1. AMERICAN RESCUE PLAN

- President Biden signed into law the $1.9T American Rescue Plan Act, the third major fiscal stimulus legislation passed by Congress in response to the COVID-19 pandemic. Congress has now appropriated $6T in total relief to the public during this period.
- The most significant portion of the bill, roughly $410B, will be used to pay out the $1,400 economic impact payments to individuals and households. The income eligibility cutoff for individuals is $80k, with benefits beginning to taper off at the $75k income threshold. For heads of household, the income eligibility cutoff is $120k, with benefits tapering off at the $112,500 income threshold. For married couples who file jointly, the cutoff is $160k, with benefits tapering starting at incomes of $150k.
- The second-largest portion of the package is $350B in aid to State and Local Governments, a provision notably left out of the last stimulus bill.
- The third is an expansion of supplemental unemployment insurance and tax exemptions through September 2021, accounting for $289B. The supplemental benefit will remain $300 per week, but the new law puts forth a provision that allows tax filers to exempt up to $10,200 of unemployment benefits that they received in 2020. The tax exemption is cutoff at incomes above $150k per year.
- $268B will be spent towards transportation, infrastructure, financial services, and other education and labor programs. Another $122B is allocated to assist energy and commerce, as well as testing, tracing, and vaccination efforts.
- A significant part of the bill directs resources towards reducing poverty via expansion of the Child and Earned Income Tax Credits, totaling $135B and $24B towards the ERTC, CDCTC, and other tax credits.

2. BEIGE BOOK SUMMARY - ECONOMIC ACTIVITY

- According to the Beige Book, the Federal Reserve's anecdotal summary of economic conditions, economic activity increased across most of the 12-bank districts, albeit modestly. Businesses continue to be optimistic about the next 6-12 months as vaccines become more widely distributed.
- Consumer spending was mixed, with some districts reporting increases in travel and tourism as several regions lift pandemic-era restrictions, though overall leisure and hospitality remain restrained.
- Manufacturing increased modestly, while the financial sector saw demand for loans fall, though this was balanced with an increase in deposits and lower delinquency rates.
- Residential real estate remains markedly strong despite rising mortgage rates. The still historically-low rates continue to spur demand for homes in most districts, while home prices continue to rise. Other sectors of Commercial Real Estate remained in contraction.
- Material increases in activity related to energy consumption were reported across some districts.

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3. JOB GROWTH

- Total nonfarm payroll employment increased by 379k workers in February.
- Monthly job growth had decelerated between June and December 2020, even turning negative to close out the year. Job growth then returned in January, adding 166k jobs. February's jobs reading was met with optimism as the data indicate a more than doubling of net growth from the month prior.
- Leisure and hospitality, the pandemic's most adversely impacted sub-sector, accounted for 93% of all job gains in February, adding 355k jobs. The lifting of restrictions across several states was a significant factor behind the increase. 76% of the jobs created were in food & beverage services. Still, the sector remains 3.5M jobs below its pre-pandemic level.
- Professional & business services led all other sectors in February, adding 63k jobs in the month, with professional and technical services accounting for 22.8k of the jobs gained.
- Notable declines were in Government, which shed 86k jobs for the month, and construction, which declined by 61k jobs.

4. UNEMPLOYMENT RATE

- The Civilian Unemployment Rate (U-3) ticked down slightly in February, falling 10 bps to 6.2% in the month. While this is the lowest reading since the pandemic began, it is a deceleration from the month before and the second-smallest monthly change since the labor market began improving in April 2020.
- The U-6 Unemployment Rate, a measure that includes the headline U-3 measure in addition to marginally attached workers and laborers who are working part-time for economic reasons, remained unchanged at 11.1% in February.
- Discouraged workers, a subset of marginally attached laborers not classified as part of the labor force though would want a job, was little changed in February at 522k. The number of discouraged workers remains 121k above pre-pandemic levels.

5. RETAIL SALES

- According to the Census Bureau's advance estimates, seasonally adjusted retail sales totaled $561.7B in February, a 3.0% drop from the month before. Retail sales are up 6.3% from the same period last year.
- Within the sub-categories of Retail Sales– sporting goods, hobby, musical instrument, and bookstores faced the steepest decline, followed by department stores and non-store retailers. Gas stations were the only sub-category of Retail Sales that increased in February, rising by 3.6% month-over-month, though increased energy costs were a key driver. Food and beverage stores remained flat from January.
- While these data are adjusted to account for seasonal variations, the widespread blackout experienced last month in Texas, the second-most populous US State, likely contributed to the decline.

