

### The Economy is Heating Up

Global economic data continues to improve as vaccine rollouts accelerate. However, the millions of unemployed workers in service industries continue to cause economic concern. Those jobs will likely come back as continued vaccinations allow those businesses to reopen. With low interest rates, more stimulus from Congress on the way, and cash building up in the consumer’s pockets, we could see strong economic growth in 2021.

The markets are anticipating this growth and stocks have rallied over 70% since the lows last spring. The market to watch closely is bonds. Interest rates have increased over the last few weeks as expectations for a stronger economy have also increased expectations for inflation. Higher interest rates are a good sign of a strengthening economy, but a rapid increase in rates can create uncertainty in the stock market as that has a big impact on profit growth. We continue to expect a good year for stocks, although the pace of growth will likely slow.

S&P 500 Return %



Source: FactSet

### Market Returns

Source: Morningstar Direct data as of January 31, 2021

Asset Class	Index	Total Return 1 Month	Total Return YTD	Total Return 1 Year	Annualized 3 Year	Annualized 5 Year
Global Equities:	Diversified Equity Benchmark*	2.93	2.61	31.93	12.75	15.57
Domestic Equities:	S&P 500 (Large Cap)	2.76	1.72	31.29	14.14	16.82
	Russell 2000 (Small Cap)	6.23	11.58	51.00	14.87	17.92
International Equities:	MSCI EAFE (Developed)	2.24	1.15	22.46	4.59	9.73
	MSCI Emerging Market	0.76	3.85	36.05	6.35	15.24
Fixed income:	Barclays Intermediate U.S. Gov't/Credit	-0.82	-1.09	2.35	4.76	3.06
	Barclays Muni Short-Interm 1-10 Years	-0.92	-0.58	1.54	3.63	2.36
	Barclays Global Intermediate	-1.14	-1.78	5.03	2.38	2.47

### Podcast Episode: Will You Be Financially Ready to Retire

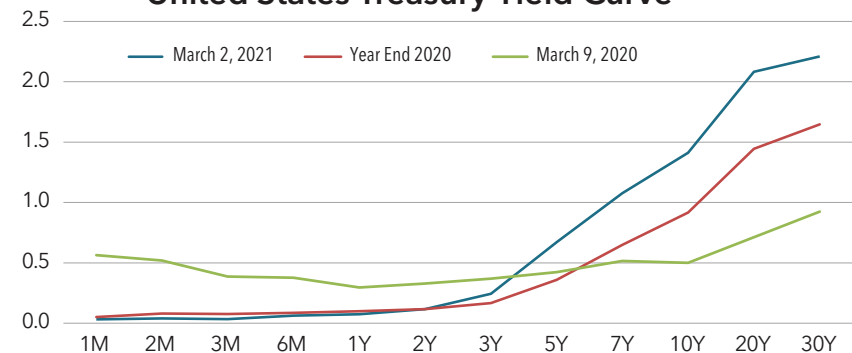
Retirement – it’s the finish line to your long career. It also marks the beginning of more leisure time to be spent on hobbies, with family and friends and fulfilling life-long dreams. When you retire is not only determined by physical and mental readiness, but financial readiness too. Without the latter, a long anticipated retirement could be short-lived.

[Click here](#) to listen to the podcast with FNBO financial planner Barbara Rizvi to learn more.

### Bond Investment Implications of Higher Rates

- As seen in the chart, rates are now higher across the entire yield curve which is a welcomed sight for investors seeking income. Despite higher rates, bond investors are confused as to why their returns are negative this year.
- Because a bond’s interest payment typically does not change, and bond prices and interest rates move in opposite directions, the price of the bond must drop when interest rates increase. This adjustment can lead to lower total returns (interest payments + change in price) in the short run.
- A well-diversified bond portfolio owns bonds with varying maturities, enabling an investor to receive income today and reinvest at higher interest rates once they mature.

United States Treasury Yield Curve



Source: FactSet

## Commentary Team:

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## Sources:

Bloomberg, Morningstar, FactSet, Crandall Pierce

\*Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

## Index Definitions:

Barclays Global Intermediate: Index that measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

FTSE EPRA/NAREIT Global: an index used to track the performance of listed real estate companies and REITS in both developed and emerging markets.

MSCI ACWI ex US: an index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

MSCI EAFE - Developed International: created to reflect the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: an index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.

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