



Market Overview

- Equity markets resumed their progression higher in February after briefly pausing in January. Improvements with the distribution of COVID-19 vaccinations, and the shift in policy toward removing operating lockdowns, were the month’s primary drivers. The steady progress toward the passage of additional fiscal stimulus in the U.S. without federal minimum wage increases was also supportive for sentiment. Equity markets in the U.S. hit all time highs during the month but finished off their peak levels as fears of elevated inflation, and a sharp rise in 10-year Treasury interest rates, stalled investor enthusiasm. Value stocks were the big winner on the month as they were viewed as key winners to markets reopening and the expected uptick in transportation-related activity (such as energy stocks), or are expected to benefit from a steeper yield curve environment (e.g. banks). Industrial companies also saw a boost thanks to lower valuation levels entering the period and early discussions in the U.S. about sizable infrastructure spending plans from the Biden administration.
- U.S. economic data released in February generally pointed toward improving underlying conditions, highlighted by a 0.9% rise in industrial production and a 58.7 reading on U.S. manufacturing activity. With these positive trends in economic data has also been an increase in cost measures, thus elevating concerns about inflation and the potential impact on interest rates and Fed policy moves. January consumer prices rose to 0.3%, while producer prices increased to 1.3%, notably higher than the 0.3% increase in December. Higher prices were also evident in the housing sector of the U.S. economy, with existing home prices up by 1.2%, pushing the one-year price increase to over 14%.
- Despite the inflation concerns, and the pronounced shift higher in longer dated Treasury yields, the Federal Reserve continues to indicate that they will tolerate higher measures of inflation for longer. This translates to the likelihood of accommodative policy rates for the foreseeable future, or for as long as U.S. employment levels remain materially below pre-pandemic levels.
- Market weakness was most notable in China, where growth stocks came under selling pressure as a result of higher interest rates and the rotation to value stocks. While no monetary policy actions were taken during the period, the markets are concerned that the strength of the Chinese economy, and robust projections for 2021, push the PBOC closer to a tightening policy regime.

Equity Markets

Equity markets continued to benefit from progress on the vaccination front, as well as the passage of additional fiscal stimulus out of the U.S. The S&P 500 index gained 2.8%, while small cap stocks, represented by the Russell 2000 index, continued their recent relative dominance with a 6.2% gain. Value sectors of the economy meaningfully outperformed for the period, with strong results produced by energy (+22.7%) and financials (+11.5%), while consumer stocks and healthcare were among the month's laggards. Outside the U.S., the MSCI EAFE index of developed equity markets underperformed the U.S. for the month with a 2.2% gain in U.S. dollar terms, although the region did perform slightly better from a local currency perspective (+2.6%). In general, European markets outperformed Asian markets in February, with France (+5.0%) and the U.K. (+3.6%) leading the way. The MSCI Emerging Markets index underperformed the developed markets with a 0.8% gain as lagging returns from several markets, most notably Brazil (-6.3%) and China (-1.0%), proved costly.

Fixed Income Markets

Longer-maturity Treasury bond prices in the U.S. continued to march lower during February, pushing the yield on the 10-year Treasury higher by 37 bps (1.46%) to its highest level in the past year. There was minimal movement on the short end of the curve, however, resulting in further steepening of the yield curve with the yield on the 2-year Treasury ending at 14 bps, up just 2 bps from the start of the year. The Bloomberg Barclays Aggregate index finished with a loss of 1.4%, as the decline from Treasuries was amplified by larger declines for investment grade corporate bonds, which have a longer duration profile. The segment underperformed despite a narrowing of spreads to comparable duration Treasuries by 7 bps. The high yield index produced a positive return on the month (+0.4%) thanks to the index's shorter duration profile relative to the Aggregate index, and a narrowing of spreads by 27 bps, as the move higher in energy prices benefited a large segment of the issuers represented in high yield index.

Alternative Strategies

The HFN Hedge Fund Aggregate index posted its 4th straight monthly gain (+2.8%) driven by solid performance from a variety of strategies, including CTA/managed futures (+4.4%), event driven (+3.7%) and equity long/short (+3.6%). The managed futures strategy benefited from the rising yield trend in the U.S., which was further enhanced with long-biased positions in equity markets globally. Macro (+0.2%) was the notable laggard for the period, with market neutral (+0.9%) the only other strategy posting a return below 1%.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	2.76	1.72
Russell 2000	6.23	11.57
MSCI EAFE (\$)	2.24	1.15
MSCI Europe (\$)	2.44	0.95
MSCI UK (\$)	3.59	3.34
MSCI Japan (\$)	1.51	0.49
MSCI Pacific ex Japan (\$)	2.88	3.60

Source: eVestment Alliance, MSCI, S&P, Russell

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM (\$)	0.76	3.85
MSCI EM Asia (\$)	0.94	5.34
MSCI EM EMEA (\$)	1.90	3.04
MSCI EM Latin America (\$)	(2.99)	(9.51)

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	(1.44)	(2.15)
Bloomberg Barclays Government	(1.77)	(2.67)
Bloomberg Barclays U.S. TIPS	(1.61)	(1.29)
Bloomberg Barclays U.S. Inv. Grade Corp	(1.72)	(2.98)
Bloomberg Barclays U.S. Mort. Backed	(0.67)	(0.59)
Bloomberg Barclays U.S. High Yield	0.37	0.70
Credit Suisse Leveraged Loan	0.67	1.95

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(2.17)	(2.74)
FTSE Non-U.S. WGBI Unhedged	(2.46)	(3.84)
JP Morgan EMBI Global	(2.56)	(3.74)

Source: eVestment Alliance, FTSE, JP Morgan