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- The Monthly Sales for Retail and Food Services report serves as a key indicator for consumer spending. However, despite the February drop, it is worth noting that the University of Michigan's Consumer Sentiment Index, a separate predictor of consumer expectations, increased in March to its highest level in a year. The rise in sentiment suggests a rebound in Retail Sales may already be underway.

6. CONSUMER SENTIMENT

- The Consumer Sentiment Index climbed to its highest level since March of last year, according to the preliminary release of the University of Michigan's March Survey.
- Falling cases nationally and steady vaccination efforts, including the recent approval of a third vaccine candidate in late-February, have helped consumers anchor expectations for the months ahead. Additionally, the then widely expected passage of the now signed $1.9T COVID stimulus package positively impacted expectations heading into the month.
- Increases were prevalent across all regions and socioeconomic groups, but the largest gains were seen in households within the bottom-third of the income distribution and those 55 years and older.

7. MORTGAGE RATES

- According to Freddie Mac, mortgage rates have started to climb, with the 30-year fixed-rate mortgage now increasing for its fourth-consecutive week. It is the first time that rates have had such a streak since late-2018.
- As of March 11th, 30-year fixed-rate mortgages averaged 3.05%, up 2 bps from the week before and up 32 bps from 1 month ago. This week's reading is the highest for the 30-year rate since the beginning of July.
- The 15-year fixed-rate mortgage ticked up to 2.38% in the most recent reading, 4 bps higher than the previous week and 19 bps higher than one month ago.
- Like other improving indicators, the recent climb of mortgage rates appears to be in line with increased optimism surrounding the vaccine rollout and the anticipation of additional federal stimulus. Thus far, homebuyer demand has proven inelastic to the marginal rise in borrowing costs, setting up the housing market for a continued stretch of growth into the peak-buying season.

8. OFFICE STRESS TESTS

- A new report by Fitch stress tests the potential impact of a longer-term shift towards work from home on the Office sector, analyzing the potential effects on income loss and credit ratings.
- The tests simulate "moderate" and "severe" contractions of office space demand based on the number of days per week that employees work remotely. For the "moderate" scenario, the test assumes employees

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work from home 1.5 days per week, resulting in a 10% decline in office space demand and a 15% decrease in net cash flow. The "severe" scenario assumes employees work from home 3 days per week, resulting in a 20% decline in office space demand, translating into a 30% fall in net cash flow.

- The simulations resulted in average market-value declines of 44% and 54% in each respective scenario, and downgrades would occur for 25% and 55% of investment-grade bonds in each, respectively, dropping them below investment-grade status.

9. CONSTRUCTION SPENDING

- Total construction spending rose by 1.7% in January from the month prior to an annualized rate of $1.52T, according to the latest report by the Census Bureau. The estimate is 5.8% higher today than at the same point last year.
- Total private construction totaled $1.16T in January, similarly rising by 1.7% month-over-month. Residential construction, which has accounted for the majority of monthly private construction expenditures consecutively since June 2015, rose to an annualized rate of $713B in January. Nonresidential construction rose to an annualized rate of $447B during the month.
- Public construction totaled $361.5B in January and rose in-line with the 1.7% market-wide increase. Within public expenditures, educational construction fell 10 bps from December to an annual rate of $89.9B in January. Meanwhile, highway construction rose by 5.8% from the month prior, settling at an annual rate of $107.8B.

10. CMBS DELINQUENCIES

- According to Trepp, the Delinquency Rate on CMBS loans dropped by 78 bps in February to 6.80%, the largest single improvement since the start of the pandemic. The rate of loans that are 30 days delinquent fell 16 bps to 0.58%.
- Delinquencies remain most frequent in the Lodging sector, though they continue to see improvement, falling by 2.81% month-over-month to land at 16.38% through February. In February of last year, before the onset of any pandemic-related distress, Lodging CMBS delinquency rates stood at just 1.60%, with only Industrial loans performing better.
- Retail retained the second largest delinquency rate by sector but fell 85 bps to 11.83% in February. Heading into the pandemic, the average delinquency rate across the sector was 3.62%, the highest amongst all major property types.
- Multifamily delinquencies stood at 2.30% in February, down 5 bps from the month prior. Office CMBS delinquencies fell to 2.04% in February, down from 2.14% the month prior. Both property types have average delinquency rates within 51 bps of the level measured this time last year.

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