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MARKET MINUTE

2021 VOLUME 2: JANUARY REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Joe Nitting, CFA, CAIA, Analyst, Research.

OVERVIEW

The start of 2021 proved to be an eventful one for global markets. Initially, domestic equity markets and interest rates moved higher with a sense of calm following a successful transition of presidential leadership and expectations for an economic rebound. However, concerns about COVID-19 vaccine rollout progress and price volatility surrounding stocks like GameStop, AMC, and others led equities into a swift reversal, resulting in generally negative returns for January. Abroad, markets fared a bit better with emerging market stocks starting the year off strong.

DOMESTIC EQUITY

As of January 31, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-2.0%	-2.0%	-2.0%	8.5%
S&P 500	-1.0%	-1.0%	-1.0%	17.2%
Russell 2000	5.0%	5.0%	5.0%	30.1%
Russell 1000 Growth	-0.7%	-0.7%	-0.7%	34.5%
Russell 1000 Value	-0.9%	-0.9%	-0.9%	4.1%

U.S. equities began the first part of January on a positive note but generally moved lower for the full month following a volatile final week. Small caps (Russell 2000) outperformed large caps (S&P 500) by 6.0%[1] as investors continued their rotation into the small cap space given hopes for a domestic economic rebound. In the large cap space, growth stocks (Russell 1000 Growth) outperformed value stocks (Russell 1000 Value)[1] slightly as investors displayed a mild preference for growth stocks during the month. We are still monitoring political developments domestically, the evolution of COVID-19 cases, the ongoing distribution of COVID-19 vaccines, and the US economic growth trajectory in 2021. Despite the strong rebound in the US Equity market from its lows last March, the markets remain jittery as evidenced by January's return trajectory. Each of the previously mentioned events has potential to spark market volatility given potentially broad economic implications.

INTERNATIONAL EQUITY

As of January 31, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	0.2%	0.2%	0.2%	14.0%
MSCI EAFE	-1.1%	-1.1%	-1.1%	8.9%
MSCI Emerging Markets	3.1%	3.1%	3.1%	27.9%
MSCI EAFE Small Cap	-0.4%	-0.4%	-0.4%	15.3%

Overseas markets ended January with mixed results after volatility picked up and markets sold off in the final week of the month. Global market gains were led by Emerging Markets (MSCI Emerging Markets) up 3.1% and China (MSCI China Index) up 7.4%[1], in particular. In non-US markets, small cap stocks underperformed their large cap peers but value and growth leadership were mixed as value-oriented stocks outperformed modestly in international developed markets, but lagged their growth peers in emerging markets. The US dollar strengthened a small amount against most foreign currencies in January.

Large cap Chinese internet names like Alibaba, Tencent, and Baidu rallied in January as regulatory fears began to ease and embattled Alibaba founder Jack Ma gave virtual remarks in January that calmed Chinese equity markets and seemed to allay many fears of Chinese authorities of over-regulating the e-commerce and fintech markets.

FIXED INCOME

As of Janaury 31, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.7%	-0.7%	-0.7%	4.7%
BarCap Global Aggregate	-0.9%	-0.9%	-0.9%	6.9%
BarCap US High Yield	0.3%	0.3%	0.3%	7.4%
JPM Emerging Market Bond	-1.2%	-1.2%	-1.2%	2.8%
BarCap Muni	0.6%	0.6%	0.6%	4.0%

Fixed income markets generated mixed results during January with investment grade returns generally moving lower, while high yield corporate debt (BarCap US High Yield) remained a relative bright spot with a 0.3%[2] return for the month. The yield curve ended the month steeper, with the 30-year U.S. Treasury yield up 0.18%[2] while the 2-year treasury yield declined by 0.01%. Investment grade and emerging market debt were negatively impacted by rising rates at the long end of the Treasury curve given their longer durations compared to high yield.

In a continuation from December 2020, state and municipal governments are still expected to benefit from additional fiscal stimulus, leading to further contraction of the 10-year AAA muni/Treasury ratio from 75% to 65%[2].

CLOSING

Following a tumultuous ride in 2020, the new year is presenting several interesting storylines of its own, with more of them likely to come. While we cannot reasonably predict how these storylines will conclude, we will continue to closely monitor them and keep our clients informed on their potential economic and market impact. Amid expectations for uncertainty to carry further into 2021, we advise our clients to stay invested and focus on long-term portfolio goals, rather than chasing short-term price moves in either direction.

Sources:

1. Morningstar Direct (1/31/2021)
2. Bloomberg (1/31/2021)