

Monthly Economic Update

December 2020

U.S. Markets

Stock prices powered higher and emboldened investors in November thanks to a series of positive news events.

The Dow Jones Industrial Average, which has lagged much of the year, led the rally, jumping 11.84 percent. The Standard & Poor's 500 Index tacked on 10.75 percent while the Nasdaq Composite rose 11.80 percent.¹

All Eyes on the Election

Stocks opened the month strong, climbing throughout election week as bargain-hunting investors appeared to swoop in following a weak September and October.

While the immediate outcome of the presidential election was undecided, the projected results suggested a divided Congress, which investors interpreted as a productive environment for businesses.

Vaccine Booster

Stocks climbed higher on news of positive stage-three COVID-19 trial results that suggested a highly effective vaccine may be near at hand. Stocks that had been hurt by economic lockdowns surged on the news, while the stay-at-home stocks suffered steep declines. Bond yields and oil prices both moved higher on expectations of increased economic activity.

Positive momentum carried the Dow Jones Industrial Average, the S&P 500 index, and the Russell 2000 to record-high levels, with the Dow closing above the 30,000 mark.²

Companies Report Solid Quarter

While the U.S. election and progress on a coronavirus vaccine dominated the news cycle, companies in the S&P 500 reported solid earnings in the third quarter. As expected, the S&P 500

reported a year-over-year earnings of -6.3 percent. But when three hard-hit industries—energy, airlines, and hospitality—were excluded, earnings for S&P 500 companies grew by 4.3 percent.³

Sector Scorecard

All industry sectors moved higher in November, except Utilities, which fell 1.42 percent. The month saw strong gains in Communication Services (+7.34 percent), Consumer Discretionary (+5.49 percent), Consumer Staples (+3.95 percent), Energy (+34.54 percent), Financials (+17.50 percent), Health Care (+3.35 percent), Industrials (+14.74 percent), Materials (+12.50 percent), Real Estate (+5.96 percent), and Technology (+5.33 percent).⁴

What Investors May Be Talking About in December

After such a powerful rally, investors may be asking themselves, “What’s next for stock prices?”

Traders are expected to watch the trajectory of new COVID-19 infections and how they may influence economic activity over the coming weeks and months.

While investors recognize that there will be manufacturing and distribution challenges with approved vaccines, they may also be paying attention to when a vaccine may be available to the general public.

World Markets

Riding a global wave of optimism surrounding multiple COVID-19 vaccine trials, the MSCI-EAFE Index jumped 16.86 percent in November.⁵

European markets were broadly higher, with sharp gains in France, Germany, Italy, and the United Kingdom. European markets appeared to look beyond the new lockdowns and obstacles that prevented the passage of a European Union recovery package.⁶

Markets in the Pacific Rim also had a solid month. Australia picked up 9.96 percent while Japan tacked on 15.04 percent.⁷

Indicators

Gross Domestic Product: The second reading of GDP growth was unchanged from its initial estimate of up 33.1 percent on an annualized basis.⁸

Employment: The number of new jobs increased by 638,000 in October, which sent the unemployment rate lower by one percentage point to 6.9 percent.⁹

Retail Sales: Retail sales rose 0.3 percent, making November the sixth-straight month of increased consumer spending.¹⁰

Industrial Production: Industrial output jumped 1.1 percent, although production remains below its pre-pandemic February level.¹¹

Housing: Housing starts increased by 4.9 percent, led by a 6.4 percent rise in single-family home starts.¹²

Existing home sales rose 4.3 percent in October, touching a 14-year high. Median prices also hit a new record high.¹³

New home sales dipped 0.3 percent, as declines in the West and South regions weighed on overall results.¹⁴

Consumer Price Index: The prices of consumer goods remained unchanged. However, in the last 12 months, prices have increased by 1.2 percent.¹⁵

Durable Goods Orders: Orders of long-lasting goods rose by 1.3 percent, which was above consensus estimates. The gain was driven by defense-related purchases.¹⁶

The Fed

On November 25, the Federal Open Market Committee released the minutes from its November meeting. The minutes showed that the Fed discussed plans to offer more definitive guidance about its purchases of Treasuries and mortgage-backed securities by linking the purchase program to economic conditions.¹⁷

This new guidance may be introduced as early as their next meeting on December 15. The minutes also reflected the Committee's concern about the lack of a new fiscal stimulus. However, the Fed also acknowledged a better-than-expected economic improvement in American households.¹⁷

MARKET INDEX	Y-T-D CHANGE	November 2020
DJIA	3.86%	11.85%
NASDAQ	35.96%	11.80%
S&P 500	12.10%	10.75%

BOND YIELD	Y-T-D	November 2020
10 YR TREASURY	-1.08%	0.84%

Sources: Yahoo Finance, November 30, 2020

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