WEEKLY MARKET UPDATE, JANUARY 19, 2021

GENERAL MARKET NEWS

- After major steepening last week, there has been little movement in the yield curve. The 10-year Treasury yield opened at 1.12 percent and closed the week at 1.11 percent. This morning, the 10-year yield opened just above 1.10 percent—a loss of approximately 2 basis points (bps). The 30-year opened at 1.85 percent, which was a loss of roughly 2 bps from last week's open of 1.88 percent. On the shorter end of the curve, the 2-year opened last week at 0.14 percent and added 0.6 bps at the opening this morning. Bond investors seem to be caught in between the Biden team's $1.9 trillion stimulus proposal and lackluster economic data.

- U.S. large-cap and international markets were down last week, as weaker-than-expected economic data and new variants of the coronavirus led to a pause. Emerging markets and small-caps performed well after the incoming Biden administration proposed its $1.9 trillion stimulus package. The package seeks to provide additional $1,400 stimulus checks, expanded unemployment relief, and funding for local governments, vaccinations, and the reopening of schools. The U.S. dollar saw a modest increase in strength, but it is still unclear if this proposed package will be approved by the Senate in its current form and if additional stimulus will be needed. In an interview with Princeton, Federal Reserve (Fed) Chair Jerome Powell said he expects rates to remain low for some time and addressed concerns over an early exit from the Fed's bond purchasing program.

- The top-performing sectors during what was largely a risk-off week were energy, real estate, utilities, and financials. The sectors that underperformed were technology, communication services, and consumer discretionary.

- On Wednesday, the December Consumer Price Index report was released. Consumer prices rose by 0.4 percent during the month, which is up from 0.2 percent growth in November and in line with economist expectations. On a year-over-year basis, consumer inflation rose by 1.4 percent, which was slightly higher than forecasts for 1.3 percent growth. Core consumer prices, which strip out the impact of volatile food and energy prices, showed a more subdued 0.1 percent increase during the month, which translated to a 1.6 percent increase in core consumer prices on a year-over-year basis. Despite the increase in inflationary pressure during the month, on a year-over-year basis, headline inflation remains below the Fed's 2 percent target and well below the January 2020 high of 2.5 percent. Looking forward, rising gas prices and a potential return to normalcy as vaccination programs take effect are expected to serve as a tailwind for moderately faster price growth, but for the time being, inflation remains constrained.

• Friday saw the release of the December Producer Price Index report. Headline producer prices rose by 0.3 percent during the month, which was up from the 0.1 percent growth in November but below economist estimates for 0.4 percent growth. On a year-over-year basis, headline producer prices rose by 0.8 percent, which was in line with November's annual inflation rate and economist forecasts. Core producer prices, which strip out energy and food prices, rose by 0.1 percent during the month and 1.2 percent on a year-over-year basis. As was the case with consumer inflation, producer inflation remains well constrained and below the Fed's stated 2 percent target. While it's quite possible we will continue to see modest increases in inflationary pressure during the year, given the continued weakness for the job market and the risks presented by the pandemic, the Fed is not expected to react to modest rising inflationary pressure for the foreseeable future.

• On Friday, December's retail sales report was released. Retail sales came in below expectations, falling by 0.7 percent against forecasts for no change. This marks three straight months with declining retail sales. Core retail sales, which strip out the impact of volatile auto and gas sales, fell even further, with a 2.1 percent decline against forecasts for a more modest 0.3 percent drop. The weakness in sales was widespread and likely highlights the negative effects that rising case counts and restrictions at the state and local level have had on retail sales. This is a concerning report, as it indicates that consumer spending in the fourth quarter was likely weaker than expected—a bad sign for overall economic growth, given the fact that consumer spending accounts for the majority of economic activity in the country. There is hope that a new round of federal stimulus announced at the end of December will help spur faster sales growth in the future, but the decline in retail sales in the fourth quarter is a concerning sign that the economic recovery slowed to end the year.

