MONTHLY MARKET UPDATE

January 2021

Global equity markets continued their ascent in the first few weeks of the year, looking past a low-grade insurrection attempt, single party control of DC (D-sweep), a big miss on the December jobs report, and some rich stock market valuations, instead focusing on widespread vaccination efforts, improving corporate earnings, and a continuation of the stimulus charged economic recovery. That view didn't hold through to month-end however as trading gave way to profit taking on relatively strong earnings reports and a heavy dose of irrational trading emanating from retail investors (GME). The month ended with U.S. small and mid-caps posting healthy gains of 6.3% and 1.5% respectively while the large cap S&P 500 fell 1%. Developed international markets (-1.1%) were in line with the S&P 500 but emerging markets posted a strong 3.1% return driven largely by East Asian markets of China, Korea, and Taiwan. The USD strengthened 0.72%, interrupting the downtrend in place since March and the commodity complex (ex-gold) rallied nicely to begin the year up nearly 5% thanks to large moves in energy (oil +7.5%), grains, and industrial metals. Interest rates on the long end of the yield curve made a notable move higher with 10s to 30s rising 18-23bps while the short end remained firmly anchored by Fed policy leading to a material 0.20% steepening in the yield curve during the month.

Market Anecdotes

- The late month volatility left the S&P 500 closing at its low for the month on the last day of the month.
- With 59% of the S&P 500 reported, FactSet is reporting blended earnings of +1.7% with results a whopping 15.2% above estimates and a record beat rate of 81%. Revenue growth of 2.7% with similarly strong beat rates and beat margins. Street analysts were clearly way too bearish on Q4.
- Markets began to discount the policy outcomes of the D-sweep which materialized after the GA senate runoff. Pro-growth infrastructure and fiscal stimulus were the predominant near term takeaways while tax policy and regulation loom as longer term concerns..
- Policy with potential market implications include aggressive fiscal spending (budget deficits), partial reversal of Trump's tax cuts, improved trade relations, relaxation of some tariffs, antitrust momentum, energy/healthcare regulation, and immigration.
- Markets applauded the slim D majorities in Congress which will likely 'center' several of the more progressive initiatives. Bespoke noted while 'gridlock is good' is a familiar mantra, full party control in DC hasn't been bad either, particularly one with a slim margin of control.
- Since WWII there have been 12 sessions of Congress with the Democrats in full control. Markets were up 10 of 12 times with an average gain of 16.7%.
- Existing 2021 fiscal spending plus proposed stimulus of close to $1.9t equates to 10% of GDP. The proposed $1.9t package offsets an otherwise projected $1.5-$1.6t fiscal contraction in 2021, eliminating the possibility of any removal of fiscal policy accommodation.
- BCA noted the CBO's updated projections for 2021 GDP and 2021 GDP potential last month indicating the modeled monthly output gap in the U.S. is set to collapse from $80b to only $35b. With a backdrop of somewhere between $200b and $300b in fiscal stimulus in play, this presents a risk to market consensus of low to moderate inflation looking forward.
- With Fed balance sheet assets at $7.415t and reserve liabilities projected to pass $6t by the end of the year, liquidity has been and will remain to be a driving force in the market.
- The ECB, BoJ, and Fed all held policy meetings in January leaving policy rates and bond buying programs unchanged across the board while emphasizing downside risks to economic growth due to the status of the pandemic.

- Jeremy Seigel noted in a FT op-ed last month that money supply (M2) in the U.S. just posted its highest growth rate (+24.21%) in over 150 years.

- Municipal bond issuance in 2020 was the highest in a decade, reflecting the collapse of interest rates and the increased costs cities and state governments are facing from Covid-19 shutdowns.

- The savings rate has fallen from 33.7% last April to 12.9% in November and household cash reserves have gone parabolic during the pandemic, resulting in a historically energized consumer balance sheet to power the economy forward into 2021.

Economic Release Highlights

- The January employment report disappointed with payrolls rising less than half of expectations (49k vs 105k) but the unemployment rate falling more than expected (6.3% vs 6.7%).

- Q4 GDP grew 4.0% QoQ, relatively in line with expectations but well below the Atlanta Fed GDPNow estimate of 8%. Annual PCE came in a below expectations (2.5% vs 3.0%).

- January ISM Manufacturing index of 58.7 registered just shy of the (red hot) consensus 60.0 while ISM Services index came in at 58.7, handily above the 56.8 consensus.

- The final U.S. PMI readings (C,M,S) came in well above December levels and beat estimates, registering 58.7, 59.2, and 58.3 respectively for January.

- JPM Global PMI index saw the composite and services fall slightly in January to 52.3 and 51.6 respectively while manufacturing improved to 53.5. Moderation was expected due to Covid related lockdowns.

