pandemic. This will most likely lead to inflationary pressures; in fact, we are already beginning to see inflation in pockets of the economy. The Fed has said that "genuine" inflation will have to be above 2% for an extended period-of-time before they would act. They also said they will give markets plenty of notice before they would taper indicating that short-term rates will stay low for a while.

Unemployment continues to improve. Once the economy is open and the restaurants and travel related industries can hire again, JPMorgan strategist David Kelly believes jobs will come back quickly and unemployment could be down to 4.5% by year-end. Furthermore, he sees that we could be close to full employment in 2022.

The recovery has not been limited to the United States. As we see the infection rate decline worldwide, we are also seeing economic growth pick-up almost everywhere. We are still at the early stage of recovery and expect it to accelerate as the year progresses.

We are seeing some sector rotation in stocks leading to a renewed interest in value stocks. Fixed income may continue to struggle in the short term in a rising rate environment, but it does provide security and stability when stocks turn volatile. Please contact your advisor with any questions.

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