• We finished the week with the release of the preliminary estimate of the University of Michigan consumer sentiment survey for January. This widely followed measure of consumer confidence fell by more than expected during the month, declining from 80.7 in December to 79.2 to start January against calls for a more modest decline to 79.5. While this result was slightly disappointing, the index is still well above the pandemic-induced low of 71.8 in April, indicating that consumers are reacting to the third wave of infections with more resiliency compared with earlier waves. With that being said, the index sits well below the pre-pandemic high of 101 last February. This will continue to be a widely monitored report, as improving consumer confidence has historically been linked to faster consumer spending growth.

WHAT TO LOOK FORWARD TO

On Wednesday, the National Association of Home Builders Housing Market Index for January will be released. This measure of home builder confidence is expected to remain unchanged at 86. If estimates hold, this result would be strong, tying December for the second-highest reading for the index on record and trailing only November's all-time high of 90. Home builder confidence has rebounded notably since hitting a pandemic-induced low of 30 in April. In large part, this trend has been driven by low mortgage rates that have spurred an increase in buyer demand. In addition, home builder confidence has been bolstered by the low level of homes available for sale, which gives builders confidence that newly built homes will be quickly purchased. High home builder confidence supports faster new home construction, so continued strength for this index would be a good sign for the health of the overall housing market.

Speaking of new home construction, Thursday will see the release of the December building permits and housing starts reports. Permits are expected to fall by 2.1 percent during the month, following a 6.2 percent increase in November. Starts are expected to increase by 1 percent, following a 1.2 percent increase in the prior month. If estimates prove accurate, this report would mark the second-highest monthly level of permits since 2006. Starts would set a new post-lockdown high, remaining well above levels seen throughout most of 2019 and 2020. As was the case with home builder confidence, permits and starts have increased notably since initial lockdowns were lifted last year. Given the low levels of houses available for sale and their rising prices, the pace of new home construction is expected to remain high for the immediate future, especially if home builder confidence remains near record levels.

Thursday will also see the release of the initial jobless claims report for the week ending January 16. Economists expect to see 830,000 initial unemployment claims filed during the week, marking a solid decline from the 965,000 initial claims the week before. Still, despite the anticipated drop, this weekly report would represent a concerningly high level of initial claims on a historical basis. Although initial claims have declined notably since last March and April, the current claims signal that the labor market is still facing significant stress due to the pandemic and increasing restrictions at the state and local levels. Ultimately, a full economic recovery will depend on further improvements for labor market conditions. Accordingly, this weekly release, which gives economists a timely look at the health of the labor market, will continue to be widely followed.

We'll finish the week with Friday's release of the December existing home sales report. Existing home sales are expected to fall by 2.2 percent during the month, following a 2.5 percent decline in November. October saw the pace of existing home sales hit its highest level since 2005, so the anticipated decline would leave sales at healthy levels. Since initial lockdowns ended, existing home sales have increased notably. If the December estimates prove accurate, sales would be up 18.4 percent on a year-over-year basis, despite the monthly drop. Looking forward, significantly faster sales growth is unlikely given the supply constraints and rising prices. If sales remain near current levels, however, they would represent a healthy level of home-buying activity and continued strength for the housing sector, which has been a bright spot in the recent economic recovery.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.46%	0.39%	0.39%	15.69%
Nasdaq Composite	–1.54%	0.87%	0.87%	40.14%
DJIA	–0.91%	0.73%	0.73%	7.60%
MSCI EAFE	–1.36%	1.76%	1.76%	9.06%
MSCI Emerging Markets	0.33%	5.18%	5.18%	21.58%
Russell 2000	1.51%	7.53%	7.53%	26.17%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.19%	–0.76%	6.06%
U.S. Treasury	0.10%	–1.08%	6.13%
U.S. Mortgages	0.13%	0.02%	3.55%
Municipal Bond	0.10%	0.02%	4.13%

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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