Retire sooner? Retire later?

Or just retire from worrying about it.

Bangor Wealth Management

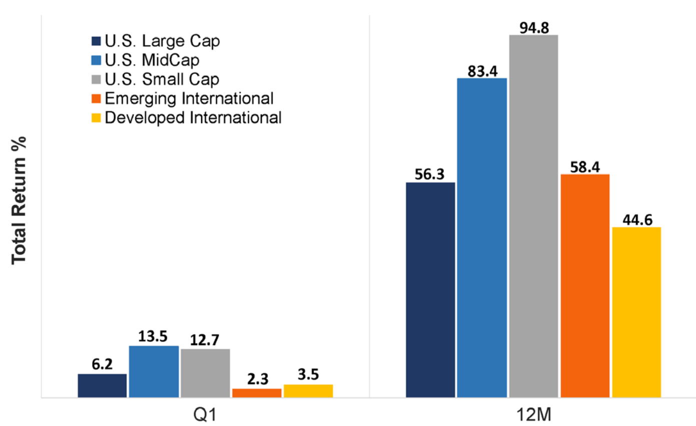
Key Takeaways

- The bull market in stocks continued in the first quarter and spread beyond large cap growth stocks. Value investments finally get a turn in the spotlight.
- The U.S economy is expected to grow at the fastest pace since 1984.
- Long term U.S. Treasury yields rose sharply in reaction to an accelerating recovery and higher inflation expectations.
- Major fixed income markets declined as a result of rising yields.
- The stock market has put up strong results – can we expect more?

Strong Stock Market Momentum

2021 is off to a good start, as major stock markets all delivered positive returns in the first quarter. March 31 marked the one year anniversary of the market bottom last year, and the subsequent rally has delivered some eye catching returns. The S&P 500 large-cap index surged 56% on a total return basis over the period, the best twelve month return since its inception. The economically sensitive small and mid-cap stocks churned out stunning returns of 95% and 83% respectively; also the best twelve month return in their history (Fig 1.)

Fig 1. Stock markets delivered strong returns in Q1 and 12M returns set records for all three major domestic indices

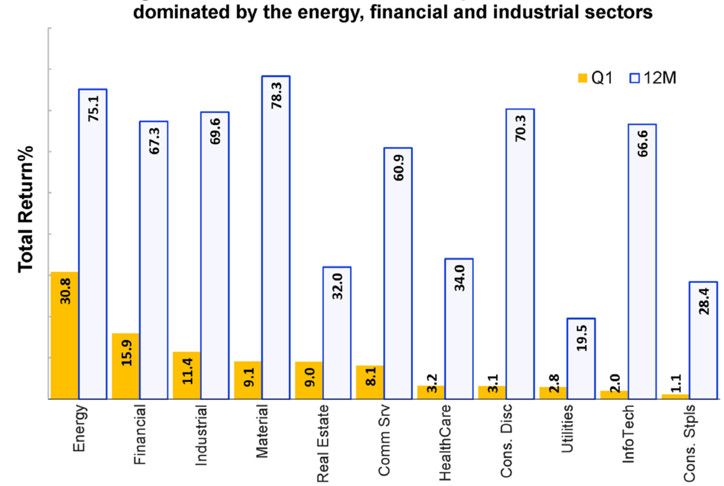


Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Financials, transportation, industrial, and in particular, energy stocks have seen a significant resurgence. Energy has been the best performing sector by a wide margin, up over 30% year to date. In comparison, the perennial market leader, information technology, returned 2%, ranking near the bottom for the quarter. This dramatic difference in sector performance is part of a continuing shift that began late last year. Investors have been moving away from the pandemic winners (growth stocks) into the more economically sensitive laggards (value stocks).

The rotation we are witnessing out of growth and into value has been long overdue. We have written in the recent past about the extreme disparity between these two investment styles. As with most events of this type, the pendulum will inevitably swing in the opposite direction. Determining just when that might occur and how long it persists is the challenging part. But, when considering sector returns for the quarter, it is cyclical value's turn to be on top (Fig 2).

