WEEKLY MARKET UPDATE, FEBRUARY 16, 2021

GENERAL MARKET NEWS

- Rates picked up across the yield curve last week, especially with 10- and 20-year Treasury maturities. The primary focus remains on a potential stimulus package and near-term uncertainty with respect to market inflation expectations and future Federal Reserve (Fed) policy. The 10-year Treasury yield opened last week just below 1.17 percent, closing the week at 1.20 percent; it opened at 1.23 percent this morning. The 30-year opened this morning just below 2.03 percent after opening last week at 1.99 percent. On the shorter end of the curve, we saw a slight increase in yields. The 2-year opened last week at 0.105 percent, ticking up to 0.113 percent this morning.

- Markets continued their risk-on rally from the previous week, with small caps and emerging markets representing top-performing pockets of the equity market. In large-cap domestic markets, the tech-oriented Nasdaq Composite Index led the way, with a global semiconductor shortage bolstering NVIDIA, Applied Materials, Intel, Lam Research, Texas Instruments, and Broadcom. Other top-performing sectors last week included financials and health care. Underperforming sectors included consumer discretionary, utilities, and consumer staples. Amazon, Tesla, and Apple fell in the discretionary space as consumer confidence has dropped recently. Staples such as Procter & Gamble fell as case counts and hospitalizations continued to drop.

- On Wednesday, the January Consumer Price Index report was released. Headline consumer prices rose by 0.3 percent, which was in line with expectations and a slight increase from December's downwardly revised 0.2 percent rise. Core consumer inflation, which strips out the impact of volatile food and energy prices, showed no change, which was below economist estimates for a 0.2 percent increase. On a year-over-year basis, both headline and core consumer prices rose by 1.4 percent in January, below the forecasted 1.5 percent annual inflation rate. The pace of consumer inflation remains well below the 2.5 percent year-over-year rate seen in January 2020. Despite the modest increase in headline consumer prices to start the year, consumer inflation remains well constrained and below the Fed's stated 2 percent inflation target.

- On Friday, the preliminary estimate of the University of Michigan consumer sentiment survey for February was released. This widely followed measure of consumer sentiment unexpectedly fell from 79 in January to 76.2 to start February, against forecasts for an increase to 80.9. This was largely driven by a decline in the future expectations index, which fell from 74 to 69.8, its lowest level since August. Responses remained split based on political party, as Republican and Independent respondents saw lowered sentiment and expectations, while Democrats saw both increase in February. Overall, this was a disappointing report that highlights the continued headwinds for the ongoing economic recovery.

WHAT TO LOOK FORWARD TO

Wednesday will see the release of the January Producer Price Index. Producer prices are expected to rise by 0.4 percent during the month, up from a 0.3 percent increase in December. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to show a more modest 0.2 percent monthly increase. On a year-over-year basis, headline producer prices and core producer prices are expected to rise by 0.8 percent and 1.1 percent, respectively. As was the case with consumer inflation, producer inflation has picked up moderately since initial lockdowns were lifted last year. Still, overall inflation remains relatively low due to the deflationary pressures created by the pandemic. Ultimately, this report is expected to show continued low levels of producer price pressure to start the year.

Wednesday will also see the release of the January retail sales report. Retail sales are expected to grow by 1 percent during the month, following a 0.7 percent decline in December. If estimates hold, this report would mark the first month with retail sales growth since September 2020. Some of the anticipated growth in January is due to rising gas prices. Core retail sales, which strip out volatile auto and gas sales, are expected to show a more modest 0.5 percent increase. Retail sales are expected to benefit from the additional federal stimulus passed at the end of December and the improving public health situation, which led to a decline in state and local government restrictions. As stimulus checks hit bank accounts, the higher-frequency consumer spending data showed a noted uptick in activity toward month-end, which should support the return to sales growth. Given the importance of consumer spending to the overall economic recovery, retail sales growth to start the new year would be a positive signal for growth during the first quarter.

The third major release on Wednesday will be the January industrial production report. Industrial production is slated to rise by 0.4 percent during the month, following a 1.6 percent increase in December. The better-than-expected result in December was largely driven by increased manufacturing output, as manufacturing production rose by 0.9 percent to end the year. Economists have forecasted a 0.7 percent increase for manufacturing production in January. This anticipated growth for industrial and manufacturing production in January is supported by high levels of business confidence. The anticipated gap between industrial and manufacturing production is due to unseasonably warm weather in January, which likely held back energy and overall industrial production. If estimates hold, this report would signal that the manufacturing recovery we saw throughout much of last year continued into the new year.

