

Monthly Economic Update

January 2021

U.S. Markets

A tumultuous year ended on a positive note as stocks rose in December, spurred by the rollout of multiple COVID-19 vaccines and the signing of a new fiscal relief bill.

The Dow Jones Industrial Average, which lagged all year, picked up 3.27 percent. The Standard & Poor's 500 Index gained 3.71 percent, and the Nasdaq Composite tacked on 5.65 percent.¹

Vaccines Take Center Stage

Investors were buffeted by news of rising infections and new lockdowns even as they kept a close eye on the start of vaccine distribution in the U.K., which some observers referred to as “the beginning of the end” of the coronavirus pandemic.

Boost from the Stimulus Package

Much like November, stocks rallied when Congress made progress on the new fiscal stimulus bill but pulled back as talks seemed to stall. After some posturing, President Trump signed the new law, which helped stocks surge in the final week of trading.

All Eyes on the Election

As investors grappled with these headline issues, markets also saw several new and secondary equity offerings, including two high-profile technology initial public offerings (IPOs) during the month. This year, companies raised over \$167 billion in IPOs, blowing past the record of \$107.9 billion set in 1999.²

Sector Scorecard

The majority of industry sectors posted gains in December, including Communication Services (+2.35 percent), Consumer Discretionary (+2.18 percent), Consumer Staples (+0.10 percent), Energy (+3.97 percent), Financials (+4.45 percent), Health Care (+2.30 percent), Industrials (+0.12 percent), Materials (+1.58

percent), and Technology (+5.14 percent). The Real Estate (-1.04 percent) and Utilities (-1.69 percent) sectors lost ground.³

What Investors May Be Talking About in January

After the November election, markets rallied due to initial tallies that seemed to point to a potentially divided government, which historically has been a positive for the equity markets.⁴

However, Georgia's two Senate seats remain undecided and will go to a special election this month.

Ultimately, this runoff will determine which party controls the Senate and may give insight into the future legislative agenda of the incoming Biden administration.

World Markets

International stocks enjoyed a strong month of performance, with the MSCI EAFE Index gaining 5.24 percent.⁵

Vaccine optimism and an exit agreement between the European Union and the U.K. helped power the markets.

Germany gained 3.22 percent while the United Kingdom picked up 3.10 percent. France lagged a bit, tacking on 0.60 percent.⁶

Pacific Rim markets also enjoyed a solid month. The Hang Seng Index rose 3.38 percent and the Nikkei tacked on 3.82 percent.⁷

Indicators

Gross Domestic Product: The final read on third quarter GDP was revised higher, from 33.1 percent to 33.4 percent.⁸

Employment: Nonfarm payrolls rose by a disappointing 245,000 in November. The unemployment rate ticked lower, falling from 6.9 percent to 6.7 percent. The labor-force participation rate was 61.5 percent, which is an improvement from April's low but remains at a historically low level.⁹

Retail Sales: Retail sales fell 1.1 percent in November, showing a slowdown in consumer spending amid economic lockdowns and continued uncertainty. October's retail sales number was revised downward, from an increase of 0.3 percent to a decline of 0.1 percent.¹⁰

Industrial Production: Rising for the seventh consecutive month, industrial output picked up 0.4 percent in November, powered by a 0.8 percent leap in manufacturing.¹¹

Housing: Housing starts reached a nine-month high, rising 1.2 percent in November.¹²

Existing home sales declined 2.5 percent in November. It was the first decline in six months.¹³

New home sales slumped 11.0 percent compared to last month, but were 20.8 percent higher than in November 2019.¹⁴

Consumer Price Index: Prices of consumer goods and services rose by 0.2 percent in November, leaving the year-over-year inflation rate at 1.2 percent.¹⁵

Durable Goods Orders: Durable goods orders rose by 0.9 percent, marking the seventh consecutive month of gains.¹⁶

The Fed

In its last meeting of 2020, the Federal Open Market Committee (FOMC) detailed its plan to continue purchasing \$120 billion in Treasury and mortgage-backed securities.¹⁷

Fed officials said that they will continue the program until they see substantial progress toward meeting its inflation and employment goals. Officials at the Fed have indicated that achieving such goals may not happen for years.¹⁷

MARKET INDEX	Y-T-D CHANGE	December 2020
DJIA	7.25%	3.27%
NASDAQ	43.64%	5.65%
S&P 500	16.26%	3.71%

BOND YIELD	Y-T-D	December 2020
10 YR TREASURY	-1.00%	0.92%

Sources: Yahoo Finance, December 31, 2020

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