WEEKLY MARKET UPDATE, DECEMBER 14, 2020

GENERAL MARKET NEWS

- Last week saw a moderate flattening of the yield curve in response to potential stimulus talks, vaccine approval news, and the latest jobs report. The 10-year Treasury yield opened last week near 0.97 percent and ended the week just below 0.89 percent. It opened higher this morning, just shy of 0.92 percent. The 30-year opened this morning at 1.66 percent, a loss of 8 basis points (bps) from last week's open at 1.74 percent. On the shorter end of the curve, we saw a sizable move as the 2-year opened last week at 0.16 percent and dropped 3 bps to 0.13 percent this morning.

- All three major U.S. indices were down modestly last week. Domestic equity markets were affected by concerns about a government shutdown, continuous stimulus discussions, and rising coronavirus case counts. This news did not temper the market debuts of DoorDash and Airbnb, which rose 72 percent and 108 percent, respectively. (The significant bounces in recent initial public offerings has reminded some of the early 2000s and led to discussions of pockets of market frothiness.) Disney also had a strong week, up 14 percent, with its streaming platform exceeding 87 million subscribers. Top-performing sectors were energy, telecom, and consumer staples. Underperforming sectors were real estate, financials, and technology.

- On Thursday, the Consumer Price Index for November was released. Producer prices rose by 0.2 percent during the month, which was slightly higher than economist estimates for 0.1 percent growth. On a year-over-year basis, consumer prices grew by 1.2 percent, which matched October's year-over-year growth rate. Core consumer prices, which strip out the impact of volatile food and energy prices, also rose by 0.2 percent against calls for a more modest 0.1 percent increase. On a year-over-year basis, core consumer inflation came in at 1.6 percent, which was in line with October but slightly above estimates for 1.5 percent. November saw an uptick in prices for various goods and services that suffered from deflationary forces due to the pandemic, namely airline fares, auto insurance, and clothing. These categories all remain well below pre-pandemic levels in terms of prices, so there is still room to run for further modest price increases in the upcoming months.

- On Friday, the Producer Price Index report for November was released. Producer prices rose by 0.1 percent during the month, which was in line with expectations. On a year-over-year basis, producer inflation climbed 0.8 percent against calls for 0.7 percent.

Core producer inflation, which strips out the impact of volatile food and energy prices, rose by 0.1 percent during the month and 1.4 percent on a year-over-year basis, which was slightly below the 0.2 percent and 1.5 percent inflation rates expected for the month and year, respectively. The slower-than-expected increase in core prices is a sign that the moderate inflationary pressure producers saw over the summer has largely subsided. Both consumer and producer inflation remain well below the Federal Reserve's (Fed's) stated 2 percent inflation target, driven in large part by the deflationary pressure created by the pandemic.

• Friday saw the release of the preliminary estimate of the University of Michigan consumer sentiment survey for December. This widely followed measure of consumer confidence rose from 76.9 in November to 81.4 in December against forecasts for a decline to 76. This result was driven by improvements in consumer views on both the present economic conditions as well as the future expectations. The report showed a large partisan split, with Democrats expressing a surge in optimism for both current conditions and future expectations while Republicans have seen a sharp drop in future expectations since the election. This marks the second-highest level for the index since initial lockdowns were lifted back in May, trailing only the 81.8 mark the index hit in October. Overall, this was an encouraging report, as improving consumer confidence has historically supported faster consumer spending growth. Given the partisan shift in responses, however, this tailwind may be more muted than normal.

WHAT TO LOOK FORWARD TO

We'll start the week with Tuesday's release of the November industrial production report. Economists expect to see production increase by 0.3 percent during the month, down from a 1.1 percent gain in October. Some of this projected growth can be attributed to an anticipated increase in mining production, which in turn was likely supported by rising oil prices. Manufacturing output is also expected to show growth during the month. Economists are forecasting a 0.2 percent increase in output, down from the 1 percent rise in October. If estimates hold, this report would mark seven consecutive months with increased manufacturing output. The recovery for manufacturing activity has been slower than the recovery for consumers, however, and total output would remain below pre-pandemic levels. Ultimately, this report is expected to show continued modest improvement for industrial production and manufacturing in November. This would be a positive sign that recovery continued during the month, albeit at a slower pace than in October.

