Summary

On the shortened holiday week, economic data included a decline in personal income and spending, mixed results in housing, and weaker consumer confidence.

Global equity markets were down on net last week, as agreement on Congressional stimulus remained in limbo and Covid case counts remain high, along with a newly identified strain in the U.K. Bonds fared positively in the U.S. with lower interest rates, but hampered elsewhere due to a stronger dollar. Commodity prices generally fell last week.

Economic Notes

(+) The final reported **U.S. GDP** growth result for the third quarter was revised upward by 0.3% to 33.4%, versus expectations for little to no change. The adjustment was led by stronger gains from personal consumption, and investments in both intellectual property and residential structures. On the detracting side, business structures and net exports declined from the original figures. From an inflation standpoint, core PCE in Q3 was revised down a bit to 3.4% on an annualized quarter-over-quarter rate, and the year-over-year rate minimally to 1.4%.

For Q4, estimates continue to run in the neighborhood of 3-5%, although there is wide dispersion in these figures from source to source. The more closely-watched Fed estimates, such as the New York Fed Nowcast at 2.0%, and Atlanta Fed's GDPNow at a far stronger 10.4%, also reflect this wide band. While conditions started off much more robust in the early fall, increased virus counts and re-restrictions in business activity and mobility have resulted in a drop-off during the last few weeks. The first quarter of 2021 has been viewed as vulnerable to weakness, if the Holidays bring anywhere near the aftereffect that Thanksgiving did. However, last night's passed stimulus package is intended to boost consumption—and growth. By Q2 and Q3, vaccine distribution is assumed to be a catalyst for further growth back toward the economy running nearer to 'normal' levels. However, a full recovery could take additional quarters before reverting back to trend (2-3% annualized real GDP growth). Due to the severity of the labor force impact in 2020, the 'back to normal' process for employment could take a bit longer.

(0) **Personal income** for November fell -1.1%, which underwhelmed relative to the expected -0.3% decline. Largely, this was the result of a drop in personal transfer receipts, related to unemployment insurance payments. **Personal spending** fell -0.4%, which was a bit beyond the -0.2% expected. Combined, the personal saving rate fell -0.7% to a still-elevated 12.9%. The **PCE price index** for the month came in up just a hundredth of a percent (essentially zero) on both a headline and core level, and a bit below expectations calling for a slight rise of about a tenth of a percent. Year-over-year, headline PCE inflation is up 1.1% and 1.4% on a headline and core basis, respectively. These remain well below the Fed's target of 2.0%, pointing to continued accommodation.

(+) **Durable goods orders** from November rose by 0.9%, which exceeded the median forecast calling for 0.6%. Removing transportation orders, the increase was trimmed to 0.4%, which is where it also fell on a core capital goods basis. Core capital goods shipments rose 0.4%, which was about half the increase expected. Interestingly, this series has recovered sharply, just below the level in February prior to the start of the pandemic.

(+) The **FHFA house price index** increased 1.5% in October, more than double expectations of 0.6%. Prices rose in every national region, with leadership in the New England and Pacific areas, both showing near to slightly over-2% gains. The year-over-year rate accelerated by another percent to 10.2%, which is historically very strong, and indicative of today's high demand, low financing rates, and tight conditions for housing inventory.

(-) **Existing home sales** in November fell by -2.5% to a seasonally-adjusted annualized rate of 6.69 mil. units. This reversed gains from the prior month, and was a touch weaker than the -2.2% decline expected by consensus. At the same time, on a non-seasonally-adjusted basis, it represented one of the strongest Novembers over the past 20 years. Sales of single-family units and condos/co-ops each fell to a similar degree. Regionally, sales in the West were flat, while those in the other three regions were in a fairly tight range of -2% to -4%. Overall, the level of sales remains high, and inventories low, which has kept prices elevated. For perspective's sake, inventories reached a low of 1.08 mil. units, which was about half that from the other strong Novembers prior to the financial crisis 15 years ago. Time on the market has fallen from 38 days last year to 21, with the median price up 15% from a year ago.

