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Monthly Market Update – January 2021

Global Economy

An eventful January saw the US Senate tilt in the Democrats' favor, a riot at the US capital building, a Presidential inauguration, and a new Covid-19 vaccine seeking FDA approval. The net result was positive market sentiment for most of the month, with the outlook for more stimulus seeming to outweigh the prospect of increased taxes or regulations from the empowered Democrats. However, US markets ended the month on a down note, with volatility rising as day-traders joined forces to wreak havoc on hedge fund short positions, shaking investors' faith in the sustainability of the rally. On the virus front, Johnson & Johnson's vaccine proved less effective than the current options but still helpful given existing supply constraints. Vaccine delivery remains a challenge, and new strains raise questions about vaccine effectiveness.

The Federal Open Market Committee met in January but did not change policy rates, a widely expected outcome. The meeting statement was little changed from December but did make note of the negative impact of the recent virus surge on the economic recovery and the importance of making progress on vaccinations. Chairman Powell's post meeting Q&A provided additional insight, as he called the idea of tapering "premature" and reiterated the Fed's patience in reacting to any inflation which occurs. After expanding rapidly early in the pandemic, growth of the Fed balance sheet has slowed in recent months as strained financial conditions have eased, rising to $7.4 trillion.

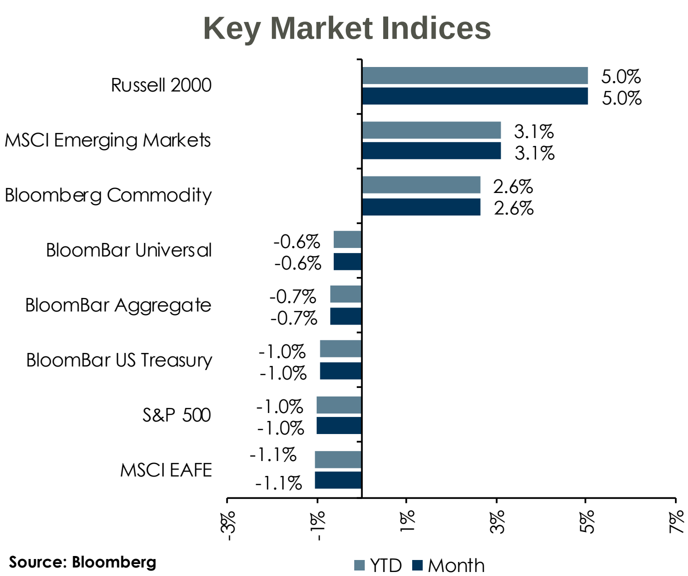
The first estimate of 4Q-20 real GDP indicated the US GDP expanded at a rate of +4.0% annualized, modestly lower than economists' expectations. The growth was broad-based, with increases in most GDP components partly offset by decreased government spending. For the calendar year 2020, there was a decrease in real GDP of -3.5%. Analysts are expecting moderate growth for 1Q-21, with most estimates ranging from +1% to +4% annualized.

Weekly initial unemployment claims increased in early January before falling for three straight weeks, although initial claims remain at a higher weekly level than before the winter surge in virus cases. Employers added 49,000 jobs in January and unemployment fell to 6.3%. However, signs of a weakening jobs recovery remain when looking beyond the headline numbers as labor force participation also decreased for the month. The economy is still down 9.9 million jobs since February 2020. Core CPI held at +1.6% year-over-year for the third straight month, while the FOMC's preferred measure, Core PCE, rose slightly to +1.5% year-over-year through December.

	Current	Dec-20
US GDP (%)	4.00	4.00
US Unemployment (%)	6.30	6.70
CPI (Core) (%)	1.60	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.07	0.92
S&P 500 Div Yld (%)	1.59	1.57
S&P 500 P/E (Trailing)	30.37	29.92
Gold/oz.	$1,847.30	$1,895.10
Oil (Crude)	$52.20	$48.52
Gasoline (Natl Avg)	$2.48	$2.33
USD/Euro	$1.21	$1.22
USD/GBP	$1.37	$1.37
Yen/USD	¥104.68	¥103.25

Source: Bloomberg

Global Markets



Source: Bloomberg

Returns for major equity indices were mixed in January as markets processed a number of issues, most notably a change of political control in Washington and coronavirus mutations. The month ended with a down week as day-traders instigated a short squeeze campaign, introducing a new source of volatility and uncertainty into equity markets. The S&P 500, which represents large US-based entities, returned -1.0% for the month. Energy (+3.6%) and Health Care (+1.3%) were the top performing sectors in the month with most sectors falling in the -1.0% to -5.0% range. The Russell 2000, representing small cap stocks, was the top performing broad equity index at +5.0%. Consumer Discretionary (+14.6%) and Energy (+13.6%) were the top sectors with Materials (-2.7%), Utilities (-1.1%), and Financials (-0.6%) the only negative sectors. Growth outperformed value in large caps while the reverse held in small caps.

In the broad international developed markets, the MSCI EAFE index was down -1.1% for the month. There was little dispersion in sector performance with Energy (+2.2%) and IT (+1.7%) the top performers and all others ranging from 0.0% to -3.0%. Among developed countries, Netherlands (+2.5%), Austria (+2.3), and Sweden (+2.2%) were the top performers, with Spain (-4.5%) and Italy (-3.9%) the laggards and most others generally in the -3.0% to +2.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their large cap developed market counterparts at +3.1%. United Arab Emirates (+12.4%), China (+7.4%), and Egypt (+7.6%) were the best performers in the month. EM country performance saw a lot of dispersion with Colombia (-14.0%) and Argentina (-12.0%) the laggards and roughly half the countries in the index negative for the month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with large cap equities with a -0.8% return. The energy-related Alerian MLP was positive and outperformed other equities at +5.8%. The near-month NYMEX oil also rallied (+7.6%) and has recovered to early 2020 levels. Gold was down -2.5% but remains up +16.7% for the trailing 1-year. The diversified Bloomberg Commodity index climbed +2.6% and has a +7.3% trailing one-year return.

