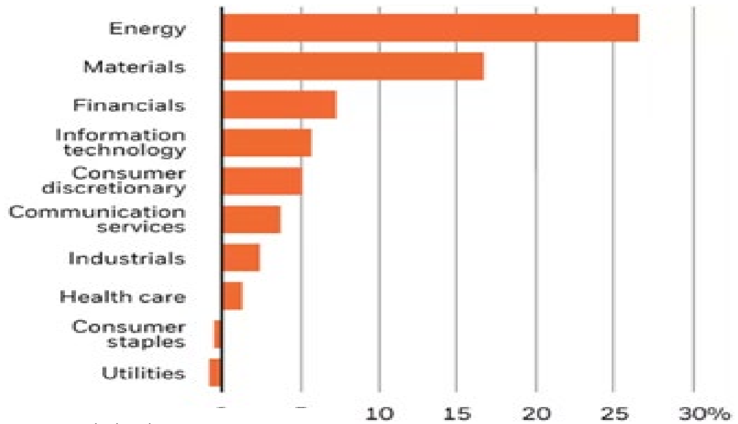
Fixed Income – Unsafe Haven

Investors in long-duration Treasury bonds have taken it on the chin through the first quarter of 2021, posting a loss of -12.8% through March 26th. This is compared to more than a 6% positive return for investors in stocks that many view as dramatically overpriced. There are several culprits for the sell-off in government-backed bonds, with higher forecasted inflation at the top of the list. It would be hard to argue to that the previous Administration was fiscally conservative, or any Administration in the last couple of decades, but the prospect of spending multiple trillions in changing the basic economic foundation of the country has some nearing panic mode. It is always difficult to forecast what the future holds, but higher rates typically result in a slowing economy that leads to recessions and lower interest rates. Rates bottomed in August 2020 at 0.5%, and today's rates are still historically very low.

Technical – Proof of Rotation

A lot has been made of the supposed market rotation away from technology and growth and toward value so far in 2021. Many are now heralding the next decade as the "Decade of Value," following a decade when growth and momentum trounced value and quality. Not everyone is a believer that value is here to stay, but the analysts at Blackrock are very confident regarding earnings in traditional value sectors. Energy has been one of the poorest performing sectors on both a trailing 1-year and trailing 3-year basis, but analysts' 3-month change in earning forecast suggest energy may soon be leading the earnings parade. There is a long way for energy and materials to go before catching up to the returns of tech and consumer discretionary over the past few years.



Source: Blackrock