Market Down & Dirty

Last Week's Economic/Market Summary – December 7, 2020

Data

- U.S. equity indices all closed higher for the week.
  - S&P 500 +1.7%, Dow +1.2%, Russell 2000 +2.2%, Nasdaq +2.1%[1]
    - The All-Country World Index finished +1.47%.[1]
  - S&P 500 sub-sectors were mostly higher on the week.
    - Energy led to the upside with a gain of over 4%.[1]
    - Utilities & Consumer Discretionary were the only negative sectors. [1]
  - The CBOE Volatility Index (VIX) declined only slightly, closing above 20. [1]

- US Treasury bond yields were mixed last week.
  - US 2yr flat at 0.15%, 10yr +0.13% to 0.97%, 30yr +0.16% to 1.73%.[1]
  - The spread between the 2yr & 10yr reached its highest level since 2017. [1]

- Commodities as an aggregate asset class were mixed last week.
  - WTI Crude rose 1.6%.[1]
  - Gold gained nearly 3%.[1]
  - The US Dollar index sank over 1%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - The unemployment rate decreased to 6.7% while jobs added missed expectations. [1]
  - Pending home sales came in below expectations. [1]
  - Product prices are increasing, showing inflationary pressures. [1]

- An index of equities outside the US (FTSE All-World ex-US) was +1.27% last week. [1]

[1] Source: Bloomberg – 12/4/20

Conclusion

- US equity markets all set all-time highs last week in a feat last accomplished in January of 2018.
  - S&P 500 +1.7%, Dow +1.2%, Russell 2000 +2.2%, Nasdaq +2.1%
    - Impressive holiday sales data, Covid-19 vaccine optimism, & renewed fiscal stimulus prospects seemed to help the markets rise.
  - The Nasdaq paced major indices on the week but equal-weight indices continued to outperform their traditional cap-weighted counterparts.
    - We believe this is further evidence of the broadening of the equity rally as more co's are participating in the upward momentum.
    - Unlike most of the year, since November 1st, the worst performing sectors and asset classes have been the best performers.
      - This is the rotation we've been talking about for some time.
- S&P 500 sub-sectors were almost mostly positive last week
  - Energy led for the 4th week in a row with a gain of over 4%.
    - Interesting to note that year-to-date, the Energy sector is still down over 30%.
  - Utilities & Consumer Discretionary were the only negative sectors last week.
    - Utilities seemed to be held back by the sharp rise in interest rates.
- The US Treasury curve steepened to the highest level since 2017 as the difference between the 2yr & 10yr yield's reached 0.80%.
  - We believe this is an affirmation of the market's upbeat economic outlook.
  - While this continuing puts pressure on longer maturity fixed income holders, it could also pressure the Utilities sector and be a tailwind for Financials.
  - Interesting to note that the yield investors in High-Yield/Junk bonds are receiving is now below their 2018 lows.
- The Volatility Index (VIX) decreased only slightly on the broad market rally last week, holding above the critical 20 level.
  - As we've stated, if 20 is breached with some confidence, the market rally through year-end could "blast-off" from here.
    - This would be looking forward to the reopening of the global economy next year post-vaccine with the tailwind of A LOT of gov't stimulus.
  - Counter to this is the fact that sentiment by market participants is exceptionally elevated.
    - Additionally, at a valuation of 22 times earnings, the S&P 500 currently trades near the highest multiple since the dot-com era.
- Needless to say, we remain grounded in our data-focused processes and stand ready to adjust things if/when the picture becomes clearer.

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