Summary

Economic data for the week included slightly weaker ISM manufacturing and services, although the underlying metrics continued to show expansion. The employment situation report for November showed a significant slowing of job growth compared to the recovery over the past six months, due to rising Covid cases.

U.S. equity markets led the globe last week, again reaching new highs, while foreign stocks earned positive results as well. Bonds declined in the U.S. as positive sentiment and stimulus hopes led to higher long-term interest rates, while a falling dollar helped foreign bonds. Commodities were mixed with less volatility than seen in recent weeks, as crude oil again climbed higher.

Economic Notes

(-) The **ISM manufacturing index** for November fell by -1.8 points to 57.5, just below the 58.0 level expected by consensus. Several underlying components each declined by several points, including production, new orders, and prices paid, but all stayed well into expansionary territory. Supplier deliveries rose a point, further into expansion; employment, on the other hand, fell nearly -5 points back into contraction. Despite the tick downward, an ISM number over 55 remains solidly expansionary, at the high end of a cycle's range, along with rising demand and tighter inventories. This is indicative of continued industrial repair in the economy.

(0) The **ISM non-manufacturing index** fell by -0.7 of a point to 55.9 in November, but beat expectations by a tenth of a point. Under the hood, new orders, export orders, and business activity declined by a few points, but remained in expansionary territory. On the other hand, employment, supplier deliveries, and prices paid all rose further into expansion. As with the ISM manufacturing numbers, momentum has flattened a bit, but levels remain solidly pointing to continued recovery.

(+) **Construction spending** reversed course by increasing 1.3% in October, beating expectations calling for 0.8%, including mixed revisions for several prior months. Specifically, private residential and public non-residential spending each gained for the month, interestingly offset a bit by declines in the private non-residential and public residential categories.

(-) **Pending home sales** for October fell by -1.1%, which was the opposite of the 1.0% increase expected. Regionally, the Northeastern U.S. saw the sharpest declines, down -6% for the month, while sales in the South were up minimally. Year-over-year, pending sales are up just under 20%, which is another dramatic example of the underlying strength in the housing market, although this particular report points to a possible weaker existing home sales report in a month or two.

(0) The **trade balance** for October widened -$1.0 bil. further into a -$63.1 bil. deficit, but not as much as the -$64.8 bil. expected. Overall trade volumes increased, as they have for the past five months, with imports a bit more so than exports. The latter was pulled down a bit by a -2% decline in exports of petroleum.

(+) **Initial jobless claims** for the Nov. 28 ending week fell by -75k to 712k, far below the 775k expected. **Continuing claims** for the Nov. 21 week fell by -570k to 5.520 mil., below the 5.800 mil. level expected. Initial claims fell by the largest amounts in CA, TX, and MI, but IL saw a rise along with other Midwestern states in keeping with higher virus case numbers. It also appears Thanksgiving had a role in seasonality adjustments, as the holidays often do, resulting in data that becomes a bit skewed.

(0/-) The **ADP private employment report** for November rose by 307k, a slip downward from the prior month, and below the forecasted call for 440k, although this included a revision upward for October by nearly 40k jobs. Services jobs increased by 276k, with leisure/hospitality leading the pack (as expected). Jobs in goods production rose 31k, overwhelmingly in construction, up by 22k. The ADP indicator does not capture employment in all segments of the economy, but can provide some insight into growth trends.

(-) The employment situation report for November was positive, but disappointing, in keeping with another wave of Covid resurfacing across the U.S. during the month, and holding back rehiring. This may result in weaker results for December and months to come, especially in key states such as California that are imposing broader lockdowns.

Nonfarm payrolls rose by 245k, which fell short of the 460k expected (and the revised 610k from October), its slowest pace in seven months. By group, transportation/warehousing jobs rose by 145k, related to logistics/delivery in the online holiday rush, followed by professional services up 60k, and temporary employment. In the most sensitive segments, leisure/hospitality jobs rose by 31k, while retail jobs fell by -35k as lockdowns accelerated. Construction, healthcare, and manufacturing all added 25-50k jobs as these areas continued to see repair. Government jobs fell by -99k, which was predominantly related to the layoff of temporary Census workers.