Fig 2. All of the S&P 500 sectors had positive returns in Q1, dominated by the energy, financial and industrial sectors

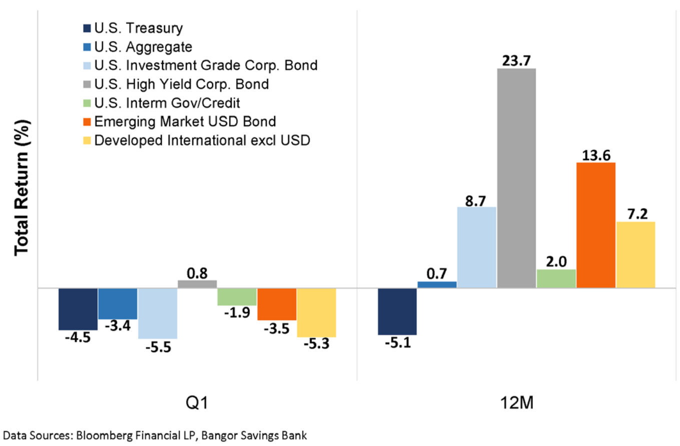


Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Bond Market Seeing Red

Long term Treasury rates rose rapidly in reaction to accelerating economic growth from a successful vaccination program and government policy support. The 10yr US Treasury yield nearly doubled, albeit from a very low level, to 1.75%. The sharp rise in yield led to declines in price for longer-dated issues in particular, although intermediate Treasury and investment grade corporate bonds also suffered. High yield bonds had the only positive return due to increased demand relative to Treasuries and higher levels of interest income. Short-term rates were relatively stable, anchored by the Fed's zero-rate policy. Overall, the intermediate term bond market declined 1.86% as measured by the Bloomberg Barclays Intermediate Government Credit Index (Fig 3.)

Fig 3. Rising yields took a toll on fixed income markets in Q1

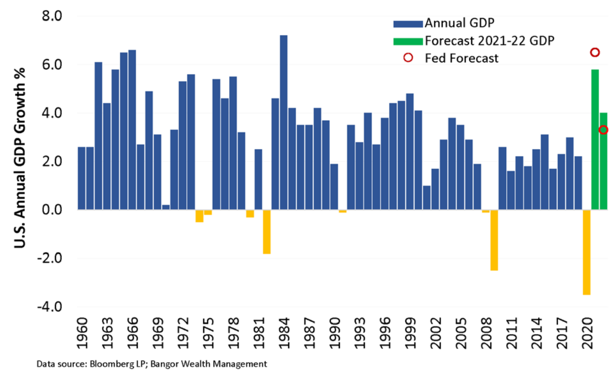


Full Speed Ahead

U.S. COVID case numbers have come down dramatically year to date and we have witnessed a speedy rollout of vaccinations with good adoption. As of this writing, 33.7% of the total U.S. population has had at least one shot, and 20.8% are fully vaccinated. When considering those above the age of 65, 58% have been fully vaccinated! These figures provide a hopeful sign of a significant pickup in economic activity in the coming quarters.

In addition to good news on the health front, fundamentals are also pointing to accelerating growth. Leading indicators such as service & manufacturing surveys point to strong expected business activity. The ISM PMI, one such survey, posted the highest level ever recorded, an indication of the unusually strong acceleration over February business levels. Consumer confidence, as measured by the Conference Board, has broken out to its highest level in a year. Current expectations for GDP growth, the broadest economic measure, are in the 6% range for all of 2021, according to Bloomberg. Not since 1984 has the U.S. economy experienced more than 6% growth (Fig 4.) Most importantly, the Federal Reserve has been quite vocal in keeping interest rates near zero until full employment is achieved.

Fig 4. U.S. Annual GDP Growth Forecast to Accelerate to ~6% in 2021, a pace rarely seen over the last 6 decades



The flood of stimulus delivered by the Fed and Washington has been nothing short of extraordinary. Between monetary programs and fiscal policy, the total stimulus amounts to over 10 trillion dollars, not including the potential infrastructure spending program. Expectations are high that these programs will provide an additional boost to growth.

The combination of an accommodative Federal Reserve, loose fiscal spending and improving economic conditions has been potent fuel for the stock market. Removing one or a combination of those factors could dampen the mood of investors. If the Fed were to renege on its promise of low rates until 2023, that would prove a major negative. If the earnings growth expectations currently built into U.S. stock valuations don't materialize, that too could cause some adjustment in prices. So while we are largely constructive on the environment for stocks, it is important to recognize the factors that have gotten us here, and the eventuality that those factors will change.

On more of an administrative note, here at Bangor Wealth Management we will be transitioning away from our work at home environment in April and May. We will be returning to our offices by June. In the meantime, we look forward to being of service -- please reach out to your Relationship Manager if there is anything we can help with.

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