

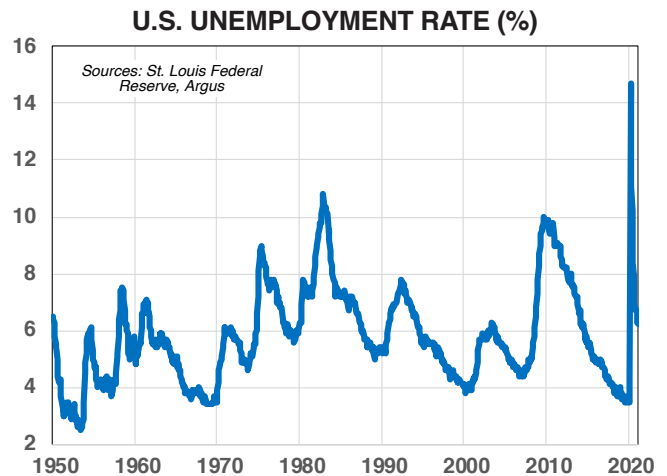
# THE ECONOMY AT A GLANCE

## ECONOMIC HIGHLIGHTS

March 15, 2021  
Vol. 88, No. 41

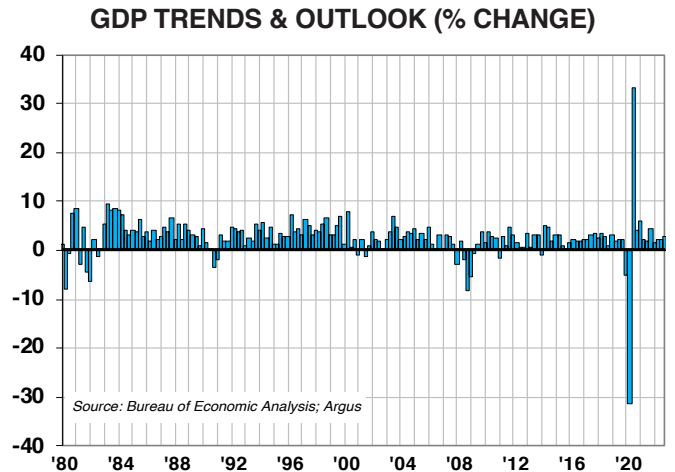
### BIG GAIN IN FEBRUARY PAYROLLS

The U.S. economy added 379,000 jobs in January, ahead of expectations. The unemployment rate dropped to 6.2%. Most of the job gains occurred in leisure and hospitality. Employment declined in state and local government, education, construction, and mining. The labor market continues to reflect the impact of the pandemic, as the shape and character of the workforce is changing. The civilian labor force is down 4.5 million from last February, as many workers have given up on finding jobs. The data indicates that the employment environment, while improving, is still under stress -- a point made repeatedly by Fed Chairman Jerome Powell. We expect the unemployment rate to remain high, and the Federal Reserve to keep interest rates low, into 2022.



### ARGUS INCREASES 1Q GDP FORECAST, AGAIN

Recent data points to improving economic conditions, though serious risks remain. The primary driver of GDP over the next few quarters is likely to be public health, as the nation continues to battle the pandemic. We expect that rising confidence levels will lead to further growth in consumer spending. Auto sales have recovered, the housing market remains strong, and businesses are again expanding. Rolling all the data up, our GDP model now calls for a 1.4% increase in absolute GDP in 1Q21 from 4Q20, which translates to an annualized gain of 5.8%. We expect further absolute improvement over the remainder of 2021. On an annual basis, we look for overall GDP growth of approximately 3.6% in 2021 and 2.2% in 2022.

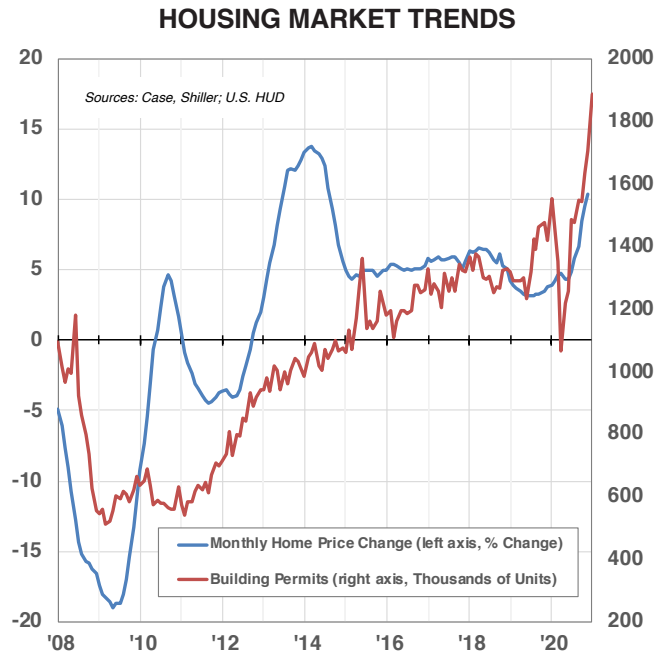


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## ECONOMIC HIGHLIGHTS (CONTINUED)

