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This time last year, the World Health Organization recently had declared that the spread of Covid-19 constituted a worldwide pandemic. Stringent measures in the U.S. were being taken to slow the spread of Covid and “flatten the curve.” The lockdowns and shelter-in-place orders dealt a body blow to U.S. economic activity. What a difference a year makes.

The major market indexes bottomed on March 23 (St. Louis Federal Reserve). The bear market lasted barely over a month, if we use the broader-based S&P 500 Index as our yardstick. It was a swift decline, but it was shortest bear market we’ve ever experienced (Yardeni Research).

The ensuing rally has been nearly unprecedented. Since bottoming, the S&P 500 Index advanced an astounding 77.6% through March 31. It’s 3,972.89 close at the end of the first quarter put it within 1.65 points of the prior March 26 closing high. And that is on top of a series of new highs since the beginning of the year. But I want to caution you that past performance doesn’t always guarantee future results. We highlight three impactful market factors that took shape this first quarter.

First, the bull market is broadening. Up until November 2020, large cap growth U.S. stocks left other asset classes in the dust, driven by tech stocks. Many investors questioned whether other asset classes would fully participate in this rally. Since then, we have seen small cap stocks nearly triple the return of large growth stocks, up 18% so far this year. Likewise, value stocks have meaningfully outperformed growth stocks. We believe small-cap and large-cap value stocks continue to exhibit good growth prospects.

Second, the $2 trillion infrastructure plan, and other spending measures proposed by the Democrats may rest on the shoulders of Democratic Senator Joe Manchin from West Virginia. With the split Senate, sitting at 50/50, the moderate Manchin is becoming a vote of outsized importance. Recently, he indicated that he would not support an increase to 28% in corporate taxes. If Manchin’s view stays as is and the tax increase is not enacted, it will have a direct impact on billions of dollars in corporate earnings. And as we know, earnings are the fuel of investment returns.

Third, inflation risks have been mounting due to the advancing economy, massive fiscal stimulus and soaring costs in some areas (such as shipping). Despite strong economic growth, inflation has stayed relatively tame, at times teetering near deflation. The Fed recently indicated they feel comfortable allowing inflation to rise above their 2% long term target. Nonetheless, with all the stimulus and economic improvements, many economists show concerns about future inflation levels.

As such, we will continue to monitor these three factors and their potential effect on your portfolio. Overall, we think all the stimuli, both fiscal and monetary, are having a positive impact on the economy, as we have seen manufacturing pickup, unemployment continues to drop and the economy re-open amidst the mass vaccination program.

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Sources:
- *Financial Times – Biden’s $1.9T Stimulus set to Return Global Economy to Pre-Covid Path, 3/14/21*
- *Horsesmouth - The Covid Economy , a Year Later, 4/7/21*
- *Valmark - Quarterly Commentary, 4/13/21*