Summary

In a lighter week for economic data, releases included minor increases in producer and consumer prices, and higher-than-expected jobless claims as an uptick in Covid cases continues to weigh on the jobs market. Consumer sentiment improved with the Covid vaccine news, along with inflation expectations falling a bit.

Global stocks declined last week, as higher Covid case counts, lack of economic stimulus from the U.S. Congress, and upcoming deadline for Brexit weighed on investor sentiment. Bonds, on the other hand, fared well as interest rates retreated downward. Commodities gained across the board in keeping with a renewed trend of optimism for higher eventual post-pandemic demand in energy and metals.

Economic Notes

(0) Following a month of flat inflation, the November **consumer price index** rose 0.2% on both a headline and core (ex-food and energy) basis. These exceeded the smaller 0.1% expected for each. Year-over-year, headline and core CPI increased by 1.2% and 1.7%, respectively, remaining well below trend. Per the BLS, the increase in prices appeared to be broad-based. Prices for a few areas, such as fuel oil and utility gas, increased sharply (over 3% for the month), as did more cyclical components such as car rental, lodging, and airfares. However, the indexes for several other recently-strong areas, such as used cars, corrected lower. Shelter gains decelerated, while apparel rose nearly a percent, and medical care costs declined. Overall, this report showed few extremes.

(0) The **producer price index** for November rose by 0.1% on both a headline measure and core level, when removing food and energy. This was a slower pace than in the recent several months, with final demand goods rising nearly a half-percent, but a significant proportion due to a recovery in energy prices, specifically diesel fuel. Medical prices also experienced an increase. Prices for food and other segments were mixed, and largely offset each other in the broader index result. On a year-over-year basis, final demand PPI rose by only 0.8%, although this figure obviously hides significant price inflation volatility in both directions during 2020. Many economists expect a recovery in producer prices going into 2021, when the economy begins to look more 'normal.'

(+) The **Univ. of Michigan consumer sentiment index** experienced a rise of 4.5 points to 81.4 in December, which beat expectations calling for a small decline to 76. Respondent assessments of current economic conditions and expectations for the future both rose in similar magnitude. Based on the timing of the report, it appears vaccine news may have played a large role in the improved mood. Expectations for inflation over the next year fell by a half-percent to 2.3%, while those for the next 5-10 years were unchanged at 2.5%.

(+) The government **JOLTs** job openings report showed a rise of 158k to 6.652 mil., surpassing expectations of a drop to 6.300 mil. The rate of job openings rose a tenth to 4.5%, while hiring fell a tenth to 4.1%. On the exit side, the layoff rate rose by 0.2% to 1.2%, and quits were flat at 2.2%. This continues a trend of recovery growth, albeit at a more tempered pace.

(0) The final report on **nonfarm productivity** for Q3 was revised down from the initial estimate by -0.3% to an annualized 4.6% rate. The year-over-year productivity rate was also revised down a tenth to 4.0%. **Unit labor costs**, though, were revised upward by over 2% to a lesser annualized declined of -6.6% (beating expectations of a -8.9% decline). Year-over-year, costs were revised up by 1.5% to 4.0%.

(-) **Initial jobless claims** for the Dec. 5 ending week ticked up by 137k to 853k, higher than the 725k level expected. **Continuing claims** for the Nov. 28 week rose by 230k to 5.757 mil., which exceeded the median forecast expectation of 5.210 mil. It appears that the increase in claims was relatively broad, based on higher results for the largest states, as virus counts again rose. These elevated counts, in addition to the formal monthly employment situation report numbers have been taken as evidence by some that additional Congressional stimulus is needed.

Market Notes

Period ending 12/11/2020	**1 Week (%)**	**YTD (%)**
DJIA	-0.54	7.70
S&P 500	-0.95	15.39
NASDAQ	-0.69	39.14
Russell 2000	1.03	16.02
MSCI-EAFE	-0.51	4.87
MSCI-EM	0.53	12.83
BBgBarc U.S. Aggregate	0.35	7.21

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
12/4/2020	0.09	0.16	0.42	0.97	1.73
12/11/2020	0.08	0.11	0.37	0.90	1.63

U.S. stocks fell back last week, as rising virus counts and a lack of progress in Congress about another stimulus package weighed on sentiment. In keeping with the broader market trends, energy was the sole winner last week, helped by higher oil prices and continued hopes for stronger economic demand next year. On the downside, financials and technology suffered the worst declines. Real estate also lagged, falling nearly -3%, but led by more severe declines in malls and lodging REITs. Small cap stocks also earned positive returns, again beating large caps.

Foreign stocks declined along with U.S. stocks last week, not helped by a stronger dollar. While Japan and the emerging markets only declined slightly, U.K. and European stocks fell further. Sentiment soured by the end of the week with rising virus counts, lockdowns, and as a year-end deadline for Brexit looms—with no agreement in sight. It appears at this point, absent a major breakthrough, that the U.K. and European Union could be dealing with each other through standard/default World Trade Organization rules, similar to how several other commonwealth nations (such as Australia) trade with Europe. While not the end of the world, several regional-specific issues remain unresolved, such as fishing rights around shared border areas. Emerging market results were led by commodity producers, such as Brazil and Russia, while those seen as being helped most by an upcoming vaccine, such as India, also fared well.

U.S. bonds fared well last week, with equities selling off mildly, as virus cases remain high and economic data showed signs of flattening. Treasuries fared best, although investment-grade corporates also fared positively. Foreign bonds in developed markets gained ground, with falling rates on the order of 0.10-0.20% outweighing the impact of a stronger dollar. The upcoming FOMC meeting this coming week is expected to result in little change in policy, but perhaps more veiled calls for additional fiscal stimulus.

Commodities earned positive returns across the board last week of over a percent on net, led by agriculture and energy, with industrial and precious metals earning lesser gains. The price of crude oil rose minimally to around $46.50/barrel, while Brent crude rose above $50—triggering positive sentiment around that round number again being reached. As has been the case over the last few weeks/months, positive news about the economy or vaccine distribution has been bullish for energy and industrial metals, especially, with setbacks affecting the group negatively. Precious metals remain the year-to-date leader (up 20%), but investors have rotated away from the group in recent months as risk has been embraced.

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, 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.

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