WEEKLY MARKET UPDATE, FEBRUARY 1, 2021

GENERAL MARKET NEWS

- We saw mixed trading in the fixed income markets last week, with purchases ticking up on the shorter and longer ends of the curve. The 10-year Treasury yield opened last week at 1.09 percent and closed at 1.07 percent. It opened this morning at 1.09 percent. The 30-year opened this morning at 1.84 percent, a gain of 1 basis point from last week's opening. On the shorter end of the curve, we saw a sizable move; the 2-year opened last week at 0.13 percent and dropped to 0.11 percent at the opening this morning.

- In what was a wild week, markets posted their largest losses since October. Retail investors flooded into beaten-up retail stocks, clashing with hedge funds and other investors, resulting in significant gains for GameStop, AMC Entertainment Holdings, Nokia, BlackBerry, Bed Bath & Beyond, and Naked Brand Group. These "meme stocks" gained momentum as the week progressed. The idea of purchasing highly shorted stocks grew from the subreddit community r/wallstreetbets. At one point, GameStop became the largest holding in the Russell 2000 Index and saw its weight pick up substantially in several thematic and small-cap exchange-traded funds. The rest of the market sold off, with technology and consumer discretionary leading the way despite strong earnings reports from Apple and Microsoft. Financials also were among the top three detractors, as gross domestic product (GDP) growth came in slightly lower than expected. Top-performing sectors were bond proxies in real estate, utilities, and consumer staples.

- On Tuesday, the Conference Board Consumer Confidence Index for January was released. The index rose by more than expected, from a downwardly revised 87.1 in December to 89.3 in January. This positive result was a step in the right direction after the index reached a four-month low in December. Historically, improving confidence helps support faster consumer spending growth, so this was a welcome development. With that being said, the index still sits well below October's high of 101.4, likely reflecting the negative effects from the worsening public health picture. With mass vaccination efforts picking up steam and signs of slowing localized outbreaks in many states, the public health situation looks likely to show improvement in the upcoming months, which, in turn, could support further improvements in consumer confidence.

- Wednesday saw the preliminary release of the December durable goods orders report. Durable goods orders rose by 0.2 percent, down from 1.2 percent growth in November and below economist expectations for a 1 percent increase. The slowdown was largely due to a decrease in volatile aircraft orders, as evidenced by strong core durable goods orders during the month. Core durable goods orders, which strip out the impact of volatile transportation orders, rose by 0.7 percent, which was better than economist expectations for 0.5 percent growth. Core durable goods orders are often used as a proxy for business investment, so the continued healthy growth in core orders in December is further evidence of healthy levels of business spending in the fourth quarter.

• Wednesday also saw the release of the Federal Open Market Committee rate decision from the Federal Reserve's (Fed's) January meeting. As expected, there were no changes to the federal funds rate, which was lowered to virtually zero last March to help stimulate the economy through the pandemic. Economists do not anticipate any changes to the federal funds rate until at least 2023, given the continued headwinds for economic growth. Much of the focus at this meeting was on Fed Chair Jerome Powell's post-meeting news conference, at which the head of the central bank continued to emphasize the Fed's commitment to providing supportive monetary policy for the foreseeable future. The news release also showed that the Fed saw the pace of the economic recovery moderate slightly between its December and January meetings, which indicates further supportive policy from the central bank is expected.

• On Thursday, the advance estimate of fourth-quarter GDP growth was released. The economy grew at an annualized pace of 4 percent during the quarter, down from 33.4 percent in the third quarter and below economist estimates for 4.2 percent. Although the slowdown from the third quarter was expected, the growth in the fourth quarter was still modestly disappointing. Personal consumption, which accounts for the majority of economic activity, slowed from an annualized growth rate of 41 percent in the third quarter to 2.5 percent in the fourth quarter, against forecasts for 3.1 percent annualized growth. Over the next few quarters, low- to mid-single-digit economic growth is likely, given continued headwinds created by the pandemic. There is hope that an improving public health picture will lead to more normal economic conditions and steady growth by the end of the year.

• On Friday, December's personal income and spending reports were released. Personal spending fell by 0.2 percent, following a downwardly revised 0.7 percent decline in November. This result was slightly better than economist estimates for a 0.4 percent decline in December and marks the first two months of spending declines since March and April of last year. With that being said, the recent decline pales in comparison to April's 12.7 percent drop in spending, which indicates consumers have adapted and are handling the current wave of the pandemic with more resiliency. Personal income has been quite volatile on a month-to-month basis due to shifting levels of federal income support and stimulus. The report showed that personal income rose by 0.6 percent, which was a solid rebound from the 1.3 percent drop in November and well past economist estimates for 0.1 percent growth. This is the first increase for personal income since September, and the stimulus passed at the end of 2020 should help propel further income growth.

