Summary

Economic data for the week included a deeper-than-expected decline in retail sales, weaker Empire state manufacturing, and an unexpected rise in jobless claims. Producer and consumer inflation measures rose slightly, in keeping with recent trend. Industrial production, on the other hand, continued to increase.

Global stock markets declined last week, with mixed economic data resulting from continued high Covid cases. Bonds were little changed in the U.S. in keeping with slower rises in interest rates, while foreign bonds were hampered by a stronger U.S. dollar last week. Commodities were mixed to neutral in several key areas, such as energy, but agricultural prices saw a spike due to rising demand.

Economic Notes

(-) **Retail sales** for December declined by -0.7%, which disappointed relative to expectations calling for no change. On a core/control level, sales fell -1.9% for the month, which was far under the minimal forecasted gain of 0.1%. The headline figure was helped by higher energy prices, which boosted gasoline station sales by 7%, as well as autos and auto parts. The core component was mixed, with gains in clothing of a few percent, offset by sharp declines of -5% or more for online sales (perhaps due to early Holiday shopping in 2020), electronics, and eating/drinking places (the latter due to rising virus activity). Perhaps amazingly, retail sales are up 3% from a year ago, including the massive mid-year drawdowns in activity (of more than -20% at one point).

(+) **Industrial production** for December rose by 1.6%, the largest gain since mid-year, and beating expectations calling for a half-percent increase. Manufacturing production rose by just under a percent, accounting for the bulk of the increase, with business equipment production rising and auto production falling during the month. Utilities production also rose sharply, by over 6%, which is typically due to seasonal weather influences. **Capacity utilization** increased by 1.1% to 74.5%.

(-) The **Empire manufacturing index** fell by -1.4 points to a still-expansionary 3.5 for January, and underwhelmed versus an expected increase to 4.9. Under the hood, new orders rose by several points into stronger expansionary territory, as did prices paid to very strong levels. These were offset by drops in shipments and employment by several points, but each remained in expansion. Expected business conditions for the next six months fell by over 4 points, but remained expansionary. Overall, this report showed some trailing off of prior month strength, reflecting greater virus activity, but remained decent, all considering.

(0) The **producer price index** for December rose by 0.3% on a headline level, which was a faster pace than in recent months, but about a tenth shy of forecasts. Core PPI rose 0.1%, due to offsetting effects, which pushed the year-over-year change in core PPI to only 1.2%. The underlying components were led by a 6% spike in energy prices, while the methodology measuring retail margins held down core prices.

(0) The **consumer price index** for December rose a rounded 0.4% on a headline level, and 0.1% for core—generally matching market expectations. The headline figure was led by a 4% rise in energy prices (8% in gasoline for the single month), while core items were mixed. The more extreme results were a correction downward in over a percent for used cars (which were up 10% year-over-year due to scarcity of product, and shutdowns in new car production), while apparel prices gained over a percent. In December, new vehicle prices also gained nearly a half-percent, while virus-sensitive segments of airfares, car rentals, and other recreation prices fell sharply, along with rising virus counts. Other items were little changed by more than a tenth or around zero. Year-over-year, headline CPI rose 1.4%, with core up 1.6%—both below the Fed's target level of 2%, and individual items driven largely by unique pandemic dynamics.

(-/0) The preliminary January **Univ. of Michigan index of consumer sentiment** report fell by -1.5 points to 79.2, just below the 79.5 level expected. Assessments of present conditions and expectations for the future both fell, the former a bit more than the latter. Inflation expectations for the next year rose by 0.5% to 3.0%, as did those for the coming 5-10 years by 0.2% to 2.7%.

(0) The government **JOLTs job openings** report for November showed a decline of -105k to 6.527 mil., which was above the 6.450 forecast number. The job openings rate fell by a tenth to 4.4%, while the hiring rate was flat at 4.2%. The layoff rate, however, increased by 0.2% to 1.4%, while the quits rate was flat at 2.2%. While not a dramatic change, it appears that improvement in the jobs market by this measure flattened a bit before the Holidays.