Global Markets (continued)

The US Treasury curve steepened as the prospect of further stimulus pushed longer-dated maturities higher. Additionally, Treasury Secretary Yellen expressed a willingness to consider introducing 50-year Treasuries in comments which also drove up long-term rates. The overall UST complex had a negative return for the month at -1.0%, with trailing one-year returns at +4.4%. Sovereign yields outside of the US were also mostly higher, and the global stock of negative yielding debt fell by $1 trillion in January to $16.8 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on an absolute and duration-matched basis. Demand was supportive of spreads in securitized sectors while corporate credit spreads closed slightly wider. The benchmark lost -0.7% in January, with 12-month performance of +4.7%. IG corporate issuance was greater than expected, and while investor demand was strong the heavy supply pushed spreads 1 bps wider. With higher US Treasury yields and wider corporate spreads, the benchmark's yield-to-worst rose 5 bps to just 1.17%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning +0.5% in January. Investor demand remained strong, pushing Muni/Treasury ratios down to some of their lowest levels in history, with the 10-yr muni/Treasury ratio at its lowest point in at least 20 years. While stimulus aimed at helping local governments appears off the table for now, the anticipated economic recovery should boost tax returns and help cash-strapped municipalities rebound.

The BloomBar US Corporate High Yield index returned +0.3% for the month and is up +7.5% for the past year. Benchmark spreads widened 2 bps with strong demand countered by issuance which was a record for the month of January. All-in yields stopped their recent decline and rose 13 bps to 4.31%. Default rates for 2021 are expected to trend lower, with current forecasts at 3.2% for the year vs. 5.2% in 2020. Bank loans outperformed other bond categories in the month with investors seeking out enhanced income. Emerging market bonds tracked with less-risky fixed income benchmarks to post negative returns for the month as rates generally rose.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-20
Japan	0.05	0.02
Germany	-0.52	-0.57
France	-0.28	-0.34
United Kingdom	0.33	0.19
Spain	0.10	0.04
United States	1.07	0.92
Italy	0.64	0.54
Mexico	5.59	5.53
Brazil	7.57	6.91

Source: Bloomberg

Indices Report (Periods Ending January 31, 2021)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-1.01	-1.01	17.25	11.70	16.16	13.50	9.62
Russell 1000	-0.82	-0.82	19.84	12.48	16.69	13.64	9.80
Russell 1000 Growth	-0.74	-0.74	34.46	19.92	22.22	16.83	12.35
Russell 1000 Value	-0.92	-0.92	4.09	4.41	10.71	10.15	7.00
Russell 2500	2.45	2.45	25.48	11.11	16.11	12.09	9.22
Russell 2000	5.03	5.03	30.17	11.11	16.50	11.78	8.65
Russell 2000 Growth	4.82	4.82	42.69	16.54	20.19	14.08	10.35
Russell 2000 Value	5.26	5.26	16.42	5.08	12.34	9.21	6.72
Wilshire 5000 Cap Wtd	-0.33	-0.33	20.41	12.40	16.74	13.51	9.76
MSCI ACWI	-0.43	-0.43	17.59	8.47	14.17	9.49	7.39
MSCI ACWI ex US	0.23	0.23	14.45	3.57	11.05	5.32	4.91
MSCI EAFE	-1.06	-1.06	9.41	2.73	9.37	5.64	4.48
MSCI EAFE Local Currency	-0.37	-0.37	2.14	2.94	7.52	7.11	4.30
MSCI EAFE Growth	-1.36	-1.36	17.74	7.94	12.09	7.73	6.01
MSCI EAFE Value	-0.77	-0.77	0.78	-2.63	6.45	3.42	2.83
MSCI Emerging Markets	3.09	3.09	28.33	4.81	15.45	4.60	6.41
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.01	0.01	2.56	2.84	1.78	1.28	2.24
BloomBar US Aggregate	-0.72	-0.72	4.72	5.49	4.00	3.75	4.44
BloomBar Gov't Bond	-0.92	-0.92	4.42	5.32	3.14	3.17	3.94
BloomBar US Credit	-1.19	-1.19	5.58	6.70	6.07	5.26	5.53
BloomBar 10 Yr Municipal	0.57	0.57	4.21	5.62	3.86	4.91	4.83
BloomBar US Corp High Yield	0.33	0.33	7.44	6.14	9.01	6.60	7.41
FTSE World Govt Bond	-1.28	-1.28	6.97	3.94	4.22	2.19	3.71
BloomBar Global Aggregate	-0.88	-0.88	6.87	4.13	4.43	2.72	3.94
BloomBar Multiverse	-0.86	-0.86	6.81	4.10	4.66	2.87	4.07
Real Assets							
NCREIF Property	0.00	0.00	1.61	4.89	5.91	9.00	7.14
NFI ODCE Net	0.00	0.00	0.35	3.99	5.27	8.87	5.46
FTSE NAREIT US Real Estate	0.10	0.10	-9.00	4.92	5.51	7.97	6.03
Bloomberg Commodity	2.63	2.63	7.31	-2.33	1.90	-6.35	-3.96
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.01	0.54	1.57	1.20	0.64	1.22

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