WEEKLY MARKET UPDATE, FEBRUARY 8, 2021

GENERAL MARKET NEWS

• With coronavirus cases continuing to fall globally, we saw significant steepening of the yield curve. The 10-year Treasury yield opened last week at 1.07 percent and closed just below 1.14 percent. This morning, the 10-year opened at 1.18 percent, up 11 basis points (bps) week-over-week. The 30-year opened just shy of 1.98 percent, up 14.5 bps from last week. On the shorter end of the curve, the 2-year opened last week at 0.11 percent and lost less than one-half of a basis point to open this morning.

• The steepening of the yield curve in fixed income markets led to increased confidence for equity investors as global markets roared back last week. Poised to benefit from likely additional stimulus and a continued accommodative policy from Federal Reserve (Fed) officials, equities rallied. The energy sector was the top performer, as Fed policy continues to focus on driving inflation higher than 2 percent. Other sectors that performed well included communication services, financials, and consumer discretionary. Banks benefited from the steepening of the yield curve. Underperforming sectors were health care, utilities, and consumer staples.

• We started last 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, falling from an upwardly revised 60.7 in December to 58.7 in January against calls for a more modest decline to 60. This result still represents a healthy level of manufacturer confidence, as the index sits well above last year's pre-pandemic high of 51.1 in January. This is a diffusion index, where values greater than 50 indicate expansion, so the manufacturing industry continued to grow in January. The index has shown an impressive rebound since hitting a lockdown-induced low of 41.7 in April 2020. This marks eight consecutive months in which the index has stayed in expansionary territory, which is a good sign for manufacturing output and business spending to start the year.

• Wednesday saw the release of the ISM Services index for January. Service sector confidence rose from 57.7 in December to 58.7 in January against calls for a decline to 56.7. This is another diffusion index, where values greater than 50 indicate expansion, so this strong result indicates service sector businesses continued to successfully adapt to the pandemic to start the year. This brought the index to its highest level since February 2019, highlighting the impressive rebound in service sector confidence since initial lockdowns were lifted last April. The improvement for service sector confidence in January likely reflected the positive effects from increased federal stimulus and lowered restrictions at the state and local level during the month.

• On Friday, January's employment report was released. The report showed that 49,000 jobs were added during the month, which was below economist estimates for 105,000 new jobs. This result is a step in the right direction following December's downwardly revised loss of 227,000 jobs that marked the first month of net job losses since last April. The return to job growth in January is a positive sign that the federal stimulus and the diminishing restrictions at the state and local level are starting to lead to faster economic growth. The underlying data also showed signs of improvement, as the unemployment rate fell by more than expected, declining from 6.7 percent in December to 6.3 percent in January against forecasts for no change. Given the improving public health situation during the month and the prospect for even more federal stimulus in the near future, it's quite possible we will see job growth continue to rebound throughout the year, especially once mass vaccination efforts allow for a return to more normal economic conditions.

WHAT TO LOOK FORWARD TO

On Wednesday, the January Consumer Price Index report is set to be released. Headline consumer prices are expected to increase by 0.3 percent during the month, a modest decline from December's 0.4 percent increase. Core consumer inflation, which strips out the impact of volatile food and energy prices, is expected to show 0.2 percent growth in January, up from a 0.1 percent increase in December. On a year-over-year basis, headline and core consumer prices are expected to rise by 1.5 percent. The annual consumer inflation rate has picked up since hitting a pandemic-induced low of 0.1 percent in May 2020. If estimates hold, however, the pace of consumer inflation would remain well below the 2.5 percent year-over-year growth rate we saw in January 2020. Despite the anticipated increases in headline and core consumer prices, consumer inflation remains well constrained below the Fed's stated 2 percent inflation target, indicating modest overall inflationary pressure.

Thursday will see the release of the initial jobless claims report for the week ending January 6. Economists expect to see 773,000 initial unemployment claims filed during the week, a modest improvement from the 779,000 initial claims filed the prior week. If the estimate holds, this report would mark four consecutive weeks with declining initial unemployment claims, following their rise throughout parts of December and early January. Continuing unemployment claims, which are reported with a one-week lag to initial claims, are also expected to show further declines during the week. Overall, however, claims remain at a high level. Continued improvement to start February would be a sign the stimulus and improving health situation are supporting faster economic growth. Given the continued high level of initial and continuing unemployment claims, this weekly report will continue to be closely monitored. It gives economists a relatively up-to-date look at the health of the labor market.

On Friday, the preliminary estimate of the University of Michigan consumer sentiment survey for February will be released. The index is forecasted to rise from 79 in January to 80.9 to start February. If the estimate holds, the index would show consumer sentiment at its highest level in four months, near the post-lockdown peak of 81.8 in October 2020. Given positive tailwinds from the improving public health picture and the prospect of increased federal stimulus spending in the near term, we may see notable improvements to consumer confidence over the next few months. This would be a positive sign for consumer spending growth, as improving confidence has historically been linked to increased spending. Ultimately, if the index does improve to start February, it would be another positive signal the economic recovery is heading in the right direction, spurred on by increased stimulus and progress in combating the third wave of the pandemic.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	4.67%	4.67%	3.61%	18.29%
Nasdaq Composite	6.04%	6.04%	7.57%	46.04%
DJIA	3.90%	3.90%	1.87%	8.46%
MSCI EAFE	2.75%	2.75%	1.66%	9.50%
MSCI Emerging Markets	4.96%	4.96%	8.18%	29.37%
Russell 2000	7.72%	7.72%	13.14%	34.90%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.39%	–1.11%	4.74%
U.S. Treasury	–0.63%	–1.58%	4.49%
U.S. Mortgages	–0.01%	0.07%	3.22%
Municipal Bond	0.09%	0.73%	4.34%

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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