

WeeklyMarket Update



General Market News

- Rates continued to rise last week, with the 5- and 10-year Treasuries shifting the most. This follows an increase in 10- and 20-year Treasuries the previous week. It's unknown when or if the short end of the curve will follow with action from the Federal Reserve (Fed), which is committed to driving inflation before raising interest rates. The 10-year Treasury yield opened last week near 1.21 percent, closing just shy of 1.38 percent to end the week. It opened this morning at 1.36 percent, 15 basis points (bps) higher than last week's open. The 30-year Treasury opened at 2.15 percent, a gain of 14 bps from last week's open of 2.01 percent. Finally, on the shorter end of the curve, the 2-year Treasury opened last week at 0.11 percent and has remained flat through Monday's open.
- Markets were mixed during the shorter holiday week. The Dow Jones Industrial Average led domestic indices, as investors continued to seek new opportunities after the recent increase in rates. The financial sector was the top performer, as better-than-expected retail sales, likely stimulus, and falling coronavirus cases led some investors to wonder if the economy is closer to holding its own without significant Fed support. Other cyclical sectors benefiting from that theme included energy, industrials, and materials stocks. Technology and communication services sectors lagged, with coronavirus darlings Apple, Microsoft, Tesla, Facebook, and Amazon among the largest detractors. Health care and coronavirus plays, such as Thermo Fisher Scientific and Johnson & Johnson, were down due to the drop in cases and testing over the past month.
- On Wednesday, the January Producer Price Index report was released. Producer prices rose 1.3 percent against calls for a 0.4 percent increase. The rise was widespread as core consumer prices, which strip out the impact of volatile food and energy prices, also came in above expectations, rising 1.2 percent against forecasts for a 0.2 percent increase. Despite the increase in producer prices in January, producer inflation remains reasonable year-over-year; headline producer prices rose 1.7 percent and core producer prices increased 2 percent to start the year.
- Wednesday also saw the release of the January retail sales report. Retail sales blew past expectations, rising 5.3 percent against calls for a more modest 1.1 percent increase for the best month of sales growth since June 2020, an encouraging result after three months of declining sales. The strong results, driven by \$600 stimulus checks and loosened state and local restrictions, could indicate pent-up consumer demand will continue to power spending growth. Consumer spending accounts for most economic activity in the country, so this is a good sign.
- Wednesday's third major release was the National Association of Home Builders Housing Market Index for February. This widely followed gauge of home builder confidence rose from 83 in January to 84 in February against forecasts for no change. Home builders cited continued low mortgage rates and subsequent prospective home buyer foot traffic as a primary reason for the increase. Home builder confidence has rebounded notably since the index hit a pandemic-induced low of 30 in April; the index remains well above the pre-pandemic high of 76 reached in December 2019. Looking forward, home builders see rising construction costs as a headwind for significantly faster growth, but for now, low mortgage rates and high levels of home buyer demand support healthy levels of home builder confidence and new home construction.

General Market News (continued)

- On Thursday, January building permits and housing starts reports were released. These measures of new home construction were mixed; housing starts fell 6 percent, while permits rose 10.4 percent. Economists had forecasted a 0.5 percent decline for starts and a 1.4 percent drop for permits. Permits are at their highest level since 2006, while housing starts are in line with pre-pandemic levels after rising for five straight months. A slowdown in single-family housing starts is largely responsible for the decline, which is understandable because they hit a 14-year high in December. Rising construction costs will likely serve as a headwind for significantly faster construction growth, but activity near current levels would still signal a healthy housing market.
- We finished the week with Friday's release of the January existing home sales report. Existing home sales beat expectations, rising 0.6 percent against calls for a 2.4 percent decline. This brought the pace of existing home sales to its second-highest level since 2006, highlighting the impressive rebound in housing demand since initial lockdowns were lifted last year. Year-over-year, existing home sales were up 23.6 percent in January, further emphasizing the strength of the housing sector. Looking forward, the major headwind for faster sales growth is the low supply of existing homes for sale. The number of homes available for sale in January was down 25.7 percent year-over-year. Given the low supply and high demand, prices have increased notably over the past year, which is also expected to serve as a headwind for significantly faster sales growth. All that being said, sales near current levels are still a sign of a strong housing market.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.68	5.29	4.23	17.89
Nasdaq Composite	-1.54	6.22	7.75	43.49
DJIA	0.16	5.22	3.17	10.18
MSCI EAFE	0.27	5.19	4.07	13.90
MSCI Emerging Markets	0.09	7.58	10.88	33.41
Russell 2000	-0.98	9.37	14.88	35.39