(-) **New home sales** in November fell -11.0% to a seasonally-adjusted annualized rate of 841k. This fell below expectations of a mere -0.5% decline, and included a revision downward for the prior month. Regionally, the West and Midwest saw the most extreme drops (down -45k to -50k each), which could have been related to more extensive virus activity in those areas recently. Despite the softness over the last several months, levels remain strong—nearly 10% above the immediate period before the pandemic.

(-) The Conference Board **index of consumer confidence** in December fell by -4.3 points to 88.6, including a revision lower in November, below the median forecast calling for a rise to 97.0. The index of present economic conditions fell by a sharp -15 points, followed by a drop of -7 points for the labor differential, which measures the ease in finding employment. Expectations for the future rose by 3 points.

(-) The final December report for the **Univ. of Michigan index of consumer sentiment** fell by -0.7 of a point to 80.7, further than a lesser expected decline to 81.1. Assessments of present conditions fell by nearly -2 points, while expectations for the future barely budged, which was a positive. Inflation expectations for the next year ticked up by 0.2% to 2.5%, while those for the next 5-10 years were flat at the same 2.5%. It appears inflation sentiment has begun to normalize over the past few months.

(+/0) **Initial jobless claims** for the Dec. 19 ending week fell by -89k to 803k, far beyond the 880k level expected. **Continuing claims** for the Dec. 12 week also fell, by -170k, to 5.337 mil., below the 5.560 mil. expected by consensus. Initial claims decreased by the largest amounts in the largest states, although a few increases were seen as well. Measurement issues continue on the continuing claims side, due to the changing numbers of participants on the pandemic emergency unemployment compensation program.

Question of the Week

What are the details of the most recent Covid relief plan?

The prior weekend, Congress had agreed on a $900+ bil. Covid relief package, approved by both chambers a few days later, and finally signed by the President last night. This had been in the works for months, with a few key sticking points causing the long delay and repeated breakdowns in negotiations between Democrats and Republicans. Two major items were additional state and local aid, which was wanted by Democrats, and strongly opposed by Republicans, due to the perception that it would have bailed out fiscally-troubled 'blue states,' such as Illinois, California, and New York. Pushed by Republicans was business liability protection (from Covid-based lawsuits). In the end, both items were excluded from the final bill, which is probably the only reason is was able to finally pass. Importantly, this relief legislation was attached to the $1.4 tril. omnibus spending bill, extending legislative fiscal authority until Sept. 2021, and essentially funding the government until then (prior funding is slated to end this week and could have resulted in another government shutdown without the funds).

The key components of the legislation are familiar, including some extensions from the earlier March 2020 CARES Act:

- Direct $600 payments to adults/children up to a limit of $75k single/$150k joint. These are expected to be sent in January. This will end up at a cost of around $170 bil. These payments were the primary reason for the President's delay in signing the bill, threatening a veto, unless payment amounts were raised to $2,000 per person. (This is being voted on by Congress today, although passage appears less likely.)
- Additional unemployment benefits, including an extra $300/week, have been extended through March 2021, with the duration of benefits extended from 39 to 50 weeks. This includes assistance to gig workers and independent contractors. When combined, with nutrition benefits, rental assistance, and extension of the eviction moratorium, this may reach $120 bil.
- Small business aid, totaling $325 bil., which includes small business loans, including refreshing the Paycheck Protection Program (PPP). Interestingly, expenses paid with all of these loans (including prior rounds) will now be tax deductible. The employee retention tax credit was also extended through next July.
- Additional medical testing and tracing activities, as well as vaccine distribution, which may reach $50 bil. in total. Also included was a measure to protect patients against 'surprise' medical bills, related to out-of-network care.
- Other aid is targeted to education, in grants to states of $80+ bil., and $45 bil. to the transportation sector (a portion to airlines, but also major metro area transportation corridor support), as well as subsidies to agriculture and the deployment of broadband to a wider degree. Interestingly, there is a small addition of $1 bil. to be used towards the border wall with Mexico and other security technology, as well as an added tax break for corporate meal expenses, meant to assist restaurants. (It's practically impossible for bills to pass without small additions in order to help build support among certain legislators or groups, to ensure the total bill's passage.)
- A handful of tax benefits were included, such as preferential calculations for the child care and earned income credits, as well as charitable contributions, which are 'above the line' not only for 2020, but also now 2021.
- Apparently, a good deal of earlier CARES Act funds remain unspent, which would have required states and cities to return unused funds by year-end; this bill provides an extension of another year.

