JANUARY 25, 2021

# Weekly Market Update

## General Market News

- There was minimal flattening in the yield curve during the holiday-shortened week. The 10-year Treasury yield opened at 1.09 percent and closed at 1.05 percent. This morning, the 10-year yield opened just below 1.07 percent—a loss of approximately 2 basis points (bps) since last week's open. The 30-year opened at 1.82 percent, a loss of 2 bps from last week's open of 1.84. On the shorter end of the curve, the 2-year opened last week at 0.14 percent and lost 1 bp at the opening this morning.
- The biggest news last week was the change in administrations in Washington, DC, and it helped push markets higher across the board. The Nasdaq Composite led the way, up by more than 4 percent ahead of technology earnings announcements (i.e., Apple, Facebook, Microsoft, and Tesla). After the Nasdaq, U.S. small-caps were the next best domestic performer as Janet Yellen pushed for large stimulus in her testimony. Despite the rollout of the vaccines and a decline in hospitalizations, the Dow Jones Industrial Average lagged, possibly due to concerns regarding the new COVID-19 variant. The top-performing sectors were communication services, technology, and consumer discretionary; technology benefited from a more than 9 percent gain in Facebook, following recent pressure on the stock. The worst-performing sectors included financials, energy, and materials, which struggled due to concerns that the new administration may propose additional regulation and changes to both the energy and banking sector.
- On Wednesday, the National Association of Home Builders Housing Market Index for January was released. Home builder confidence fell from 86 in December to 83 in January against expectations for no change during the month. Despite the decline, the index still sits near the all-time high of 90 it hit in November, signaling continued high levels of home builder confidence. Home builders cited a lack of available lots to build on and rising lumber prices as headwinds toward faster construction. With that being said, home builder confidence has rebounded notably since the index hit a pandemic-induced low of 30 in April. High levels of home builder confidence typically support faster new home construction, so this report bodes well for new home construction to start the new year.
- Thursday saw the release of the December building permits and housing starts reports, which both came in well above expectations. Permits rose by 4.5 percent during the month against calls for a 1.7 percent decline. Starts increased by 5.8 percent, which was notably better than economist forecasts for a 0.8 percent increase. These results brought permits and starts to their fastest pace since 2006, highlighting the continued strength of the housing market. As was the case with home builder confidence, both permits and starts have increased notably since initial lockdowns ended last year. Given the low supply of homes for sale and the continued high levels of home builder confidence, the pace of new home construction is expected to remain robust for the time being.

### General Market News (continued)

- We finished the week with Friday's release of the December existing home sales report. Sales of existing homes beat expectations, rising by 0.7 percent against forecasts for a 1.9 percent decline. This capped off the strongest year for existing home sales since 2006, further evidence of the health of the housing market. Record-low mortgage rates and shifting homebuyer preference for larger spaces helped lead to a surge in homebuyer demand throughout the year. On a year-over-year basis, existing home sales grew by 22.2 percent in December. While the rebound in housing demand was a positive development, significantly faster sales growth will be hard to come by in the future, as supply is very low and prices continue to rise. If sales remain near current levels, however, it would still represent a very strong level of homebuying activity.

## % Market Index Performance Data

### EQUITIES

| Index | Week-to-Date % | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|---|
| S&P 500 | 1.96 | 2.36 | 2.36 | 17.63 |
| Nasdaq Composite | 4.19 | 5.10 | 5.10 | 45.31 |
| DJIA | 0.63 | 1.37 | 1.37 | 8.75 |
| MSCI EAFE | 0.70 | 2.47 | 2.47 | 10.47 |
| MSCI Emerging Markets | 2.57 | 7.88 | 7.88 | 26.74 |
| Russell 2000 | 2.15 | 9.84 | 9.84 | 30.43 |

*Source: Bloomberg, as of January 22, 2021*

### FIXED INCOME

| Index | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|
| U.S. Broad Market | 0.01 | –0.75 | 5.60 |
| U.S. Treasury | 0.06 | –1.02 | 5.67 |
| U.S. Mortgages | –0.01 | 0.01 | 3.43 |
| Municipal Bond | 0.23 | 0.25 | 4.07 |

*Source: Morningstar Direct, as of January 22, 2021*

## What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for January will be released. Economists expect to see this gauge of consumer sentiment rise modestly from 88.6 in December to 89.1 in January. Following the four-month low set by the index in December, this result would be a step in the right direction. Still, it would leave confidence well below the post-lockdown high of 101.4 recorded in October 2020. Historically, improving consumer confidence has supported faster consumer spending growth, so any improvement for the index would certainly be welcome. With that said, however, we'll likely have to make significant progress in combatting the third wave of the pandemic before we see a large jump in consumer confidence. With mass vaccination efforts picking up steam, the public health situation looks set to improve over the upcoming months. This would likely bolster consumer confidence and spending.

