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In this week's recap: Happy New Year! Stocks hit record highs and have varied reactions on stimulus checks and another potential vaccine.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, January 4, 2021

THE WEEK ON WALL STREET

Stocks moved higher during a holiday-shortened week of trading, capping off a turbulent, but otherwise strong year for equity investors.

The Dow Jones Industrial Average gained 1.35%, while the Standard & Poor's 500 increased by 1.43%. The Nasdaq Composite index, which led all year, added 0.65%. The MSCI EAFE index, which tracks developed overseas stock markets, rose 2.02%.[1,2,3]

STOCKS END 2020 ON A POSITIVE NOTE

Stocks established fresh record highs last week, propelled by the signing of a COVID-19 relief bill, which delivered on a long-awaited, new round of economic stimulus and served to prevent a government shutdown in the near term.[4]

After pulling back on disappointment that the Senate was not able to increase individual stimulus payments to $2,000, stocks reversed direction as the approval of another vaccine by the U.K. lifted investor sentiment.

Ahead of the New Year holiday, stocks surged higher, leaving the Dow Jones Industrials Average and the S&P 500 Index to close 2020 at record highs.

THE UNEXPECTED IPO BOOM

Companies raised over $167 billion in initial public offerings this year, blowing past the record of $107.9 billion set in 1999.[5]

This explosion in capital raising was one of the biggest surprises this year, especially considering the flight to safety in March and April. The introduction of unprecedented monetary easing played a critical role helping this flood of new issuance.

Also playing a role was the popularity of SPACs (Special Purpose Acquisition Corporations). A SPAC is a company that is formed to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company. SPACs accounted for almost half of the fundraising in the IPO market.[6]

FINAL THOUGHTS

We join all Americans in happily drawing the curtain on 2020. Though it was a challenging and tragic year for so many, there are reasons to believe that 2021 will be a year of progress in returning to our pre-pandemic normal. We wish you and your family a healthy and happy new year!

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index).

Wednesday: Automated Data Processing (ADP) Employment Change, Factory Orders.

Thursday: Initial Jobless Claims, ISM Non-Manufacturing PMI.

Friday: Employment Report.

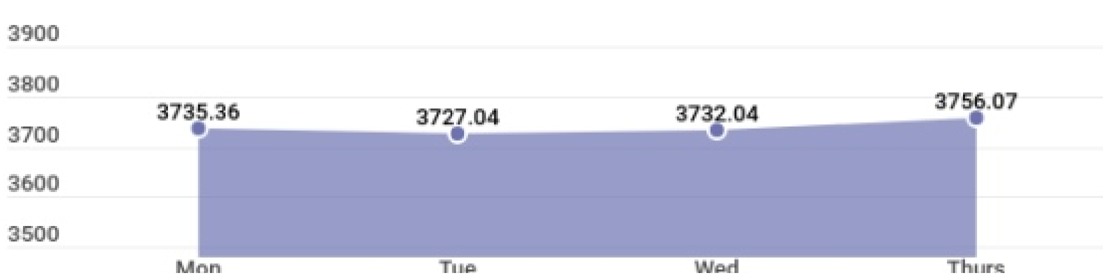
QUOTE OF THE WEEK

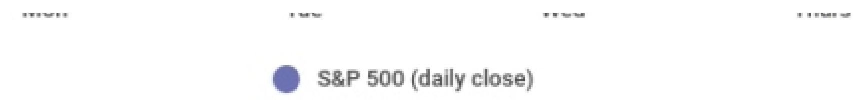
"The happiness of your life

depends on the quality of your thoughts"

MARUCUS AURELIUS

Market Index	Close	Week	Y-T-D
DJIA	30,606.48	+1.35%	+7.25%
NASDAQ	12,888.28	+0.65%	+43.64%
MSCI-EAFE	2,161.48	+2.02%	+6.11%
S&P 500	3,756.07	+1.43%	+16.26%





	Treasury	Close	Week	Y-T-D
	10-Year Note	0.93%	-0.01%	-0.99%

Sources: The Wall Street Journal, December 31, 2020; Treasury.gov, December 31, 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 Thursday, December 24, to Thursday, December 31, close. Weekly performance for the MSCI-EAFE is measured from Thursday, December 24, open to the Wednesday, December 30, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Two Viewpoints for Your Consideration:

"In traditional financial theory, interest rates are a key component of valuation models. When interest rates fall, the discount rate used in these models decreases and the price of the equity asset should appreciate, assuming all other model inputs stay constant. So, interest-rate cuts by central banks may be used to justify higher equity prices and CAPE ratios. Thus, the level of interest rates is an increasingly important element to consider when valuing equities. Many have been puzzled that the world's stock markets haven't collapsed in the face of the COVID-19 pandemic and the economic downturn it has wrought. But with interest rates low and likely to stay there, equities will continue to look attractive, particularly when compared to bonds." *Shiller, Black & Jivraj*

"The quote above seems almost obvious. That's the problem. It's actually a striking example of the insidious and exquisitely circular logic that I believe will prove disappointing and possibly even catastrophic for investors over the coming decade. What follows may help to clarify the situation. A security is nothing more than a claim to some future set of expected cash flows. The more you pay today for that stream of future cash flows, the lower return you will receive over time. Right now, bond market investors are paying just over $91 today in return for an expected $100 payment from the U.S. Treasury a decade from now. That works out to an annual return averaging nearly 0.9%.

Suppose you don't like the idea of making less than 1% annually on your investment for a decade. Let me tell you something that's absolutely true and will make the investment in Treasury bonds seem vastly more attractive: "Yes, bond prices are high. But they're fairly-valued relative to interest rates." That statement might seem funny, if it wasn't both a) the stupidest thing you've ever heard, and b) essentially the same argument that's being made to justify the most extreme stock market valuations in U.S. history. Obviously, bonds are always "fairly-valued" if their own rate of return is used for comparison. But it's such a circular argument that it lacks intrinsic meaning, and it's certainly not what investors hear. What they *hear*, when someone says "fairly-valued," is that investors can expect future returns to be somewhere in the range of historical norms, or at least historical experience. *That's not what's being said at all.* What's actually happening today is that investors are so uncomfortable with near-zero bond market valuations that they've priced nearly every other asset class at levels that can be expected to produce near-zero, or negative, 10-12 year returns as well.

So understand this. When people say that extreme stock market valuations are "justified" by interest rates, what they're actually saying is that it's "reasonable" for investors to price the stock market for long-term returns of nearly zero, because bonds are also priced for long-term returns of nearly zero. I know that's not what you *hear*, but it's precisely what's being said. When both assets are at extreme valuations, this comparison, at best, says only that the dismal expected return on one asset is expected to exceed the *really dismal* expected return on the other asset." *John Hussman*

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Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

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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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International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

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CITATIONS:

1. The Wall Street Journal, December 31, 2020
2. The Wall Street Journal, December 31, 2020
3. The Wall Street Journal, December 31, 2020
4. FoxBusiness.com, December 29, 2020
5. The Wall Street Journal, December 30, 2020
6. The Wall Street Journal, December 30, 2020