On the other hand, the **unemployment rate** ticked down by -0.2% to 6.7%, which was in line with expectations. The U-6 underemployment rate also fell by -0.1% to 12.0%. These were helped by a decline in labor force participation of -0.2%. The household survey measure of employment showed a drop of -74k, reflecting general weakness of the overall report.

Average hourly earnings rose by 0.3% for the month, exceeding expectations of a mere 0.1% increase. This kept the year-over-year rate from Nov. 2019 at an unchanged, but high 4.4%. The **average workweek** remained unchanged at 34.8. There continues to be a slow erosion in the number of part-time workers in that status for economic reasons, in addition to a decline in workers on temporary layoff (down -5% from last month to about 25% of total unemployed); however, on the negative side, the count of permanent job losers also rose a bit.

Market Notes

Period ending 12/4/2020	1 Week (%)	YTD (%)
DJIA	1.16	8.28
S&P 500	1.72	16.50
NASDAQ	2.14	40.10
Russell 2000	2.04	14.84
MSCI-EAFE	1.02	5.41
MSCI-EM	1.65	12.23
BBgBarc U.S. Aggregate	-0.42	6.84

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
11/27/2020	0.09	0.16	0.37	0.84	1.57
12/4/2020	0.09	0.16	0.42	0.97	1.73

U.S. stocks again reached all-time highs, with sentiment driven by U.K. Covid vaccine approvals, and plans being outlined for vaccine distribution in late 2020 and into the first half of 2021, assuming U.S. FDA approvals are forthcoming. By Friday, the market appeared to react well to the disappointing nonfarm payroll report, not due to the weakness per se, but the rising hopes for additional Congressional stimulus by the end of the year. This was signaled by both parties, although the total likely amount has now fallen below $1 trillion.

Weekly sector results were led by a sharp increase in the shares of energy companies, followed by health care, in the expectation of global demand recovery with a Covid vaccine. Declines for utilities stocks brought up the rear.

November was the best single stock performance month in decades, with the S&P up 11%. Interestingly, the S&P 500 stock index performance has broadened in recent weeks, from only a handful of mega-cap growth stocks in the lead, to over 90% of the index members trading above their 200-day moving average (a common momentum benchmark). This type of strength has tended to be a positive sign, at least as opposed to more narrow leadership.

Foreign stocks earned positive returns, but lagged those in the U.S., despite the boost from the weaker dollar. The U.K. fared best, with a return of several percent, followed by middling results in Europe and emerging markets, while Japan lost a bit of ground. Returns remained cyclical abroad, with strength in commodity-producing countries such as Brazil and Mexico, along with South Korea. Chinese stocks were mixed last week, in keeping with strengthening U.S. restrictions on Chinese investments related to their military, as well as legislation passed by the U.S. House U.S. calling for enhanced regulatory and accounting scrutiny for Chinese firms in order to retain their U.S. listing status.

U.S. bonds experienced weakness last week generally, as the same optimism for fiscal stimulus and vaccine distribution that has boosted equities, has also pushed interest rates higher on the long end of the yield curve. While both treasuries and investment-grade corporates experienced declines, high yield bonds and floating rate bank loans earned positive returns along with risky assets. A decline in the U.S. dollar of -1% helped push the return of foreign sovereign debt into positive territory, especially for emerging market local currency bonds.

The Treasury department has asked the Federal Reserve to end its credit facilities at year end, and return unused funds. While this wasn't taken negatively, it does remove a bit of flexibility. The facilities weren't heavily used, although the 'forward guidance' that a backstop was available if needed appeared far more powerful than the injection of funds physically.

Commodities were mixed for the week, with weaker prices in agriculture offset by gains for energy and metals. The price of crude oil ticked slightly higher to just over $46/barrel, with a moderate OPEC member agreement on early 2021 production designed to balance production with still-low demand. This offset a nearly -10% drop in natural gas, due to benign late fall weather conditions and high supplies on hand.

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.