

**SUMMARY:** Global equity markets broadly started the year on a cautious note as investors took a pause to process the strong returns of last year's fourth quarter as well as full year 2020. Other headwinds came in the form of further social and political upheaval, and a pick-up in volatility brought about by "short squeezes" in a few stocks. Bond prices were also challenged as investors grew concerned about the possibility of higher inflation from rising federal deficits. Nevertheless, we believe these concerns may be overblown, and while they may cause some short-term disruptions, the post-pandemic outlook looks bright as world economies rebound with the support of government stimulus.

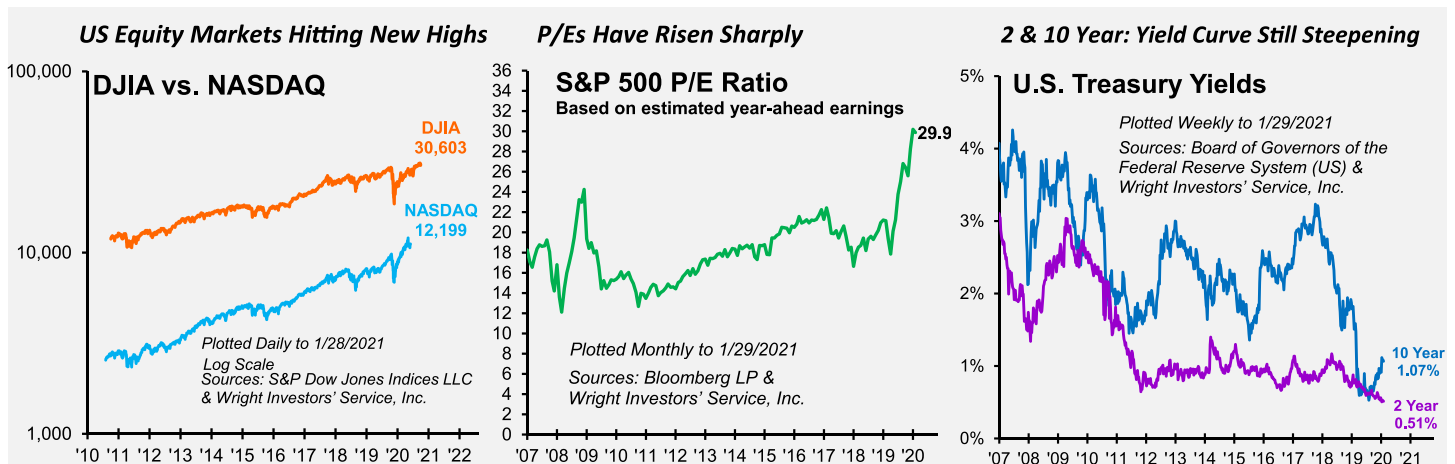
The bull market in U.S. Large-Cap equities hit a speed bump in January while Mid- and Small-Cap equities posted good returns for the month. Much of the decline occurred in the last week of the month, as a "short squeeze" on stocks like GameStop and AMC forced certain market participants to sell stocks to meet margin calls. The Dow Jones Industrial Average returned a negative 2.0% for the month while the S&P 500 lost 1.0%. However, positive returns were registered in the NASDAQ, which finished with a 1.4% gain, the S&P 400 Mid-Cap index, which returned 1.5%, and the S&P 600 Small-Cap index, which jumped 6.3%. Four of the 11 sectors in the S&P 500 had positive returns, led once again by energy stocks, which gained 3.8%. Consumer staples (down 5.2%) and industrials (down 4.3%) were the biggest detractors in the index. Chinese stocks, which were the best performers in 2020, continued to outperform other equity markets in January, climbing 7.4% in dollar terms. Emerging markets gained 1.3%, while Asian stocks ex-Japan rose 0.7%. Japanese stocks lost 1.0% and Eurozone stocks fell 1.8%.

Bonds had mostly negative returns as concerns about renewed inflation, triggered by expectations of more government spending by the Biden Administration, led to lower bond prices and higher yields. In the U.S., the yield on the benchmark 10-year Treasury note rose 16 basis points, ending the month at 1.07%. The yield hovered most of the month above 1.0%, the first time it had breached that level since last March. The Bloomberg

Barclays U.S. Aggregate lost 0.7%. Corporate bonds lost 1.2%. But high-yield bonds gained 0.3% and bank loans returned 1.2%. Outside the U.S., the Bloomberg Barclays Global Aggregate ex-U.S. index lost 1.0%. The dollar, which was mostly weaker in 2020, rebounded slightly in January.

### U.S. ECONOMY

The U.S. economy last year suffered its first annual decline in GDP since 2009 but is expected to rebound in the new year. The strength of that rebound depends a good deal on the fading of the COVID-19 pandemic and continued stimulus from the government. In our opinion, there is also a lot of pent-up demand that should drive economic growth. GDP declined 3.5% in 2020 after climbing at a 4.0% annualized rate in the fourth quarter. Looking ahead, the Federal Reserve's most recent forecast calls for 4.2% growth for the full year, while the Congressional Budget Office is predicting 4.6% growth. In the current quarter, the Atlanta Fed expects a 5.2% annualized pace and the New York Fed estimates a 6.5% rise. January's economic releases were mostly positive. Industrial production rose 1.6% in December, well above expectations and November's 0.5% increase; capacity utilization jumped more than a full percentage point to 74.5%, its highest level since last February, before virus-induced lockdowns. Headline durable goods orders rose 0.2%, weaker than expected, but ex-transportation orders were up 0.7%, higher than forecasts;



