CAMMACK RETIREMENT

This Week's Market Moves

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The U.S. equity markets posted solid gains in the first trading week of the new year, despite a disappointing labor market report and political unrest in Washington. Prospects of another fiscal stimulus package drove the 10-year U.S. Treasury yield decisively above the 1.0% level. Below are some additional insights on the markets and the economy from last week:

MARKET EUPHORIA CONTINUES

Stock prices brushed off concerns about rising coronavirus cases and a disappointing employment report, with the major indices hitting fresh all-time highs in the first full trading week of the new year. Markets were bolstered by the prospect of further stimulus, particularly now that the Democrats have won control of the House and the Senate. For the week, the Dow gained 1.7%, the S&P 500 index was up 1.9%, and the NASDAQ rose 2.5%.

10-YEAR TREASURY TOPS 1.0%

U.S. Treasury yields climbed higher, with the 10-year rate rising to 1.11% for the first time since the pandemic hampered the global economy. The 2-year to 10-year Treasury spread also widened to its steepest level since 2017, as the reflation trade gathered momentum after the results of the Georgia runoff elections. Market measures of inflation expectations are also climbing, with the break-even inflation rate rising above 2.0% for the first time since 2018.

JUNK BOND YIELDS HIT HISTORIC LOWS

The rally in risk assets and investors' insatiable appetite for yield in the low interest rate environment has driven average yield on the U.S. junk bond index to its lowest level in history. The effective yield on the ICE BofA U.S. High Yield Index fell to a record low of 4.36% last week, offering very little compensation for taking on additional credit risk in a still uncertain economic environment.

OIL PRICES INCH HIGHER

Oil prices briefly climbed above the crucial $50 per barrel this past week, rising to $52.24. This is the first time that oil prices were above the $50-level since last February. The sharp rise in oil prices was driven by Saudi Arabia's surprise production cut at the OPEC meeting at the beginning of the year. The move lifted the share prices of energy companies, such as Exxon Mobil, Royal Dutch Shell, and Chevron, and led to strong weekly gains in the energy sector last week.

FED MINUTES SUGGEST QE CONTINUES INDEFINITELY

The minutes from the Federal Reserve's December meeting suggested that policymakers will continue to buy Treasuries and mortgages for the foreseeable future, until substantial progress has been made on their employment and inflation goals. This is good news for the financial markets and risk assets in general, as it means the Fed will do whatever it takes to support the recovery.

MANUFACTURING ACTIVITY STRENGTHENS

The Institute for Supply Management (ISM) reported that economic activity surged to a 2½ year high, with the index rising to 60.7 in December. The dividing line between expansion and contraction is 50, so the recent report reflects a strong acceleration in manufacturing activity. Of note, the Prices Paid Index surged to 77.6, up 12.2 points from a month earlier. The sharp increase was driven by a broad-based increase in the prices of raw materials.

JOBLESS CLAIMS REMAIN ELEVATED

The weekly jobless claims report dipped slightly in the final week of 2020, with 787,000 Americans filing for new unemployment benefits. While the report was better than market expectations, the elevated level of filings suggests the labor market is still struggling with the ongoing pandemic. Several states began paying out the extra $300 per week in federal unemployment aid after Congress passed the long-awaited relief package in late December. Additional states are expected to follow suit in the coming weeks.

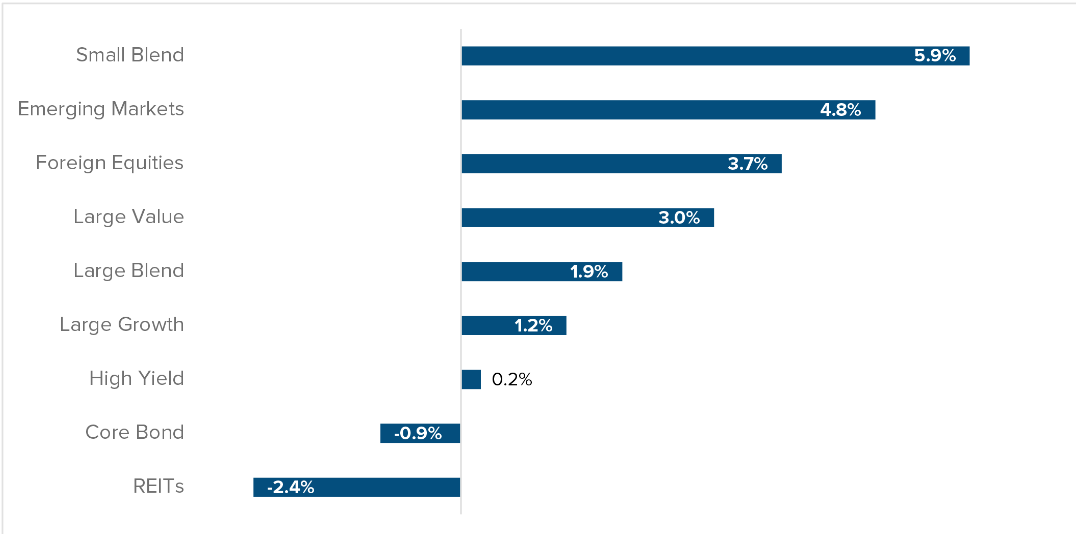
LABOR MARKET RECOVERY STALLS

Labor market conditions deteriorated in December, with the U.S. economy shedding 140,000 jobs. The surprise decline shows the impact that the continued spread of coronavirus cases and targeted restrictions are having on the economy, underscoring the need for additional fiscal relief while the country awaits the vaccine rollout. The unemployment rate remained unchanged at 6.7%.

MORTGAGE DEMAND WEAKENS DESPITE RECORD LOW RATES

Mortgage applications to buy a residence declined 0.8% in the two-week period ending January 1, 2021, as compared to the second week of December, according to the Mortgage Bankers Association. Of note, purchase volume only increased 3% from the same period a year ago. Over the last few months, purchase volume had been more than 20% higher on a year-over-year basis. This suggests that ever increasing house prices may be starting to sideline new home buyers.

TOTAL RETURNS BY ASSET CLASS YTD AS OF JANUARY 8, 2021



Indices: Core Bond: Bloomberg Barclays U.S. Aggregate Index, High Yield: ICE BofA US High Yield, Large Value: Russell 1000 Value Index, Large Blend: S&P 500 Index, Large Growth: Russell 1000 Growth, Emerging Markets, MSCI EM NR USD, Foreign Equities: MSCI ACWI Ex USA NR USD, REITs: FTSE NAREIT All Equity, Small Blend: Russell 2000

Should you have additional questions, please contact your Cammack Retirement Group consultant or info@cammack retirement.com. Note that this article was published on January 11, 2021. Data represented is as of the publication date. The information contained herein has been obtained from sources that are believed to be reliable. However, Cammack Retirement Group does not independently verify the accuracy of this information.

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For more information on our services, please contact **Mike Volo,** Senior Partner, at **781.997.1426** or **mvolo@ cammackretirement.com**.

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