Wednesday will see the preliminary release of the December durable goods orders report. Durable goods orders are expected to rise by 1 percent during the month, in line with November's 1 percent increase. Unlike consumer spending, business spending held up well in the fourth quarter of 2020, despite rising coronavirus case counts and restrictions at the state and local levels. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to rise by 0.5 percent in December, up from a 0.4 percent increase in November. If estimates hold, this report will mark eight straight months with growth in both headline and core durable goods orders. These indicators are often viewed as a proxy for business investment, so continued growth would be a positive sign that business spending remained healthy in the fourth quarter of 2020.

Wednesday will also see the release of the Federal Open Market Committee (FOMC) rate decision from the Federal Reserve's (Fed's) January meeting. The central bank lowered the federal funds rate to virtually zero in March of last year, and economists do not anticipate any changes to this rate until at least 2023. Given the ongoing environment of low interest rates, economists will be largely focused on the potential for changes to the Fed's asset purchase programs over the next few FOMC meetings. No plans are in place to decrease the monthly purchases of Treasury and mortgage-backed bonds. But, given the impact that Fed buying has on the market, any mentions of future changes to asset purchase plans will be closely monitored. There may also be some discussion on how Fed members view the current and expected public health situation, especially now that vaccine rollout is underway.

On Thursday, the advance estimate of fourth-quarter gross domestic product (GDP) growth will be released. Economists expect to see the economy grow by an annualized rate of 4.4 percent during the quarter, down from the 33.4 percent annual growth rate in the third quarter. The surge in third-quarter growth was largely due to the weakness in the second quarter and a rebound in spending once initial lockdowns were lifted. The anticipated slowdown heading into the fourth quarter is due to a sharp decline in consumer spending growth, which was the major driver of third-quarter GDP growth. Personal consumption grew at an annualized rate of 41 percent in the third quarter, but economists expect to see this growth rate fall to an annualized 3.2 percent in the fourth quarter. Over the next few quarters, low to mid-single-digit economic growth is the most likely path forward, given the continued headwinds created by the pandemic. Nonetheless, we can hope that an improving public health picture will get us back to more normal economic conditions by the end of 2021.

Thursday will also see the release of the initial jobless claims report for the week ending January 23. Forecasts call for a drop in weekly initial unemployment claims, from 900,000 to 875,000. While this decline would be a positive development, the number of initial claims

### What to Look Forward To (continued)

would remain high on a historical basis if estimates hold. The number of weekly initial claims has dropped notably since peaking at 6.87 million in March 2020, but initial claims have remained largely range bound since September. Given the high level of overall claims on a weekly basis, this lack of continued improvement is a concern. It signals that the labor market is still facing considerable stress due to the pandemic. With claims at historically high levels, this weekly report will continue to serve as an important barometer for the overall health of the labor market.

The third major data release on Thursday will be the release of the December new home sales report. The pace of new home sales is expected to rise by 1.3 percent during the month, following an 11 percent decline in November. New home sales are a smaller and often more volatile portion of the housing market compared with existing home sales. If estimates hold, this report would bring new home sales to their fourth-highest monthly level since 2008, highlighting the healthy rebound seen since initial lockdowns were lifted. As was the case with existing home sales, record low mortgage rates and shifting buyer preferences led to an encouraging resurgence in new home sales last year. Looking forward, low supply and rising prices are expected to serve as a headwind for significantly faster growth for this segment. Still, if the pace of new home sales remains near current levels, it would signal a noted increase compared with recent years.

On Friday, December's personal income and personal spending reports are set to be released. Forecasts call for a 0.2 percent increase for personal income, while spending is set to fall by 0.5 percent. Personal spending has been hard-hit by the third wave of infections, as well as the increased state and local restrictions associated with the pandemic. A decline in personal spending in December would mark the first two months with consecutive spending declines since the initial lockdowns in March and April 2020. With that said, the anticipated decline in December is much more modest than the 12.7 percent decline in spending we saw in April. This fact indicates that consumers are dealing with the third wave with much more resiliency than they did with the first wave. Personal income has been very volatile on a month-to-month basis, due in large part to shifting levels of federal income support and stimulus. The anticipated rise in income in December is encouraging, as it would be the first increase since September 2020. Looking forward, the additional stimulus passed at the end of 2020 should support faster income and spending growth. Nonetheless, we'll have to wait to see the results as they feed through in January's data.



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