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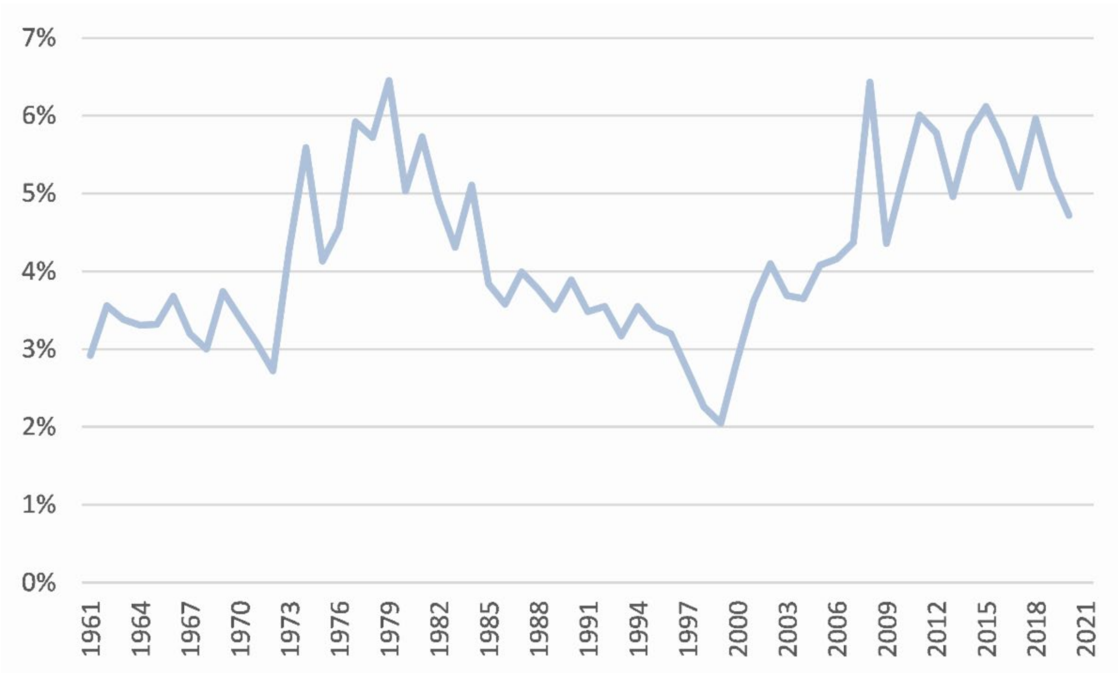
Market Comment:

Tuesday, March 23rd will mark the one-year anniversary of the pandemic-related equity market trough. Quite a bit of ink has been spilled on the exceptional nature of the decline (-34% over 25 trading days) and recovery (+78% since then), so this week we are going to focus on one specific measure of overall equity market health – the equity risk premium. Has "patiently accommodative" led to "irrational exuberance"?

The equity risk premium (ERP) is a measure[1] of how much compensation investors can expect to receive for holding a diversified portfolio of public equities instead of holding a risk-free asset (typically Treasury bills or bonds). The ERP fluctuates over time based on factors like investor risk aversion and macroeconomic risk. For example, a period of heightened risk aversion would typically coincide with a rising equity risk premium.

New York University Professor Aswath Damodaran's (aka the "Dean of Valuation") estimate of the U.S. ERP has declined as of late but remains well-above the average level of the last 50-60 years (Fig. 1). At 4.6%, the ERP indicates that — despite the strong rise in equity prices over the last 12 months —investors should continue to feel comfortable with prospective equity returns and remain reasonably-compensated for accepting equity market volatility in the current environment.



Source: http://pages.stern.nyu.edu/~adamodar/, Mill Creek.

[1] The ERP cannot be directly observed, but finance researchers have developed methods for estimating the ERP.

Updated Benchmark Performance:

Benchmark Performance by Asset Class	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	-0.01%	2.47%	4.57%
U.S. Small Cap Equities	-2.76%	4.00%	16.04%
International Developed Equities	0.59%	3.11%	4.29%
Emerging Markets Equities	-0.81%	-0.06%	3.79%
Global Equities	-0.43%	2.29%	4.18%
U.S. Bonds	-0.28%	-1.49%	-3.61%
Intermediate Municipal Bonds	-0.37%	0.13%	-0.53%
High Yield Bonds	-0.53%	-0.75%	-0.05%
Oil	-5.92%	1.17%	26.42%
Gold	1.25%	0.71%	-8.32%
Key Rates	**3/19/2021**	**12/31/2020**	**3/19/2020**
U.S. 2 Year Treasury Note	0.16	0.13	0.44
U.S. 10 Year Treasury Note	1.74	0.93	1.12

Economic Calendar:

- 3/22: Existing Home Sales
- 3/23: New Home Sales
- 3/24: Durable Goods

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Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index