

Summary

Economic data for the week included inflation that continued to rise slightly (due to commodity prices largely), but still tempered levels on a trailing year basis. Labor metrics improved a bit, but remain challenged relative to pre-Covid levels.

Global stock markets experienced a positive week, with foreign outperforming U.S. equity markets. Domestic bonds fell back as interest rates ticked higher, while foreign bonds benefited from a weaker dollar. Commodities rose across the board, with strong demand and supply concerns, particularly for crude oil.

Economic Notes

(0) The **consumer price index** for January rose by 0.3% on a headline level, but core CPI was unchanged, after reflecting the removal of food and energy prices. For the single month, price declines in lockdown-affected lodging and airfares, which were offset by increases in apparel and medical services. Year-over-year, both headline and core CPI increased at the same rounded rate of 1.4%. Although the underlying components were subject to a far wider degree of dispersion—with used cars up 10%, food costs up 4%, while both apparel and medical costs fell -2%, and energy commodity prices dropping -9%. Over the past six months, however, inflation is picked up by twice its pace compared to the previous six-month period. The amount of M2 in the economy is up over 25% in the past year, with lending and cash payments being infused directly into the economy.

(-) The preliminary February **Univ. of Michigan index of consumer sentiment** report showed a decline of -2.8 points to 76.2, below the median forecast of 80.9. Assessments of current conditions declined slightly, while expectations for the future fell by over -4 points to lead the decline. Expectations for inflation over the next year ticked up by 0.3% to 3.3%, while those for the next 5-10 years were unchanged at 2.7%. The inflation expectations component is noteworthy, and is coupled with rising public concern over wide government fiscal deficits and stimulus in response to Covid. As noted about the expanding size of M2, how this filters into wages and goods and services in the economy remains the critical factor in any inflation development in coming years.

(+) The **JOLTs** job openings report for December showed an increase of 74k to 6.646 mil., including an upward revision for the prior month, and surpassing the median forecast calling for 6.400 mil. jobs. The job openings rate rose a tenth to 4.5%, while the hiring rate fell by -0.3% to 3.9%. On the exiting side, the layoff rate fell a tenth to 1.3%, and the quits rate rose a tenth to 2.3%. Overall, this depicts continued repair in the labor market.

(0) **Initial jobless claims** for the Feb. 6 ending week fell by -19k to 793k from a higher revised level the prior week, surpassing the consensus estimate of 760k. **Continuing claims** for the Jan. 30 week fell by -145k to 4.545 mil., higher than the 4.420 mil. expected. The initial claims number was driven by led by an over-90k jump in OH, and large gains in CA and NY, while the majority of other states experienced declines.

Market Notes

Period ending 2/12/2021	1 Week (%)	YTD (%)
DJIA	1.11	3.00
S&P 500	1.28	4.94
NASDAQ	1.74	9.44
Russell 2000	2.54	16.01
MSCI-EAFE	2.09	3.78
MSCI-EM	2.41	10.78
BBgBarc U.S. Aggregate	-0.13	-1.23

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
2/5/2021	0.03	0.09	0.47	1.19	1.97
2/12/2021	0.04	0.11	0.50	1.20	2.01

U.S. stocks gained ground last week, with positive sentiment appearing to originate from flattening Covid case counts, a pickup in vaccine distribution, optimism about the next fiscal package coming, as well as tempered inflation readings. Earnings continue to come in a bit better than expected, albeit on lowered expectations as is typical, but the speed of the improvement has surprised markets to the upside a bit.

By sector, the week was led by sharp gains in energy (following the price of oil) and communications services (led by the video gaming and social media group), while utilities and consumer discretionary experienced minor declines. Real estate gained over a percent, despite slightly higher interest rates. Small cap stocks again outperformed large caps by about a percent, in keeping with a continued investor rotation toward cyclical assets.

Foreign stocks outperformed U.S. equities last week, with some help from a weaker U.S. dollar. As has been the case lately, sentiment has been driven by U.S. markets and stimulus probabilities, as well as global infection rates and vaccine distribution progress. As an example of the divergence in results by region, the U.K. reported a -10% drop in GDP for 2020, which was more than twice the decline of the U.S. Emerging markets outgained developed markets, with China leading the way, prior to a week-long market closure for the Lunar New Year.

U.S. bond prices fell back along with continued ticks higher in interest rates. Investment-grade corporate fared slightly better than treasuries, while high yield bonds earned slightly positive returns, in closer correlation with equities. Developed market foreign bonds fared positively, almost solely due to a weaker dollar, with emerging market bond returns mixed, and also currency driven.

Commodities rose broadly by several percent last week, led by price gains in energy and industrial metals, while agriculture and precious metals were little changed. The price of crude oil increased by nearly 5% to just under \$60/barrel. It appeared OPEC continued to cut output, while the narrative has moved steadily toward a new 'supercycle' in the space, as demand recovers from the pandemic. Some concerns have surfaced that a Biden Administration green agenda may continue to put downward pressure on U.S. output, resulting in possible shortages and need to potentially import crude—a reversal of the celebrated U.S. 'energy independence' of recent years.

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, Oilprice.com, 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.