WEEKLY MARKET UPDATE, JANUARY 4, 2021

GENERAL MARKET NEWS

- Last week saw minimal movement in the yield curve due to light trading and the holiday. The 10-year Treasury yield opened at 0.93 percent and closed the week just shy of 0.92 percent. This morning, the 10-year yield opened at almost 0.93 percent. The 30-year opened at 1.66 percent—a loss of less than 1 basis point from last week's open of 1.67 percent. On the shorter end of the curve, the 2-year opened last week at 0.12 percent and fell just three-tenths of a basis point this morning.

- All three major U.S. indices were up despite softness in the small-cap space. Emerging and international markets performed well, as China and the EU closed in on the Comprehensive Agreement on Investment. These markets have cheaper valuations than their U.S. counterparts and so have more potential for growth fueled by positive news. Technology and consumer discretionary were the top-contributing sectors for the week, wrapping up a strong year. Despite a rebound in recent months, energy, materials, and real estate closed out a difficult year as the week's worst performers. We look forward to finding out whether those sectors that outperformed will carry their strength into 2021 or if we will see more of the recent rotation in the market, which has supported those industries hit hardest by the coronavirus.

WHAT TO LOOK FORWARD TO

On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for December is set to be released. This measure of manufacturer confidence is expected to fall from 57.5 in November to 56.5 in December. This is a diffusion index, where values above 50 indicate expansion, so even with a modest decline, the result would be a sign of a continued recovery for the manufacturing sector. If estimates prove accurate, the index would sit at its third-highest level since the end of the initial lockdowns. This would highlight the continued resilience for manufacturer confidence, despite the worsening public health situation as we finished out last year. Historically, higher levels of confidence have supported faster business investment. So, if estimates hold, this index would send a positive signal for fourth-quarter business spending.

Wednesday will see the release of the Federal Open Market Committee meeting minutes from the Federal Reserve's (Fed's) December meeting. As expected, no changes to the federal funds rate were made at this meeting, as Fed members largely do not expect to raise short-term rates for the foreseeable future. The meeting's primary focus was on the change in the Fed's language surrounding its asset purchasing program. The Fed reemphasized its commitment to the current pace of purchasing at least $120 billion in assets each month. This will not change until "substantial further progress" is made on the Fed's employment and inflation goals. Economists will look to the minutes to get a better idea of what constitutes substantial further progress and for hints regarding the future path of the bond buying program. Ultimately, no major surprises are expected from the release of these minutes, but any additional insights into the central bank's policies are worth monitoring.

On Thursday, the initial jobless claims report for the week ending January 2 will be released. Economists expect to see the pace of initial layoffs rise during the week, with forecasts calling for an increase from 787,000 initial claims to 803,000. This result would break a two-week streak of declining initial claims, but it should be noted that the year-end data likely faced holiday-related volatility. Despite the modest anticipated increase, this forecast would lower the rolling four-week average for initial claims, which would be a positive sign. Continuing unemployment claims, which are reported with a one-week lag to initial claims, are also expected to show improvement. The forecasts call for a decline from 5.22 million to 5.15 million. Ultimately, this report is expected to show that initial and continuing unemployment claims remain elevated compared with historically normal levels. As such, it would highlight the stress on the labor market created by the pandemic.

Thursday will also see the release of the November international trade report. Economists expect to see the trade deficit widen during the month, from $63.1 billion in October to $64.5 billion in November. This result would bring the trade deficit to its second-widest point since 2008, trailing only the $64.9 billion deficit in August. The advance report on the trade of goods during the month showed the deficit widening by more than expected, from $80.4 billion in October to $84.8 billion in November, against calls for a move to $81.5 billion. This result brought the trade deficit for goods to its highest level on record, driven by a 2.6 percent rise in imports that more than offset a 0.8 percent increase in exports. With service-related trade well below pre-pandemic levels, the widening of the goods trade deficit is expected to cause the overall trade gap to widen.

The third major data release on Thursday will be the release of the ISM Services index for December. This gauge of service sector confidence is expected to decline from 55.9 in November to 54.5 in December. This is another diffusion index, where values above 50 indicate expansion, so this result would signal continued recovery for service sector businesses. That said, if the estimate holds, it would mark three straight months with declining service sector confidence and bring the index to its lowest level since initial lockdowns ended. The index has rebounded notably since hitting a lockdown-induced low of 41.8 in April. With rising case counts and additional restrictions at the state and local levels, however, the strength of this recovery will likely be tested over the coming months. Given that the service sector accounts for the lion's share of economic activity, monitoring it will be important, especially as we continue to get the pandemic's third wave under control.

We'll finish the week with Friday's release of the December employment report. Economists expect to see 68,000 jobs added during the month, down from 245,000 in November. This result would mark the lowest number of jobs added in a month since April, representing a concerning slowdown in net hiring. The unemployment rate is expected to increase modestly, from 6.7 percent in November to 6.8 percent in December.

This would be the first increase for the unemployment rate since it spiked to 14.7 percent in April. Although we have certainly made progress in getting folks back to work following the end of the initial lockdowns, the slowdown in the pace of hiring is concerning given the large number of unemployed Americans. The economy lost roughly 22.1 million jobs in March and April. Since May, we have only added approximately 12.3 million jobs, highlighting the very real work that needs to be done to get employment back to pre-pandemic levels. Ultimately, a full economic recovery will rely on a healthy jobs market, so this report will continue to be widely followed.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.45%	0.00%	0.00%	17.40%
Nasdaq Composite	0.66%	0.00%	0.00%	42.99%
DJIA	1.35%	0.00%	0.00%	8.45%
MSCI EAFE	1.40%	0.00%	0.00%	7.18%
MSCI Emerging Markets	3.03%	0.00%	0.00%	16.94%
Russell 2000	–1.41%	0.00%	0.00%	20.07%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.00%	0.00%	7.35%
U.S. Treasury	0.00%	0.00%	7.81%
U.S. Mortgages	0.00%	0.00%	3.80%
Municipal Bond	0.00%	0.00%	5.09%

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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