WEEKLY MARKET UPDATE, JANUARY 11, 2021

GENERAL MARKET NEWS

• After little movement during the week of New Year's, we saw significant steepening of the yield curve in the first week of 2021. The 10-year Treasury yield opened at 0.93 percent and closed just shy of 1.11 percent. This morning, the 10-year yield opened just above 1.13 percent—a pickup of 20 basis points (bps) in just one week. The 30-year yield opened at 1.9 percent—a gain of more than 23 bps from last week's open of 1.66 percent. On the shorter end of the curve, the 2-year opened last week at 0.14 percent and fell just 1.2 bps at the opening this morning. The pickup in yields was predominantly driven by the results of the Georgia runoffs, as two additional senators for the Democratic Party increases the likelihood of additional stimulus.

• All three major U.S. indices were up by more than 1.6 percent last week. Emerging and international markets performed well due to the increased likelihood of future U.S. stimulus and a weaker dollar. Small-caps also rallied on the news of potential support for businesses that have fallen under heavy pressure due to the coronavirus.

• Financials, consumer discretionary, health care, and energy were among the top-performing sectors on the week. The strong performance of financials was due in part to the pickup in yields. Consumer staples, real estate, and utilities were among the worst performers, as higher yields pose a challenge for industries such as real estate, which will see an increase in loan rates.

• On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for December was released. This gauge of manufacturer confidence rose from 57.5 in November to 60.7 in December against calls for a drop to 56.8. This is a diffusion index, where values above 50 indicate expansion, so this better-than-expected result signals continued growth for the manufacturing sector during the month despite the worsening public health situation. The index now sits at its highest level since 2018, highlighting the impressive recovery for manufacturers since initial lockdowns were lifted in April. This was an encouraging report, as it showed the continued resilience for the manufacturing recovery during the month and quarter, and it points toward continued healthy levels of business investment.

• Thursday saw the release of the ISM Services index for December. This measure of service sector confidence also came in above expectations, with the index rising from 55.9 in November to 57.2 in December against forecasts for a decline to 54.5. This broke a two-month streak of declining service sector confidence and brought the index to its highest level since September. This is another diffusion index, where values above 50 indicate expansion, so this was a positive development for the service sector, which accounts for the lion's share of economic activity in the country. As was the case with manufacturing confidence, service sector confidence has rebounded notably since hitting a pandemic-induced low of 41.8 in April. Overall, this was another positive report, as it showed the service sector remained resilient despite the worsening public health situation and increased restrictions at the state and local level.

• We finished the week with Friday's release of the December employment report. The report showed a loss of 140,000 jobs during the month, which was worse than estimates for a modest 50,000 increase. This marks the first month since April where the economy has experienced a net loss in jobs, driven primarily by increased restrictions at the state and local level that caused a sharp decline in leisure and hospitality jobs. Despite this decline, other sectors, such as professional and business services and retail sales, showed strong levels of hiring, which indicates that the headline job loss may be overstating the overall damage caused during the month. The unemployment rate remained unchanged at 6.7 percent, slightly better than estimates for an increase to 6.8 percent. Average hourly wages also rose by more than expected, increasing by 0.8 percent against calls for a 0.2 percent increase. While the headline rise in wages appears positive, this was largely due to lower wage leisure and hospitality job losses artificially increasing the average rather than by a widespread rise in wages. Overall, this was a concerning report that highlights the very real risks the current third wave of infections presents for the economic recovery.

WHAT TO LOOK FORWARD TO

On Wednesday, the December Consumer Price Index is set to be released. Consumer prices are expected to rise by 0.4 percent during the month, up from a 0.2 percent increase in November. On a year-over-year basis, consumer inflation is expected to come in at 1.3 percent, slightly up from the 1.2 percent annual inflation rate we saw in November. Part of the anticipated increase is due to an 8 percent rise in gas prices in December. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to show a more modest 0.1 percent monthly increase and 1.6 percent annual growth. Even with these price increases, however, year-over-year consumer inflation will remain well below the pre-pandemic high of 2.5 percent recorded in January 2020. This fact highlights the deflationary pressures created by the pandemic and the initial lockdowns in March and April.

