Summary

Economic data for the holiday-shortened week included a sharp rise in manufacturing, and improvements in several housing metrics—the latter continuing a trend higher from recent months.

Equity markets in the U.S. and abroad gained last week as the new Biden administration looks to pass additional stimulus legislation. Bonds were little changed, as interest rates leveled off. Commodities were mixed, with metals gaining a bit, and energy falling slightly.

Economic Notes

(+) The **Philadelphia Fed manufacturing index** for January rose by a dramatic 17.4 points to 26.5, solidly more expansionary and surpassing expectations calling for 11.8. The underlying components of shipments, new orders, employment, and prices paid all rose by double-digits, further into expansion as implied by the headline figure. Expected business conditions six months into the future also rose by almost 10 points to a solid 53 level. The entire report reflected optimism over economic improvement into 2021.

(+) **Existing home sales** rose 0.7% in December to a seasonally-adjusted annualized level of 6.76 mil. units, which exceeded the expected decline of -1.9%. Results during the month were led by condos/co-ops, which increased slightly more than single-family units. Regionally, the Northeast saw gains of nearly 5% for the month, followed by the South, while the Western region saw a minor decline. Home sales are up 7% from a year ago, which reflects the story of urban departures and suburban demand.

(+) **Housing starts** in December rose by 5.8% to a seasonally-adjusted level of 1.669 mil., surpassing the 0.8% gain expected. This also included an upward revision for November. Single-family starts drove the report, with a 12% rise, and offset a -14% decline in multi-family starts. Regionally, starts rose by over 30% in the Midwest, with lesser gains in the West and South, while the Northeast experienced a decline of over a third. Year-over-year, overall starts are up 8%, which is the fastest pace in 14 years. Since the beginning of Covid, single-family starts are 29% higher, while multi-family are down -38%—reflecting the split in demand between the two segments. **Building permits** rose 4.5% in December to an annualized 1.709 mil. rate, beating median forecast expectations calling for a decline of -1.7%. In fact, this was the highest level since 2006. Single-family permits rose by 9% (over 30% over the past year), offsetting a multi-family decline of -3%. The Midwest and West saw double-digit gains in permits, while those in the Northeast fell. While maybe not the 'boom' of decades past, single-family starts have shown significant acceleration, which should add to housing supply in coming quarters.

(0) The **NAHB homebuilder sentiment survey** for January fell -3 points to 83, below the 86 level expected. Both present sales and future sales expectations fell by a few points, while prospective buyer traffic fell a more dramatic -9 points. All four national regions also experienced declines, led by the Northeast coming in weakest. While overall levels remain strong, and indicative of strength in upcoming homebuilding activity, land/materials prices as well as selected skilled labor shortages have been speedbumps in the housing recovery.

(0/-) **Initial jobless claims** for the Jan. 16 ending week fell by -26k to a still-elevated 900k, exceeding the 935k level of claims expected, and included some downward revisions for the prior week. **Continuing claims** for the Jan. 9 week fell by -127k to 5.054 mil., well below the 5.300 mil. level expected. New claims were again mixed, with sharp gains in IL and AZ, but offset by a substantial drop in CA. It appears official continuing claims numbers continue to be held down by those receiving benefits in extended programs.

Market Notes

Period ending 1/22/2021	1 Week (%)	YTD (%)
DJIA	0.63	1.37
S&P 500	1.96	2.36
NASDAQ	4.19	5.10
Russell 2000	2.15	9.84
MSCI-EAFE	0.70	2.47
MSCI-EM	2.57	7.88
BBgBarc U.S. Aggregate	0.01	-0.75

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
1/15/2021	0.09	0.13	0.46	1.11	1.85
1/22/2021	0.08	0.13	0.44	1.10	1.85

U.S. stocks experienced another positive week, with the Presidential inauguration happening smoothly and economic data generally supportive, not to mention hopes for the Biden-led stimulus plan. Covid cases and mortality have continued to rise, although it appears post-Holiday hospitalizations may have peaked by some measures—at least in this wave. On the other hand, there are increasing concerns over virus variants from the U.K. and South Africa, with the latter resulting in additional travel restrictions.

By sector, communications services, consumer discretionary, and technology led the way with gains, while the 'value' group of energy, materials, and financials lost ground by at least several percent each last week. Real estate rose several percent, along with hopes for a 2021 recovery and stabilized interest rates.

While it's been assumed that the proposed $1.9 tril. Biden stimulus package would be negotiated down to a far lower amount by Republicans, the discussion has been delayed due to impeachment articles submitted by the House to the Senate (which have to be acted on before any other matters, per rule). Odds of an impeachment succeeding have been rising, with anger from both parties in the aftermath of the violent episode at the U.S. Capitol, although the economic ramifications of a conviction with Trump now out of office appear less relevant. Insofar as the stimulus package is concerned, if the Senate's 60-vote threshold looks difficult to reach, it's possible the Democratic leadership may look to the budget 'reconciliation' process instead, which requires only a simple majority (although the process is more complicated).

Infrastructure may be next, but again, likely delayed due to more pressing issues. Will the Biden presidency start off boring? Perhaps, but if so, it's by design. Markets were also buoyed perhaps by comments from officials, such as Treasury Secretary nominee and former Fed Chair Janet Yellen, that the current administration's focus is on relief for workers and families, as opposed to raising taxes in the near term (the latter being a fear of many investors).

Foreign stocks in developed markets were little changed in local terms, but gained a bit when translated to U.S. investors through a weaker dollar. Sentiment was mixed, with European lockdowns and curfews extended into February in several locations, along with re-slowing in economic activity. Emerging markets, however, were up several percent. This rally was largely led by Chinese stocks, which continue to demonstrate signs of stronger economic recovery, and the only country to register positive economic growth for 2020. This is not to mention a hoped-for better relationship with the U.S. under President Biden. (It's important to note, though, that one of the few policy items both Democrats and Republicans agree on is a hard line toward China—albeit for different ideological reasons. So an economic détente may be too much to hope for, although rhetoric may be toned down a bit.)

U.S. bonds experienced a flattish week on net, with the broader index minimally changed, as treasuries rose slightly, and outperformed investment-grade corporate credit, which declined a bit. The weaker U.S. dollar did little for developed market bonds, while emerging market debt earned slightly positive returns on the week.

Commodities fell overall for the week, despite the usual aid from a weakened dollar. Declines in agriculture and energy were offset by positive returns for precious and industrial metals. The price of crude oil declined by a fraction of a percent to $52.30/barrel, with little news other than rising U.S. inventories. Commodity markets have rallied in the past three months, even surpassing U.S. stocks, as hopes for eventual economic recovery, production, and mobility will translate to stronger raw material demand.

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, Huffington Post, 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.

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