

OBSERVATIONS

- COVID-19: 25 million doses of vaccines administered in 42 countries, of which 8 million were in the U.S.¹
- Tesla rallied +24.7% last week adding over \$150bn to its market capitalization (\$50bn more than the combined value of GM and Ford!!) and bringing its total market value to over \$834bn making it the 4th largest company in the U.S. by this measure.¹
- Bitcoin's parabolic rise last week to over \$40,000 gave it an aggregate value of nearly \$750bn, the virtual currency market now exceeds \$1.0tn in value (as of 8-Jan).²
- TSA checkpoint data: Over 1.3 million passengers passed through TSA checkpoints on 3-Jan-2021, the highest level since 15-March-2020 – though still down 45% from a year ago.³
- Global corporate debt issuance reached \$5.4 trillion in 2020, a calendar year record, while global default rates increased to 10-yr highs of over 5.5% (during the 2008-2009 crisis, default rates exceeded 10%).⁴
- Institute for Supply Management December manufacturing survey increased for the eighth consecutive month to 60.7% - the highest level of 2020.⁵
- The unemployment rate remained unchanged at 6.7%, other notables from last week's jobs report include⁶;
 - Payrolls declined by 140,000 jobs in December - the first monthly decline since April 2020.
 - Declines were driven by the leisure and hospitality sectors (given renewed shutdowns), which saw job losses of 498,000 during the month.
 - Long-term unemployed (those jobless for more than 27 weeks) stands at 4.0 million people – pre pandemic this figure stood at 1.2 million.

EXPECTATIONS

- Last week's release of minutes from the Federal Reserve's final meeting in December reaffirmed maintaining a zero-interest rate policy and accommodative stance until maximum employment is achieved and "inflation had risen to 2 percent and was on track to moderately exceed 2 percent for some time".⁷
- The EU and China reached an agreement in principle at the end of 2020 on a comprehensive investment agreement that greatly improves the ability of EU firms in several key sectors (aerospace, life sciences, autos, and financials) to expand their operations in China. The agreement will limit the traction Biden will get in European capitals to take a tough line against China on political and trade issues going forward.

ONE MORE THOUGHT

Last week the Democratic party completed a sweep of the 2020 elections by winning two tightly contested runoff elections for Senate in Georgia – results were in line with polls but not with betting markets. The wins give the Democrats 50 seats, shifting the balance of power to the party – as ties in the Senate are broken by the President of the Senate (i.e., Vice President elect Harris). The win also increases the potential for additional stimulus, and when combined with highly accommodative central banks has helped motivate interest rates and inflation expectations higher. We would note a few market observations, some in part a result of the change in control of the Senate.

¹ Bloomberg LP

² <https://coinmarketcap.com/>

³ <https://www.tsa.gov/coronavirus/passenger-throughput>

⁴ <https://www.ft.com/content/5585b123-7b9d-40fe-8f63-95f7491e8193>

⁵ <https://www.prnewswire.com/news-releases/manufacturing-pmi-at-60-7-december-2020-manufacturing-ism-report-on-business-301200432.html>

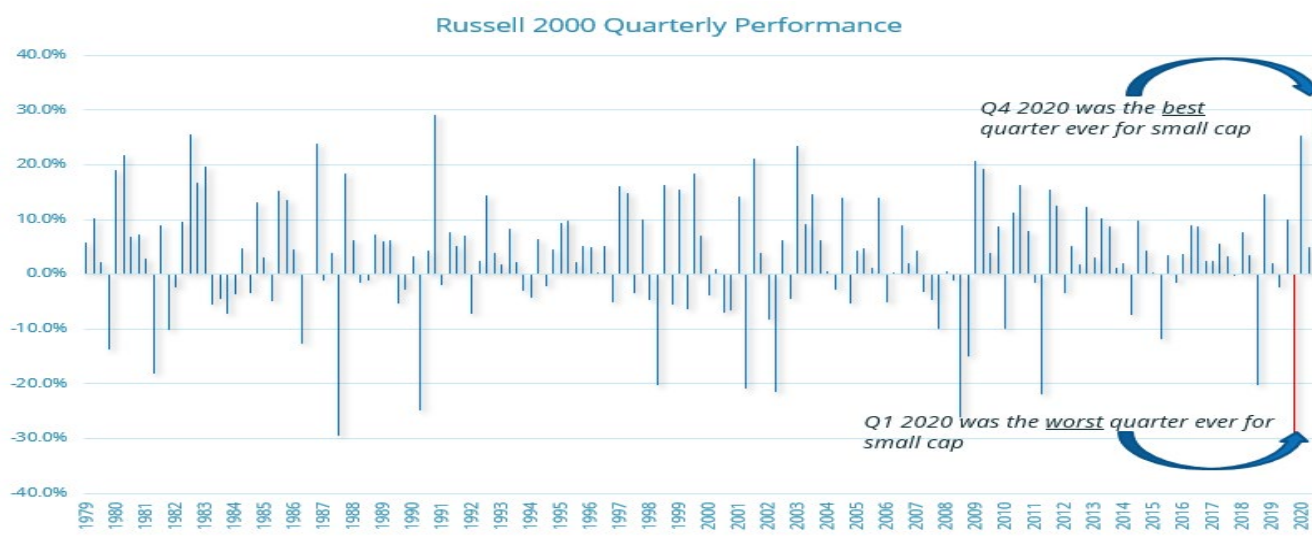
⁶ <https://www.bls.gov/news.release/emp/sit.nr0.htm>

⁷ <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20201216.pdf>

- Additional stimulus expectations beyond the recently passed \$900 billion in aid are starting to emerge – Goldman Sachs expects \$600 - \$750 billion of additional stimulus in Q1.⁸
- Market based inflation expectations are rising; 10-year break even rates (i.e., expected inflation) have reached 2.07%, the highest level since October 2018.⁹
- 10-year U.S. Treasury yields cross 1.00% for the first time since March 2020, currently 1.12%.⁹
- The yield curve (difference between the 10-Yr and 2-Yr yields) has reached .97%, the highest since July 2017.⁹
- Small cap stocks off to fast start, the Russell 2000 index posted gains of 5.93% last week.⁹
- Energy (+9.31%), Materials (+5.68%), and Financials (+4.75%) led the S&P 500 last week.⁹

These are but a few observations that point towards the market's expectations for continued cyclical recovery and 'reflation' of the economy. Good market signals for the economy, possibly too much too soon.

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, data as of 31-Dec-2020

Among the myriad of milestones (good and bad) reached by markets, one stands out as we closed out the fourth quarter of 2020. Small cap stocks registered their best quarter ever in Q4 of 2020, gaining +31.4%. During the year small cap also posted its worst quarter ever (in Q1 2020) declining -30.6%.

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⁸ <https://markets.businessinsider.com/news/stocks/goldman-sachs-upgrade-gdp-us-economy-democrat-win-senate-stimulus-2021-1-1029940557>

⁹ Bloomberg LP, as of 8-Jan