On Wednesday, the November retail sales report is set to be released. Economists expect to see sales fall by 0.2 percent during the month, following a 0.3 percent increase in October. If estimates hold, this report would mark the first month with declining sales since April. Core retail sales, which strip out the impact of volatile auto and gas sales, are set to show solid 0.3 percent growth in November. This result would be a step up from the 0.2 percent core sales growth we saw in October. Going forward, steady core retail sales growth at these levels would be a positive development, as retail sales have already rebounded past pre-pandemic levels. With that being said, high-frequency consumer spending data signals there may be a slowdown in spending on the horizon, driven by newly imposed lockdowns and changing consumer habits due to the worsening public health situation. Given the importance of consumer spending for the overall economy, this release will be widely monitored. It will give us an idea of just how resilient consumer spending was in November.

Wednesday will also see the release of the National Association of Home Builders Housing Market Index for December. This measure of home builder confidence is expected to fall from a record high of 90 in November to 88 in December. If estimates hold, this reading would represent the second-highest mark for the index since its inception in 1985, so a modest decline would be nothing to worry about. Home builder confidence has shown a very impressive rebound since hitting a lockdown-induced low of 30 in April. This rebound has been largely driven by record low mortgage rates that have drawn prospective home buyers into the market in droves since initial lockdowns ended. In addition, the supply of homes available for sale remains near historic lows. This fact has driven prices up and given home builders confidence that newly built units will sell quickly.

The third major release on Wednesday will be the release of the Federal Open Market Committee (FOMC) rate decision from the Fed's December meeting. Economists do not expect the Fed to make any changes to the federal funds rate, which was lowered to virtually zero in March to combat the pandemic's economic impact. Economists will closely monitor this meeting. It's possible the Fed will announce forward guidance for future asset purchases, which would be seen as a supportive move for markets and the economy. Given rising COVID-19 case counts since the Fed met at the start of November, the news release from the meeting will be widely monitored, as will Fed Chair Jerome Powell's news conference.

On Thursday, the initial jobless claims report for the week ending December 12 is set to be released. Economists expect to see 820,000 initial unemployment claims filed during the week. This would be an improvement from the 853,000 initial claims filed the week before but an increase from the post-lockdown low of 711,000 initial claims set the week ending November 6. If estimates hold, the result would signal that rising case counts and the associated measures taken by states to combat the spread of the coronavirus have increased pressure on the labor market in December. If we continue to see initial claims at these levels during the month, a net loss of jobs in December could result. That would highlight the threat that the worsening public health picture represents for the economic recovery in the short to medium term. Given the high level of initial unemployment claims, this report will continue to be closely monitored. It should be noted, however, that jobless claims have a high level of week-to-week volatility. As such, it's important to not read too much into large weekly swings.

We'll finish the week with Thursday's release of the November building permits and housing starts reports. Economists expect mixed results from these two measures of new home construction. Permits are set to rise by 0.7 percent and starts are expected to fall by 0.3 percent. Despite the anticipated decline for starts, the pace of new home construction has rebounded swiftly since lockdowns ended. It now sits well above levels seen throughout most of 2019. Construction of single-family homes has been a highlight, given that the pace of single-family housing starts hit a 13-year high in October, driven by changing consumer preferences due to the pandemic and a lack of supply. The signs of this strong pace of construction could carry over into 2021. The number of projects permitted but not yet started remains near its highest level since October 2008. If estimates hold, these reports would showcase the continued strength of the housing market. This sector has been one of the bright spots in the overall economic recovery since initial lockdowns were lifted earlier in the year.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.95%	1.21%	15.39%	17.75%
Nasdaq Composite	–0.69%	1.49%	39.14%	43.26%
DJIA	–0.54%	1.50%	7.70%	9.30%
MSCI EAFE	–0.51%	1.79%	4.87%	7.42%
MSCI Emerging Markets	0.54%	4.38%	15.03%	20.04%
Russell 2000	1.03%	5.08%	16.02%	17.83%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.35%	7.21%	7.54%
U.S. Treasury	0.61%	8.04%	8.13%
U.S. Mortgages	0.04%	3.58%	3.97%
Municipal Bond	0.31%	4.96%	5.07%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million.

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