• We finished the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for January. The initial estimate for this index showed confidence falling to start the month, from 80.7 in December to 79.2

in January, and this final report showed a further decline to 79 at month-end against forecasts for a modest increase to 79.4. This was driven by a modest drop in consumer views on current economic conditions, with the subindex falling to a three-month low in January. The future expectations subindex improved modestly during the month, however, revealing that consumers remain optimistic. As was the case with the Conference Board measure, confidence remains above previous lows caused by initial lockdowns in March and April, but much work remains to return confidence to pre-pandemic levels.

WHAT TO LOOK FORWARD TO

We started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for January. This measure of manufacturer confidence dropped by more than expected to start the year. It fell from an upwardly revised 60.7 in December to 58.7 in January, against calls for a more modest decline to 60. Despite the drop, the January result represents a healthy level of manufacturer confidence, as the index sits well above the pre-pandemic high of 51.1 it reached in January 2020. This is a diffusion index, where values above 50 indicate expansion, so this report indicates continued growth for manufacturing in January. The index has shown an impressive rebound since hitting a lockdown-induced low of 41.7 in April 2020. The January result marks eight consecutive months with the index in expansionary territory, which is a good sign for manufacturing output and business spending to start 2021.

Wednesday will see the release of the ISM Services index for January. As was the case with manufacturer confidence, service sector confidence is expected to moderate slightly during the month. Economists expect to see the index fall from a post-lockdown high of 57.7 in December to 56.7 in January. This is another diffusion index, where values above 50 indicate expansion, so the anticipated result would be in expansionary territory. It would also be in line with the 56.7 reading we saw in February 2020, before the pandemic was a major concern. Business confidence has remained impressively resilient throughout the third wave of infections, demonstrating the successful adaptation of businesses to the post-pandemic environment. Looking forward, the continued lifting of state and local restrictions as the public health situation improves should support stronger business confidence and spending figures.

On Thursday, the initial jobless claims report for the week ending January 30 is set to be released. Economists expect to see the number of initial unemployment claims fall from 847,000 to 840,000. Although a decline would certainly be welcome, it would leave the number of initial weekly claims at a very high level compared with historical norms. For reference, the highest level of initial weekly claims during the great financial crisis was 665,000. The numbers for this report have remained above this record high every week since initial lockdowns were enacted in March 2020. Progress has been made, however, in getting initial claims down from the one-week high of more than 6.8 million we saw at the end of last March. Still, the continued high level of weekly claims indicates we must do quite a bit of work to get the labor market back to more normal levels.

Speaking of the labor market, on Friday, January's employment report is set to be released. Economists expect to see 55,000 jobs added during the month, following a loss of 140,000 jobs in December. December's decline, which marked the first month with net job losses since April 2020, was driven in large part by a sharp drop in leisure and hospitality jobs. With restrictions starting to loosen at the state and local levels, these jobs may be poised for a relatively swift recovery over the next few months. Outside of leisure and hospitality, December's employment report showed surprising strength for hiring in the professional and business services and retail sales sectors of the economy. This strength is expected to continue. Looking forward, the improving public health situation and a boost from additional federal stimulus are expected to support faster job growth. Nonetheless, we have quite a way to go to return to pre-pandemic employment levels. The 6.7 percent unemployment rate, which remains elevated, is not expected to change to start the year.

We'll finish the week with Friday's release of the December international trade report. Economists expect to see the trade deficit narrow from $68.1 billion in November to $65.8 billion in December. November's result marked the second-widest monthly trade deficit on record. The anticipated narrowing in December would bring the deficit closer to the levels seen in September and October of last year. The widening in the overall trade deficit in November was largely caused by an increase in the deficit for the trade of goods, which hit a record high during the month. In December, a surge in goods exports caused the deficit for the trade of goods to narrow, which is expected to be reflected in the overall trade balance numbers. Exports have been slower to recover from initial lockdowns than imports. Still, with domestic consumption slowing to end the year and high levels of producer confidence, exports have a chance to make up ground in December.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–3.29%	–1.01%	–1.01%	15.18%
Nasdaq Composite	–3.48%	1.44%	1.44%	41.80%
DJIA	–3.27%	–1.95%	–1.95%	6.28%
MSCI EAFE	–3.45%	–1.07%	–1.07%	8.65%
MSCI Emerging Markets	–4.46%	3.07%	3.07%	26.65%
Russell 2000	–4.38%	5.03%	5.03%	27.48%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.03%	–0.72%	4.88%
U.S. Treasury	0.07%	–0.96%	4.62%
U.S. Mortgages	0.06%	0.08%	3.32%
Municipal Bond	0.39%	0.64%	4.04%

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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