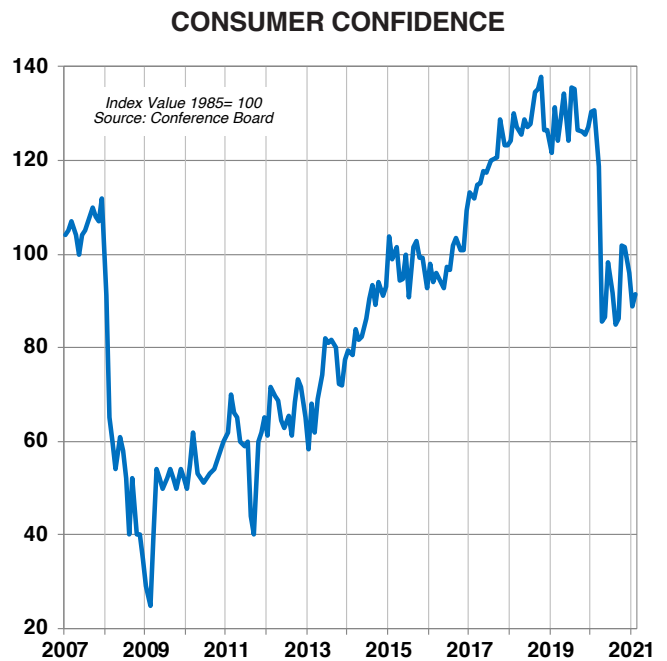
### HOME PRICES STILL RISING

The housing market -- traditionally a major source of U.S. economic growth -- has rebounded after an initial slump related to the onset of the pandemic. Existing home sales, which were down 32% in May 2020 from January 2020, have been rising since late spring and are now 73% above their May lows (at a 6.7 million annual rate as of January 2021). Building permits, a leading indicator for the industry, peaked in January 2020 at 1.55 million units, fell sharply in March and April 2020, and are now above that earlier peak at 1.9 million units (data through January 2021). Prices have held up as well. The S&P/Case-Shiller National Home Price Index for December 2020 showed that prices gained 10.4% year-over-year, up from 9.5% in November. Meanwhile, inventory levels are tight: currently there is a 4.0-month supply of existing homes for sale (the average range is 4.5-7.5 months). On the other side of the pandemic, we expect demand for homes (with yards between neighbors and plenty of space) will remain strong, though current trends may cool a bit as interest rates rise.



### CONSUMER CONFIDENCE BOUNCES AROUND

Consumer confidence fell off the table in April 2020 (after the U.S. shut down to combat COVID-19) and has bounced up and down as additional waves of the virus have swept the country. Have we seen the lows? Hard to say. It is worth looking back at the experience during the financial crisis in 2007-2009. Back in 2007, confidence peaked at 112 in November before falling sharply and consistently over the next year to a low of 25 in February 2009 (as the bear market was bottoming). The index did not reclaim prior highs for another eight years. This time, the Consumer Confidence Index fell “only” from 130 in February 2020 to 96 in November 2020. The slope and speed of the recovery trajectory will depend on the approval and distribution of COVID-19 vaccines; the effectiveness of the government’s latest rescue plan; and any behavioral changes among consumers on the other side of the pandemic. From an investment standpoint, we have found that the bottom of the consumer confidence cycle (when everybody has given up on a recovery) has been a good time to buy stocks. In other words, consumer confidence is often a contrarian indicator.