(-) **Initial jobless claims** for the Jan. 9 ending week rose by a surprising 181k to 965k, beating expectations for a reading of 789k. **Continuing claims** for the Jan. 2 week rose by 199k to 5.271 mil.., exceeding the 5.000 mil. forecast. The initial claims component was led by increases of nearly 50k each in IL and FL, followed by a large report in KS. The rise was likely related to this being the first week of the late December Covid relief package, which extended unemployment claim eligibility. Additionally, to a far lesser degree, Holiday filings and year-end seasonal adjustments that often plague jobless claims reports around this time each year.

Market Notes

Period ending 1/15/2021	**1 Week (%)**	**YTD (%)**
DJIA	-0.91	0.73
S&P 500	-1.46	0.39
NASDAQ	-1.54	0.87
Russell 2000	1.51	7.53
MSCI-EAFE	-1.36	1.76
MSCI-EM	0.33	5.18
BBgBarc U.S. Aggregate	0.19	-0.76

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2020	0.09	0.13	0.36	0.93	1.65
1/8/2021	0.08	0.14	0.49	1.13	1.87
1/15/2021	0.09	0.13	0.46	1.11	1.85

U.S. stocks were relatively calm early, with the dramatic news from recent weeks dying down. The most notable political development, other than further details from the President-Elect Biden camp about policy, was the announcement of (again) impeachment proceedings for President Trump. While it may seem unusual to proceed with this only a week before an exit from office, it appears that a Senate trial can officially take place beyond the President's term, and, if successful, could prohibit him from seeking elected Federal office in the future. (Avoiding an election bid for 2024 seems to be the primary goal.) But, absent from the upcoming inauguration and concerns over additional violence in Washington, D.C., the market has moved on to Biden's stimulus package. This was rolled out last week as the preliminary 'Rescue America Plan,' which includes $1.9 tril. of additional stimulus checks and other aid. However, other lawmakers seem to have balked at the initial bill, with the consensus assumption about eventual passage to around $1 tril. Weaker economic data, such as retail sales and still-rising virus counts, also seemed to weigh on sentiment.

By sector, energy stocks again led the way, with gains of several percent, followed by utilities and real estate—the latter two benefitting from a pause in the recent upward movement in interest rates. Communications and technology fared worst, with declines of at least 2% or more. The latter appeared related to increased scrutiny surrounding extreme political rhetoric being transmitted through sites such as Facebook and Twitter. Earnings season for Q4 has started, with several large banks reporting first. The Fed just re-allowed bank share buybacks in December, following a Covid-based pause in March.

Foreign stocks also fell back last week, to a greater degree than U.S. equities, thanks to a weaker dollar. Emerging markets and Japan fared better than the U.K. or Eurozone, with the latter plagued by political tensions in Italy, as a political party pulled out of the coalition government. Additionally, several nations extended their Covid-based states of emergency with still-high virus counts broadly on the continent. Emerging markets continued to benefit from the recent boost in economically-cyclical stocks, assumed to benefit these regions, including signs of stronger growth (like exports) in China.

U.S. bonds eked out small gains last week, as interest rates eased in their trend higher. While investment-grade corporates outperformed treasuries, high yield and bank loans lost ground. Due to a strong rise in the U.S. dollar of nearly a percent last week, foreign bonds lost significant ground, mostly in low-yielding developed markets, but also in emerging.

Commodities were mixed to higher, despite the usual headwind caused by a far stronger dollar. Energy and precious metals prices were little changed, while industrial metals declined. On the other hand, agricultural prices corn, wheat, and sugar all rallied upwards of 5%, due to reported tighter supplies and rapid buying from China, as that economy recovers more fully from the effects of the pandemic. The price of crude oil saw gains early in the week as U.S. inventories were lower than expected, but settled down to less than $0.20 above where it started to around $52.50/barrel.

Have a good week.

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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, 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. 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.