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In this week's recap: Despite continued COVID-19 woes and unrest in Washington D.C., the stock market starts 2021 on a high.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, January 11, 2021

THE WEEK ON WALL STREET

Shrugging off COVID-19 infections and the disruption at the Capitol on January 6, stocks powered higher to kick off a new year of trading.

The Dow Jones Industrial Average gained 1.61%, while the Standard & Poor's 500 increased by 1.83%. The Nasdaq Composite index, which led throughout 2020, picked up 2.43%. The MSCI EAFE index, which tracks developed overseas stock markets, rose 1.45%.^{1,2,3}

FIREWORKS TO START THE NEW YEAR

Stocks got off to an inauspicious start amid the stuttering pace of vaccine distribution and concern that the economic recovery might take longer than anticipated. Uncertainty over the looming Senate runoff election in Georgia added to the broad retreat that marked the first day of 2021 trading.

From there markets turned higher, aided by firming oil prices with subsequent support provided by the Georgia Senate election results, which lifted hopes of additional fiscal stimulus. Stocks managed through political unrest mid-week, with banks, economically sensitive stocks, and technology shares leading the way.

The yield on the 10-year Treasury rose above 1% for the first time since March as investors fled bonds in anticipation of new federal borrowing.⁴

Stocks touched all-time highs on the final trading day, capping a strong week of performance.⁵

EMPLOYMENT PICTURE

The U.S. economy lost 140,000 jobs in December, confirming fears of economic slowdown brought on by a resurgence of COVID-19 infections.

Not surprisingly, it was restaurants and bars that saw the greatest job losses, with the larger hospitality sector accounting for nearly all the job losses last month. Meanwhile, November job creation was revised upward, from 245,000 to 336,000.⁶

To help put the pandemic in perspective, December's job report capped the worst year for job losses since the tracking began in 1939. The unemployment rate remained unchanged at 6.7%.⁷

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Job Openings and Labor Turnover Survey (JOLTS).

Wednesday: Consumer Price Index (CPI).

Thursday: Initial Jobless Claims.

Friday: Retail Sales, Consumer Sentiment, Industrial Production.

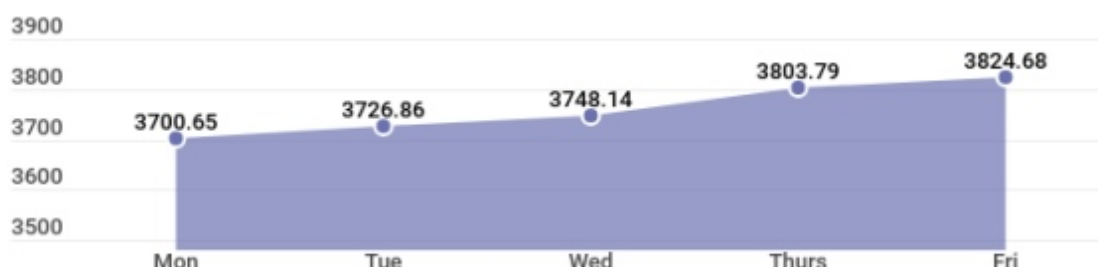
QUOTE OF THE WEEK



"The truth is incontrovertible. Malice may attack it, ignorance may deride it, but in the end, there it is"

WINSTON CHURCHILL

Market Index	Close	Week	Y-T-D
DJIA	31,097.97	+1.61%	+1.61%
NASDAQ	13,201.98	+2.43%	+2.43%
MSCI-EAFE	2,178.63	+1.45%	+1.45%
S&P 500	3,824.68	+1.83%	+1.83%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.13%	+0.20%	+0.20%

Sources: The Wall Street Journal, January 8, 2021; Treasury.gov, January 8, 2021

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 Thursday, December 31, to Friday, January 8, close.

Weekly performance for the MSCI-EAFE is measured from Thursday, December 31, open to the Thursday, January 7, 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 extremes, 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." 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.

LAST WEEK'S RIDDLE: The railings on a 60-yard-long walkway have ornamental sculptures every 12 yards on both sides, starting at the east and west ends of the walkway. How many total sculptures are there on the walkway?

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

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

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, January 8, 2021
2. The Wall Street Journal, January 8, 2021
3. The Wall Street Journal, January 8, 2021
4. The Wall Street Journal, January 6, 2021
5. CNBC, January 8, 2021
6. The Wall Street Journal, January 8, 2021
7. The Wall Street Journal, January 8, 2021