The current thinking is that this may be the last direct relief bill related to Covid, although conditions, of course, remain fluid. A surprise win by the Democrats in the Georgia Senate races on Jan. 5 could certainly produce interest in more and broader stimulus efforts in 2021, assuming these are needed. A higher-probability status quo result, of a partial of full Republican win (retaining the Senate majority) could raise the bar far higher for additional funds. The general assumption is that vaccine distribution will reach a wider swath of the American population by Q2 and Q3, rendering more aid less necessary.

Market Notes

Period ending 12/25/2020	1 Week (%)	YTD (%)
DJIA	0.07	8.27
S&P 500	-0.15	16.71
NASDAQ	0.39	43.97
Russell 2000	1.74	21.68
MSCI-EAFE	-0.60	6.33
MSCI-EM	-1.04	12.61
BBgBarc U.S. Aggregate	0.14	7.27

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2019	1.55	1.58	1.69	1.92	2.39
12/18/2020	0.08	0.13	0.39	0.95	1.70
12/25/2020	0.09	0.13	0.37	0.94	1.66

U.S. stocks started the week down early, with the positivity surrounding the Congressional relief package, which was tempered later in the week with additional demands from the President for larger direct payments. Additionally, reports in the U.K. of a 'mutant' Covid strain, which appears to be more transmissible than the original, caused a bit of trepidation. This resulted in several nations restricting travelers from the U.K., adding to other lockdowns already in place. (Later claims that the current vaccines would be effective against these one-off strains appeared to alleviate some of the concern.)

By sector, conditions were mixed with financials and technology earning returns of just under a percent for the week. On the other hand, communications, consumer stocks, and utilities all declined nearly a percent. Real estate ticked higher, on the heels of lower interest rates. Small cap stocks continued to rally, as stimulus in the works is expected to positively affect that more economically-sensitive group.

Foreign stocks performed similarly to U.S. equities, with most regions lower, and not helped due to the impact of a stronger U.S. dollar. Other than Covid case counts and expected U.S. stimulus (assumed to have global impact through the broader supply chain), the reaching of a Brexit deal between the U.K. and Europe was a positive input, although offset by the U.K. 'mutant' Covid issue. More negatively, at least for emerging market equities, was the continued change in tone by the Chinese government toward Jack Ma and Alibaba, which began an anti-monopoly investigation into the firm. The timing appears to have coincided with his criticism of the Chinese communist government.

U.S. bonds were helped by a small decline in interest rates across the yield curve, with treasuries and investment-grade corporates earning positive returns. Bank loans and high yield ended flattish on the week, while foreign debt was held back by a stronger dollar, pushing returns into negative territory.

Commodities declined as the dollar ticker higher last week, with a gain in agricultural prices offset weaker returns from energy and metals. The price of crude oil fell by -2% on net to just over $48/barrel, while natural gas fell -6%.

Have a good week and Happy New Year. We've appreciated the chance to work with you in 2020, and look forward to a better (and hopefully more normal) 2021.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, Tax Foundation, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends, with the exception of MSCI-EM, which is quoted as price return/excluding dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.