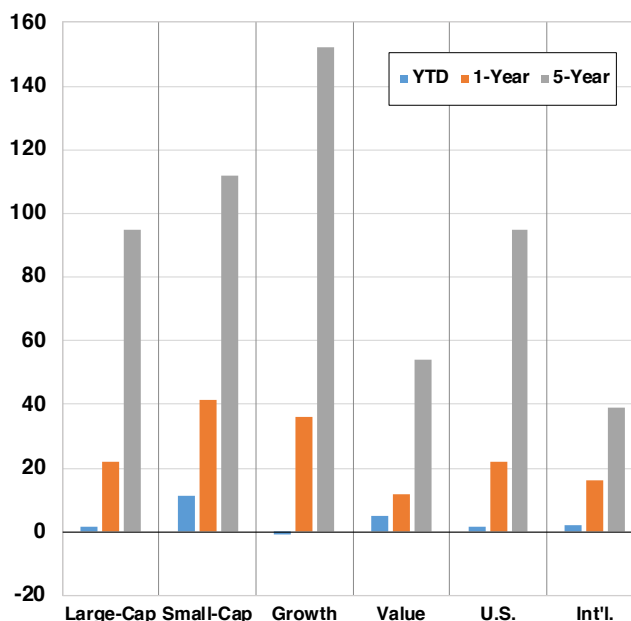


# FINANCIAL MARKET HIGHLIGHTS

## ARGUS'S FAVORED CLASSES, SEGMENTS

Despite a selloff at the end of February, stocks have moved into the 2021 performance lead as bond returns have sagged while yields trend higher. Our Stock-Bond Barometer is close to equally balanced between stocks and bonds for long-term investors. In other words, these asset classes should be near their normal weights in diversified portfolios. We have looked for large-cap companies with strong balance sheets and experienced management teams to be the leaders during the eventual recovery from COVID-19. This has played well, and now, with vaccine deployment underway, small-cap risks are reduced. Our recommended exposure to small- and mid-caps is now 15% of equity allocation, in line with the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing one- and five-year periods. We expect this trend to continue given volatile economic conditions and exchange rates. But international stocks offer favorable near-term valuations, and we recommend 15%-18% of equity exposure to the group. In 2020, growth stocks (led by Tech and Healthcare), outperformed value stocks (driven by Energy and Materials). With no change expected in this dynamic over the next few quarters, we continue to favor growth -- as long as interest rates remain low.

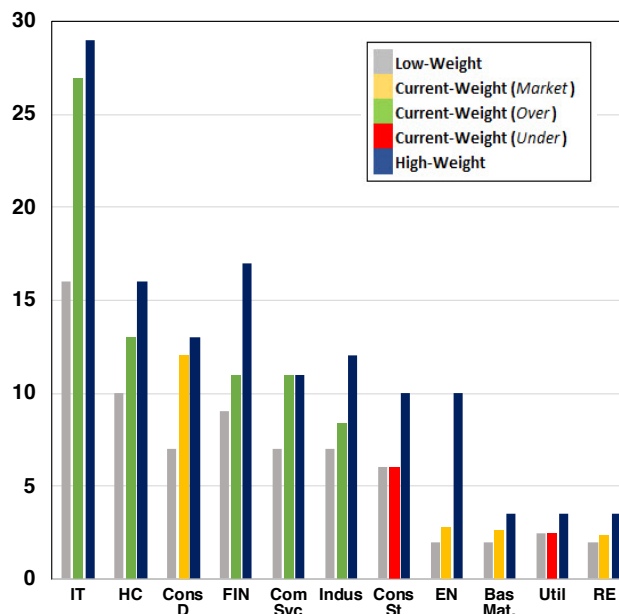
MARKET SEGMENT RETURNS 2020  
(% THROUGH 2/28/21)



## ARGUS ADJUSTS SECTOR RATINGS

We have adjusted our recommended sector allocations. The following reflects our guidance for the calendar second quarter of 2021. We have raised our rating on the Communication Services sector to Over-Weight from Market-Weight. We have also raised the Energy and Real Estate sectors to Market-Weight from Under-Weight. Finally, we have lowered the Utilities sector to Under-Weight from Over-Weight and the Consumer Staples sector to Under-Weight from Market-Weight. The rebalancing process takes place four times a year, early in the months of March, June, September, and December. Our current Over-Weight sectors are Technology, Healthcare, Financial Services, Industrial, and Communication Services. Our current Market-Weight sectors are Consumer Discretionary, Energy, Real Estate and Basic Materials. Our Under-Weight sectors are Utilities and Consumer Staples. Argus suggests that investors use this process to tweak weightings within balanced equity portfolios in order to take advantage of valuation imbalances.

SECTOR WEIGHTS (5-YRS., % OF S&P 500)



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
16-Mar	Retail Sales	February	5.3%	1.0%	-0.2%	NA
	Retail Sales; ex-autos	February	5.9%	1.0%	0.5%	NA
	Business Inventories	January	0.6%	0.5%	0.3%	NA
	Import Price Index	February	1.4%	1.0%	1.0%	NA
	Industrial Production	February	0.9%	0.8%	0.6%	NA
	Capacity Utilization	February	75.6%	75.4%	75.5%	NA
17-Mar	Housing Starts	February	1580 K	1600 K	1555 K	NA
18-Mar	Leading Economic Indicators	February	0.5%	0.4%	0.3%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
30-Mar	Consumer Confidence	March	91.3	NA	NA	NA
1-Apr	ISM Manufacturing	March	60.8	NA	NA	NA
	Construction Spending	February	1.7%	NA	NA	NA
2-Apr	Non-farm Payrolls	March	379 K	NA	NA	NA
	Average Weekly Hours	March	34.6	NA	NA	NA
	Average Hourly Earnings	March	0.2%	NA	NA	NA
	Unemployment Rate	March	6.2%	NA	NA	NA

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