Wednesday will also see the release of the National Association of Home Builders Housing Market Index for February. This widely followed gauge of home builder confidence is expected to remain unchanged at 83 during the month. If estimates hold, this result would leave the index near the all-time high of 90 it hit in November 2020. Home builder confidence has rebounded notably since the index hit a pandemic-induced low of 30 in April 2020. The index is expected to remain well above the pre-pandemic high of 76 it reached in December 2019. Home builder confidence has been boosted by record-low mortgage rates, which have driven additional buyers into a market with a low supply of existing homes for sale. Given the continued low levels of supply and the high demand for housing, home builder confidence is expected to remain strong for the foreseeable future. This should support continued healthy levels of new home construction.

Wednesday's final major data release will be the release of the Federal Open Market Committee (FOMC) minutes from the Fed's January meeting. No major changes to monetary policy were made, so the minutes are not expected to contain substantial new information. We'll likely get some discussion between Fed members regarding the Fed's asset purchase program, but the central bank indicated at the meeting there would be no changes to the current program for the foreseeable future. The minutes are expected to show additional conversation focusing on the Fed's evolving view of the pandemic and mass vaccination efforts, which were picking up steam when the FOMC last met. Ultimately, these minutes are likely to reinforce the Fed's continued commitment to providing supportive monetary policy until we see further substantial progress in combating the pandemic and getting people back to work.

On Thursday, the January building permits and housing starts reports are set to be released. During the month, permits and starts are expected to fall by 2 percent and 0.7 percent, respectively. Both of these measures of new home construction grew by more than expected in December, so a modest pullback is understandable. December's strong results brought permits and starts up to their highest levels since 2006, so the anticipated decline in January is nothing to worry about for the time being. Looking forward, however, rising timber prices and fewer available lots for building could be headwinds for significantly faster levels of new home construction. Single-family housing construction has been especially impressive over the past year, as starts for this segment saw eight straight months of growth to finish out 2020. If estimates for permits and starts prove to be accurate, this report would be another signal that the housing market entered 2021 with healthy levels of growth.

Thursday will also see the release of the initial jobless claims report for the week ending February 13. Economists expect to see 760,000 initial unemployment claims filed during the week, which would be a modest improvement from the 793,000 initial claims filed the week before. If this estimate proves accurate, the number of weekly claims would hit its lowest level since November 2020, likely reflecting the positive impact from diminishing state and local restrictions. Still, though we have made progress in reducing unemployment claims from the record highs established during the initial lockdowns, the level of weekly initial claims remains very high on a historical basis. This indicates continued stress for the labor market. Given the high levels of initial claims, this weekly report will continue to be widely monitored, as it gives economists a relatively up-to-date look at the health of the job market.

We'll finish the week with Friday's release of the January existing home sales report. Sales of existing homes are expected to fall by 3 percent during the month, following a 0.7 percent increase in December. Existing home sales have already rebounded well past pre-pandemic levels. If the estimate holds, their pace would remain near the 14-year high recorded in October 2020. In January, existing home sales are expected to grow by 21 percent on a year-over-year basis. This result would highlight the impressive surge in home buyer demand we experienced over the past year. Housing was one of the best-performing sectors of the economy once initial lockdowns were lifted. Continued sales growth near current levels would indicate the continuing health of the housing market to start the new year, despite low levels of supply and rising prices.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.28%	6.01%	4.94%	18.72%
Nasdaq Composite	1.74%	7.88%	9.44%	46.38%
DJIA	1.11%	5.05%	3.00%	9.29%
MSCI EAFE	2.09%	6.17%	3.78%	11.96%
MSCI Emerging Markets	2.41%	8.15%	10.78%	32.02%
Russell 2000	2.54%	10.45%	16.01%	36.94%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.13%	–1.23%	4.37%
U.S. Treasury	–0.15%	–1.73%	4.10%
U.S. Mortgages	–0.17%	–0.10%	2.91%
Municipal Bond	0.28%	1.01%	4.49%

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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