- It became clear in January that the December holiday shopping season underwhelmed. December retail sales missed expectations (-0.7%a vs -0.1%e) at the headline level and all subsets including the control group (-2%a vs 0.2%e).

- Personal income and outlays report for December showed personal income +2.8% including transfer receipts. PCE price index is showing signs of life but again due to supply chain issues.

- The push and pull of the U.S. capital insurgency and vaccine progress didn't impact the January UofM consumer sentiment index which came in as expected at 79.2.

- December housing starts (1.669m vs 1.558m), permits (1.709m vs 1.610m), and existing home sales (6.760M vs 6.550M) all exceeded consensus and the top end of expectations.

- The Case-Shiller home price index came in higher on both the M/M (1.4% vs 0.8%) and Y/Y (9.1% vs 8.4%) basis.

- The January Housing Market Index came in below expectations (83a v 86e), showing some cooling of sentiment across homebuilders BUT is just coming off a 35-year record high.

Positioning

Bull market top in January? We don't think so. Expectations for a renewed Covid fiscal package, historically accommodative monetary policy, tight credit spreads, vaccines getting into arms, and improving economic fundamentals leave us seeing more checks in the pro-risk camp than de-risk camp at this time. Due to the aforementioned accommodation and ongoing global recovery, we are maintaining our constructive view of the markets, favoring cyclical areas and risk assets (stocks, corporate bonds, commodities) over defensives and risk free assets.

Global monetary stimulus has been aggressive for some time now (QE, ZIRP, NIRP, credit facilities, yield-curve control) and fiscal policy is clearly following this lead. Market internals (semis, transports, cyclicals, small caps) and technicals are confirming our view at this time. A spring-loaded consumer, robust manufacturing sector, booming housing market, improving earnings, and the rollout of Covid vaccines all factor into our view.

That said, some routine market consolidation is probably overdue and always inevitable. The stock market has become fairly well extended in terms of valuations and overbought technically, but these are generally shorter term risks, not necessarily risks of a bear market. Risks of unanticipated inflation or material shifts in policy are key factors as we consider risks to our constructive view.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	29983	(1.08)	13.03	(1.95)	6.75	6.73
NASDAQ	13071	1.75	17.07	1.44	42.18	21.75
S&P 500	3714	(0.22)	12.68	(1.01)	15.56	11.32
Russell 1000 Growth		(0.52)	11.68	(0.74)	32.38	19.63
Russell 1000 Value		0.40	16.58	(0.92)	2.76	3.94
Russell 2000		5.90	33.16	5.03	27.41	10.57
Russell 3000		0.31	15.12	(0.44)	18.72	11.98
MSCI EAFE		(1.58)	18.99	(1.06)	8.25	2.44
MSCI Emg Mkts		5.09	19.17	3.09	24.22	4.44
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.16	0.02	(0.14)	0.02	(0.49)	(0.19)
High Yield	5.14	0.03	(0.33)	0.03	(0.32)	(0.46)
Municipal	2.04	(0.00)	0.04	(0.00)	(0.06)	(0.15)

Commodities	1/31/21	11/30/20	8/31/20	5/31/20
Oil (WTI)	53.55	45.20	42.61	35.57
Gold	1863.80	1762.60	1957.40	1728.70

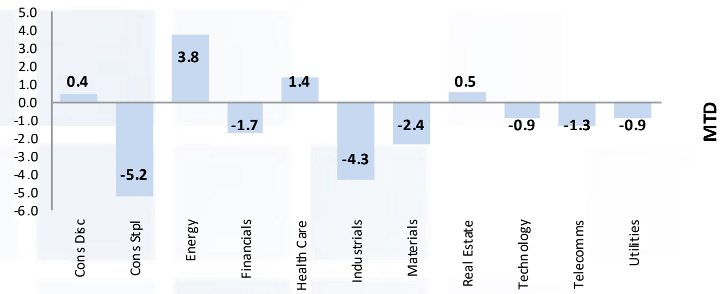
Currencies	1/31/21	11/30/20	8/31/20	5/31/20
USD/Euro ($/€)	1.21	1.20	1.19	1.11
USD/GBP ($/£)	1.37	1.33	1.34	1.23
Yen/USD (¥/$)	104.64	104.38	105.84	107.77

Treasury Rates	1/31/21	11/30/20	8/31/20	5/31/20
3 Month	0.06	0.08	0.11	0.14
2 Year	0.11	0.16	0.14	0.16
5 Year	0.45	0.36	0.28	0.30
10 Year	1.11	0.84	0.72	0.65
30 Year	1.87	1.58	1.49	1.41

Style Returns

MTD	V	B	G
L	-0.92	-0.82	-0.74
M	-0.23	-0.26	-0.33
S	5.26	5.03	4.82

S&P 500 Sector Returns



YTD	V	B	G
L	-0.92	-0.82	-0.74
M	-0.23	-0.26	-0.33
S	5.26	5.03	4.82

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