Source: Bloomberg, as of February 19, 2021

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.57	-1.80	3.31
U.S. Treasury	-0.75	-2.46	2.70
U.S. Mortgages	-0.20	-0.30	2.59
Municipal Bond	-0.77	0.24	3.30

Source: Morningstar Direct, as of February 19, 2021



What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for February will be released. This widely followed measure of consumer confidence is expected to increase modestly from 89.3 in January to 90 in February. If estimates are accurate, this release would mark two consecutive months with improving confidence after rising case counts and political uncertainty caused the index to decline in November and December 2020. The drop in confidence due to the third wave of the pandemic brought the index near its initial lockdown-induced low of 85.7 from April 2020, so further improvement would be welcome. There is hope that increased federal stimulus and more control over the pandemic will lead to a swift rebound in consumer confidence and spending this year. For the time being, however, consumer confidence levels indicate work is needed to return to more normal economic conditions.

On Wednesday, the January new home sales report is set to be released. New home sales are forecasted to rise 2 percent during the month after a 1.6 percent increase in December. Compared with existing home sales, new home sales are a smaller and often more volatile portion of the market. After initial lockdowns were lifted last year, new home sales rebounded sharply and have remained well above pre-pandemic levels since June 2020. Looking forward, as with existing home sales, tight supply is expected to be a headwind for significantly faster levels of sales growth. If estimates are accurate, the January report would be another sign the housing market carried its 2020 momentum into the new year.

On Thursday, the initial jobless claims report for the week ending February 20 will be released. Economists expect to see the number of initial claims fall from 861,000 to 750,000. If estimates hold, this report would bring the pace of weekly unemployment claims to its lowest level since December 2020. The number of weekly initial claims would be close to the post-lockdown low of 711,000 from the first week of November. Although any decline in weekly unemployment claims would be positive, disappointing results so far this month indicate we might be in for a weak February jobs report. Given the relatively slower

pace of recovery for the job market over the past year, the Fed is expected to continue to keep monetary policy supportive until we see significant progress in getting folks back to work.

Thursday will also see the release of the preliminary estimate of the January durable goods orders report. Durable goods orders are expected to rise 1.2 percent after a 0.5 percent increase in December. Unlike consumer confidence, producer confidence remained resilient throughout the third wave of the pandemic, and durable goods orders showed continued growth throughout the second half of the year. If estimates hold, this report would be a sign that business spending continued into the start of the new year. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to grow 0.7 percent in January. Core durable goods orders are often viewed as a proxy for business investment, so continued growth would be another positive sign for overall business activity in January.

On Friday, the January personal income and personal spending reports are set to be released. Personal spending is expected to rise 0.7 percent during the month after a 0.2 percent decline in December. Accurate estimates would signal a welcome return to spending growth following two months of declines, echoing the increase in retail sales we saw during the month. Throughout the pandemic, personal income has been very volatile on a month-to-month basis, driven by shifting federal stimulus and unemployment payments. Economists have forecasted a 10 percent increase in personal income in January, due to additional federal stimulus checks and enhanced unemployment insurance announced at the end of December. If the estimate holds, the income increase would be similar to the 12.4 percent surge in income in April 2020, when the initial round of stimulus checks reached American bank accounts.

We'll finish the week with Friday's second and final release of the University of Michigan consumer sentiment survey for February. The preliminary report released earlier in the month showed a

What to Look Forward To (continued)

surprise decline in sentiment, with the index falling from 79 in January to 76.2 to start February. Economists don't expect to see any changes to the index in the final report. The decline was primarily driven by a sharp drop in consumer expectations, as the expectations index hit a six-month low in February. The initial report continued to show a partisan divide in responses; Independent and Republican respondents had

lowered confidence to start the month, while Democrats saw confidence improve. Given the political nature of the responses, it's unlikely the drop in sentiment will have a material effect on consumer spending data during the month. Nonetheless, this survey will continue to be widely monitored, given the historical relationship between improving confidence and faster consumer spending growth.

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. Rev. 02/21.

Authored by the Investment Research team at Commonwealth Financial Network.