January 29, 2021

1/29/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,982.62	-1014.36	-3.27	2.01	-2.04	4.39
S&P 500	3,714.24	-127.23	-3.31	1.59	-1.11	13.37
NASDAQ	13,070.69	-472.37	-3.49	0.75	1.42	41.00
S&P MidCap 400	2,340.12	-122.41	-4.97	1.46	1.45	13.80

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.10	Euro/Dollar	1.21	-0.19
5-Year	0.43	Dollar/Yen	104.69	0.86
10-Year	1.08	GBP/Dollar	1.37	0.44
30-Year	1.83	Dollar/Cad	1.28	0.45

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Super Bowl LV (55) between the Kansas City Chiefs and the Tampa Bay Buccaneers will be played on Sunday, February 7th in Tampa Bay, Florida. Similar to the scaled-back crowd (22,500 people, including 7,500 healthcare workers) as a result of the Covid-19 pandemic, demand for Super Bowl advertisements has been somewhat subdued. Despite the fact that a 30-second advertisement in this year's broadcast will cost $5.5 million (more than twice as much for the same length commercial in 2008), CBS has sold virtually all of its spots. Viewers can expect to see television commercials from some new and different companies this year as many marquis advertisers like Coca-Cola Company, PepsiCo Inc., and Anheuser-Busch have chosen to sit out the game. Budweiser, a brand very closely associated with the big game, has elected to reallocate its media investment toward vaccine awareness efforts. Although budget cuts and job layoffs have made it difficult for some traditional advertisers to participate, those watching the game at home will still see strong representation from categories like consumer products, automotive, financial services and telecom.

Economy

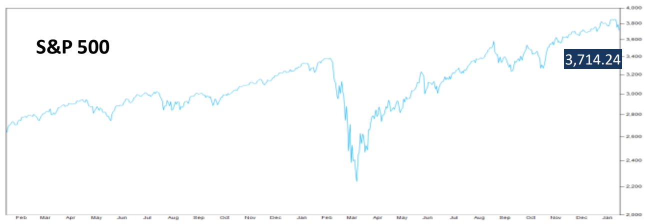
The economic highlight this week was the first report on fourth quarter real GDP. The value of all goods and services produced across the economy increased at a seasonally and inflation-adjusted 4.0%. Spending on business equipment led the way surging 24.9%, and business fixed investment gained an impressive 18.4%. Year-over-year in 2020, GDP declined 3.5%, the biggest decrease since 1946. Real consumer spending increased 2.5% in the fourth quarter, the personal savings rate hit 13.5% and residential investment surged 33.5%. Overall, this level of GDP is still 2.5% below the peak achieved in Q4 2019. In other news this week orders for durable goods increased 0.2% in December, which was less than consensus expectations. The good news was that core capital goods orders advanced 0.6% and core capital goods shipments increased 0.5%. On Tuesday the Conference Board consumer confidence index posted a small decline, dropping from 89.3 in December to 87.1 in January. The Conference Board's labor market differential remained in negative territory at -3.2. Finally, on Friday real consumption posted a 0.6% drop in December while personal income increased 0.6%.

Fixed Income/Credit Market

A measure of relative value known as the municipal to Treasury ratio has hit a ten-year trough. State and local debt maturing in 10 years is currently yielding approximately 65% of like duration U.S. Treasuries (UST). The 10-year AAA municipal bond ratio peaked at 365% in March 2020 when municipal bonds sold off sharply at the beginning of the pandemic. Over a ten-year period, the ratio has averaged roughly 97%. Preceding the pandemic, the ratio averaged approximately 95% during the same ten-year horizon. A confluence of factors including limited supply, demand for safe-haven assets, and the Fed's backstop have driven municipal bond yields to historic lows. In the state of New Jersey, total 30-day visible supply is just $100.6 million versus $961.5 million of retiring debt, equating to negative net supply of $860.9 million. Despite trading at multiyear lows of 0.72%, 10-year AAA NJ general obligation (GO) bonds still provide local investors with relative value. NJ residents in the highest tax brackets receive 1.34% in taxable equivalent yields for 10-year AAA NJ bonds, a 27 basis point spread vs 10-year Treasuries.

Equities

Domestic equities experienced a pullback this week after closing at a new record high on Monday. Prior to this week's selloff, there were signs of froth in the market such as stretched valuations, excessive speculation and record secondary offerings. Furthermore, a bipartisan group of Senators pushed back against the Biden administration's newly proposed $1.9 trillion coronavirus relief package. On Wednesday, the S&P 500 declined 2.57% which was its worst day since late October. The selloff appeared to gain steam after the Federal Reserve released a statement saying that the pace of recovery in economic activity and employment has moderated in recent months. On a positive note, Q4 corporate earnings continue to look quite strong. According to FactSet, out of the 37% of companies in the S&P 500 that have reported, 82% have beat earnings estimates and 76% have beat revenue estimates. If this stands as the final percentage for the quarter, an 82% earnings beat rate would be the second-highest since FactSet began tracking the metric in 2008. The bullish narrative for equities remains intact given the likelihood for an additional fiscal stimulus package and a successful rollout in the coronavirus vaccine which should provide tailwinds for economic and corporate earnings growth moving forward.



Our View

As the battle against COVID-19 continues, accommodative monetary policy still has a key roll to play in moderating the detrimental impact on human lifestyles. The FOMC convened earlier this week and broadly met market expectations by unanimously voting to keep both rates and asset purchases unchanged. According to the FOMC statement, "the pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic." During the press conference, Chairman Powell declined to speak directly to a question aimed at the price gyrations of a heavily shorted stock but did alleviate some concerns when he mentioned the U.S. Financial system is currently resilient to external shocks. Powell went on to communicate that the rollout of vaccines coupled with the outlook for additional fiscal stimulus are the main drives of aggregate asset prices currently. Moreover, the Fed is committed to its current stance of monetary policy until the pandemic has subsided and significant progress has been made toward maximum employment and price stability. But, at some point, the Fed will have to taper its asset purchases which we believe will be the first step on the long road to normalizing monetary policy. The timing and communication of the taper announcement will be highly scrutinized when it occurs, and Chairman Powell will look to avoid a repeat of the market dislocations which transpired after the taper tantrum of 2013. Currently, economists surveyed by Bloomberg estimate that the Fed will taper its asset purchases roughly 12 months from now. With monthly Fed asset purchases over 140% of the amount purchased back in 2013, the future taper announcement by the Fed will be highly impactful to the market. But, if the Fed offers a well communicated element of flexibility around the future taper, a tantrum may not arise this time around.

COMING UP NEXT WEEK		Consensus	Prior
02/01 ISM Manufacturing SA	(Jan)	60.2	60.7
02/03 ISM Non-Manufacturing SA	(Jan)	56.9	57.2
02/04 Durable Orders SA M/M (Final)	(Dec)	-	0.20%
02/04 Factory Orders SA M/M	(Dec)	0.80%	1.0%
02/05 Nonfarm Payrolls SA	(Jan)	150.0K	-140.0K
02/05 Unemployment Rate	(Jan)	6.7%	6.7%

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