## Total Investment Returns — 1/31/2021

	January	Last 12 Mos.
Dow Jones Industrial Average	-2.0%	8.5%
Nasdaq Composite	1.4%	44.1%
S&P 500 Composite	-1.0%	17.2%
S&P MidCap 400	1.5%	18.5%
S&P SmallCap 600	6.3%	23.2%
MSCI World (\$)	-1.0%	15.5%
MSCI World ex U.S. (\$)	-1.1%	8.5%
Bloomberg Barclays U.S. Aggregate	-0.7%	4.7%
90-Day Treasury Bills	0.0%	0.5%
Consumer Price Index NSA* (Dec 2020)	0.1%	1.4%

\*NSA: Not Seasonally Adjusted Sources: Bloomberg LP & Wright Investors' Service, Inc.

core capital goods orders were up by 0.6%, also better than expected. Leading indicators remained in positive territory, rising 0.3%. The Conference Board, which calculates the index, said it "expects the economy to expand by at least 2.0% [annual rate] in Q1 and then gain momentum throughout the year."

### Consumer spending figures for December were weak, which could add impetus for more fiscal stimulus from Washington.

Retail sales fell 0.7%, their third straight monthly decline, although the drop was less steep than the prior month's 1.4% decrease. Personal consumption expenditures fell 0.2% despite a 0.6% rise in personal incomes, which might indicate that consumers will have money to spend in the new year. Possibly as a result, the Conference Board's consumer confidence index rose more than two points in January to 89.3, its first increase in three months. Of course, jobs – and stimulus – will be the main determinants affecting future spending growth, and there the outlook remains cloudy. Nonfarm payrolls fell unexpectedly by 140,000 in December after adding 336,000 jobs the month before, and new jobless claims remain high. Still, while the unemployment rate of

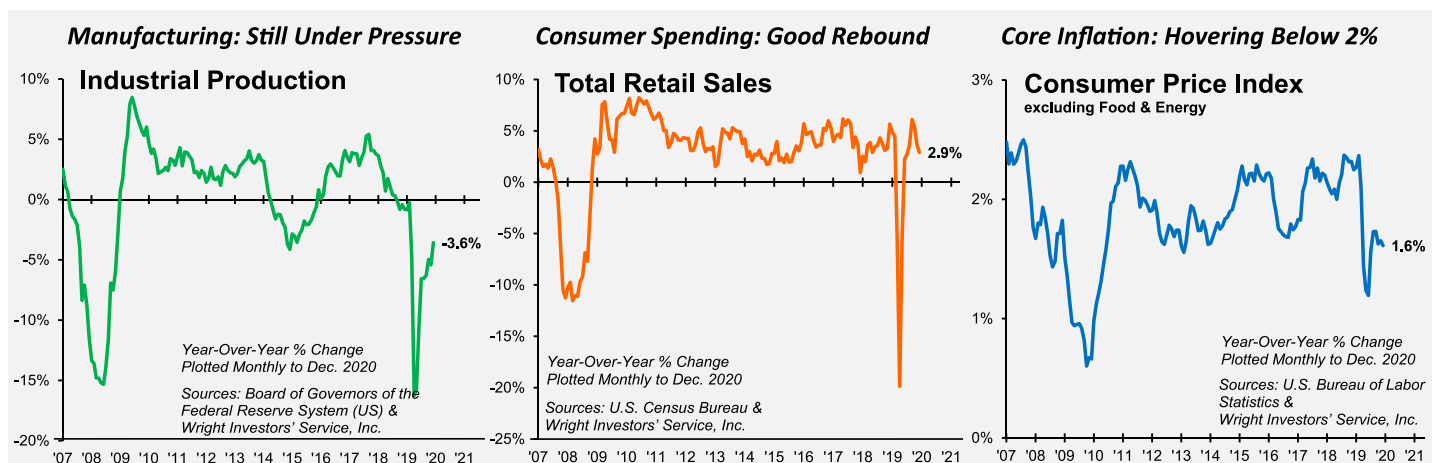
6.7% is about two percentage points higher than what the Fed considers to be full employment, it's a lot lower than it was at the height of last year's lockdowns.

### Despite losing some steam at yearend due to high prices and limited inventory, the housing market turned in its best year since the global financial crisis more than a dozen years ago.

Sales of existing homes rose 0.7% in December to an annual rate of 6.76 million, the highest level since 2006 and up 22.2% over 2019's volume. Pending home sales fell 0.3% for the month but contract signings for the full year were up 21.4%. Home prices jumped at an annual rate of 9.1% in November, the steepest year-over-year increase in more than six years, according to the S&P CoreLogic Case-Shiller home price index. The market for new homes was also strong, climbing 1.6% for the month to an annual rate of 842,000; for the full year, sales of new homes were up 18.8% over 2019's total.

## INVESTMENT OUTLOOK

While market volatility at the end of January and early February was unsettling, we believe long-term investors should view the episode as a short-term sideshow and not be distracted from their goals. It's important to keep in mind that the trading was largely limited to a handful of stocks, and while the general market fell a few days in response, it's unlikely to have any long-term repercussions, we believe. More important is to stay focused on the general condition of the economy, which is improving, and what the government is doing to encourage growth. As we noted above, consensus outlook for economic activity is quite encouraging, helped by the trifecta of pent-up demand, and fiscal and monetary stimuli. That should drive improved corporate earnings and therefore higher stock prices. That's why we maintain a constructive outlook on the markets and continue to believe that the best approach is to hold a diversified portfolio of quality assets for the long-term.



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