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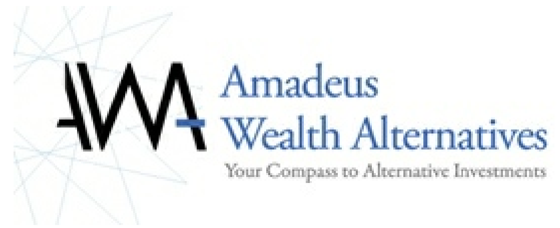

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In this week's recap: Promising signs of a fiscal stimulus package inspire an upward week for stocks; retailers' extended "Black Friday" sales produce mixed results.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, December 7, 2020

THE WEEK ON WALL STREET

Stocks marched higher last week on an improving outlook for the passage of a fiscal stimulus package.

The Dow Jones Industrial Average rose 1.03%, while the Standard & Poor's 500 tacked on 1.67%. The Nasdaq Composite index gained 2.12% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, gained 0.78%.[1,2,3]

A RECORD WEEK FOR STOCKS

After opening the week with moderate losses amid rising COVID-19 infections, stocks turned higher as investor sentiment was buoyed by the resumption of fiscal stimulus negotiations. As lawmakers discussed various proposals, stocks managed to grind higher.

A better-than-expected jobless claims report on Thursday added fuel to the market rally, but the gains evaporated in late-day trading following news by a major pharmaceutical company that it would be slowing its rollout of the vaccine due to logistical challenges.[4]

A disappointing jobs report on Friday did not keep investors from bidding stocks higher as the week came to a close, sending the Dow Jones Industrials, S&P 500, and the NASDAQ Composite indices to record high closes.[5]

THE START OF HOLIDAY SHOPPING

The start of the holiday shopping season provides important insight into the state of the economy and overall consumer confidence. In response to the pandemic, consumers avoided in-store visits over the Thanksgiving weekend. This translated into a 22.4% decline in spending from last year's levels.[6]

However, spending prior to the Thanksgiving-to-Sunday period surged 65.7% from a year earlier,

thanks to large retailers introducing Black Friday-like deals as early as mid-October.[6]

Of course, the pandemic has led to an acceleration in shopping online. Cyber Monday sales jumped 15.1% over last year's levels as consumers spent almost $11 billion, making it the largest U.S. online shopping day ever.[7]

THE WEEK AHEAD: KEY ECONOMIC DATA

Wednesday: Gross Domestic Product (GDP), Job Openings and Labor Turnover Survey (JOLTS).

Thursday: Consumer Price Index (CPI), Jobless Claims.

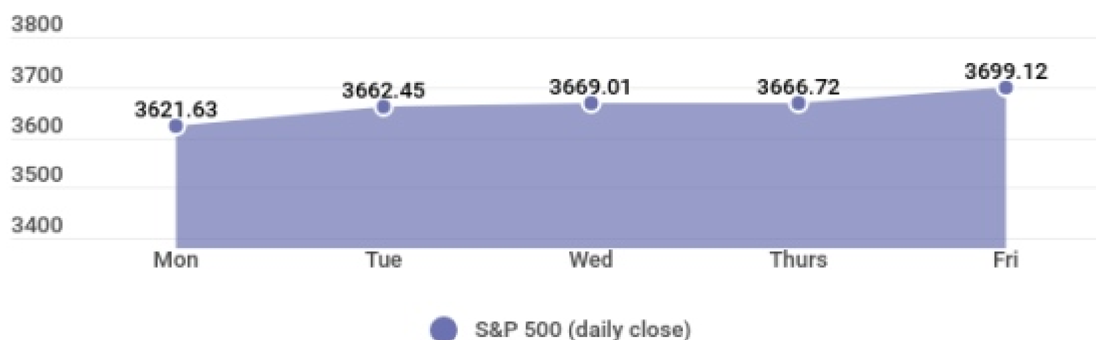
Friday: Consumer Sentiment.

QUOTE OF THE WEEK

"Investors have become so intolerant of the frying pan of zero interest rates that they're now only too willing to launch themselves into the fire."

JOHN HUSSMAN

Market Index	Close	Week	Y-T-D
DJIA	30,218.26	+1.03%	+5.89%
NASDAQ	12,464.23	+2.12%	+38.91%
MSCI-EAFE	2,096.28	+0.78%	+2.91%
S&P 500	3699.12	+1.67%	+14.50%



	Treasury	Close	Week	Y-T-D
	10-Year Note	0.97%	+0.12%	-0.95%

Sources: The Wall Street Journal, December 4, 2020; Treasury.gov, December 4, 2020
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, November 27, to Friday, December 4, close. Weekly performance for the MSCI-EAFE is measured from Friday, November 27, open to the Thursday, December 3, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

A summary of thoughts from John Hussman's most recent commentary. The full version is worth the read at: www.hussmanfunds.com/comment/mc201201/

The notion that "there is no alternative" but to speculate has again saturated the minds of market participants, driving S&P 500 valuations to levels that are now beyond every historic extreme, including 1929 and 2000, even if we completely exclude economic losses due to the COVID-19 pandemic.

Investors have become so intolerant of the frying pan of zero interest rates that they're now only too willing to launch themselves into the fire. As risk-aversion has abated, and investors look toward a post-pandemic future, speculation has now driven our estimate of prospective 12-year S&P 500 average annual nominal total returns to -3.6%.

Stock prices haven't just priced in a recovery. *They're already beyond where they were before the pandemic.* Indeed, we currently estimate that the average annual nominal total return of the S&P 500 is likely to lag the returns of Treasury bonds, by fully -4.6% during the coming 12-year period. So much for the notion of an "equity risk premium."

The perpetual speculation of Wall Street *relies* on confidence that every market retreat will be met by another Federal Reserve stick-save. Yet all of these stick-saves by the Federal Reserve defer a financial collapse only by amplifying its eventual size.

Back in October 2002, as the economy was reeling from the collapse of the tech bubble, and the Fed was slashing interest rates toward the 1% level that would give rise to a housing bubble and a global financial crisis, Ben Bernanke gave a speech in which he tossed out this little chestnut: "First, the Fed cannot reliably identify bubbles in asset prices. Second, even if it could identify bubbles, monetary policy is far too blunt a tool for effective use against them." Look. When you eat, sleep, and dance on a zero-interest rate monetary accelerator for nearly a decade – perpetually encouraging yield-seeking speculation that drives reliable valuation measures to the most extreme levels in history – guess what? You've created a bubble. Perhaps the tools at the Fed are simply too blunt to recognize this.

Presently, I expect that the completion of this market cycle is likely to involve a loss in the S&P 500 on the order of 65-70%. I realize, of course, that this sounds insane. The problem is that this projection is fully in line with a century of evidence and is consistent with the extent of market losses that would be run-of-the-mill given present valuation extremes. I strongly believe that safety nets and tail-risk hedges are *essential* here.

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The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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CITATIONS:

1. The Wall Street Journal, December 4, 2020
2. The Wall Street Journal, December 4, 2020
3. The Wall Street Journal, December 4, 2020
4. The Wall Street Journal, December 3, 2020
5. CNBC, December 4, 2020
6. CNBC, November 30, 2020
7. CNBC, December 1, 2020