On Thursday, the initial jobless claims report for the week ending January 9 will be released. Economists expect to see 785,000 initial unemployment claims filed during the week, marking a modest improvement from the 787,000 initial claims filed the week before. As a result, in line with last week's report, this number would likely be seen as a positive development. It should help calm concerns regarding a potential surge in initial claims due to states catching up on reporting following holiday-related delays. Continuing claims, which are reported with a one-week lag to initial claims, are also expected to show a modest decline during the week. If estimates hold, this report would be moderately encouraging. Nonetheless, it would indicate that the labor market is facing headwinds created by the pandemic to start the year.

Friday will see the release of the December Producer Price Index report. Headline producer prices are expected to rise by 0.4 percent during the month, up from the 0.1 percent increase in November. On a year-over-year basis, headline prices are slated to rise by 0.7 percent in a small decrease from November's 0.8 percent annual producer inflation rate. Core producer prices, which strip out energy and food prices, are expected to rise by 0.1 percent in December and 1.3 percent on a year-over-year basis. If estimates prove accurate, this week's two inflation reports would show that inflation remains well constrained below the Federal Reserve's (Fed's) stated 2 percent long-term target. Given continued weakness in the job market and the risks presented by the pandemic, the Fed is not expected to react to modest rising inflationary pressure in the foreseeable future.

On Friday, we'll also get December's retail sales report. Sales are expected to remain flat during the month, which would be an improvement from their 1.1 percent decline in November. Headline retail sales fell in both October and November, so a flat month in December would be a positive sign that the recent declines did not begin a long-term trend. Economists expect to see rising auto sales and gas prices supporting headline retail sales growth during the month. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to fall by 0.6 percent. This result would be a modest improvement from the 0.8 percent decline in November but would be concerning given the importance of consumer spending to the overall economy. We can hope that the new round of federal stimulus announced at the end of December will spur faster sales growth. But given the timing of the stimulus, we will have to wait to see any effects from a potential tailwind on spending data.

Friday will also see the release of the December industrial production report. Industrial production is expected to grow by 0.5 percent during the month, marking a slight increase from the 0.4 percent rise in November. Some of this growth is anticipated because of the rebound in utility output in December, following an unseasonably warm November that saw output fall and drag down overall production. Manufacturing output is expected to grow by 0.4 percent in December, down from the 0.8 percent growth in November. As we saw with December's manufacturing confidence numbers, the manufacturing sector has remained impressively resilient in the face of the third wave of infections. This fact supports the expectations for continued production growth. In addition, most factories have not been subject to the new set of lockdowns at the state and local levels. So, manufacturers should be able to withstand the third wave of infections better than in March and April, when many factories were forced to close. If estimates hold, this report would represent an encouraging highlight on the continued strength of manufacturing the sector.

We'll finish the week with the preliminary estimate of the University of Michigan consumer sentiment survey for January. This widely followed measure of consumer confidence is expected to decline modestly from 80.7 in December to 80 in January. Given the worsening public health picture and the deteriorating employment situation during the month, a decline is understandable. Following November's unexpected surge in confidence, the anticipated result would be slightly disappointing. Still, it would leave the index well above the pandemic-induced low of 71.8 it hit in April, indicating that consumers are showing more resiliency during the third wave of infections compared with the first. Nonetheless, even if the index remains well above the pandemic lows, it will be far from the pre-pandemic high of 101 recorded in February 2020. Consumer confidence will continue to be a widely followed economic indicator, as rising confidence typically supports faster consumer spending growth.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.88%	1.88%	1.88%	18.93%
Nasdaq Composite	2.45%	2.45%	2.45%	44.71%
DJIA	1.66%	1.66%	1.66%	9.87%
MSCI EAFE	3.16%	3.16%	3.16%	11.25%
MSCI Emerging Markets	4.79%	4.83%	4.83%	22.38%
Russell 2000	5.93%	5.93%	5.93%	27.31%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.94%	–0.94%	6.25%
U.S. Treasury	–1.18%	–1.18%	6.42%
U.S. Mortgages	–0.11%	–0.11%	3.61%
Municipal Bond	–0.09%	–0.09%	4.47%

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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