This Week's Market Moves

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The U.S. equity markets ended last week lower as a "flash mob" of retail investors rocked the market, causing headaches for several well-known hedge funds. While regulators and investors try to digest what this new dynamic means for the markets, the volatility and unusual price moves in a handful of stocks caused markets to stumble. Here are some other insights on the market and the economy from last week:

STOCK MARKET JITTERS

The major stock market indices ended the week lower, as concerns about the speculative mania pushing up prices on a handful of individual stocks weighed on sentiment and caused a pullback. A massive spike in the VIX Volatility Index did not help matters, signaling that risk aversion is rising at a time when stock market valuations are at their highest level since the tech bubble. The S&P 500 Index ended the week down 3.3%, with a loss of 1.0% for the month of January.

SHORT SQUEEZE MANIA

The last week has seen a concerted effort by individual traders on forums like Reddit engage in a coordinated short squeeze of certain stocks, such as AMC Theaters (AMC) and GameStop (GME), causing erratic swings in their share price. The premise behind the short squeeze was to pressure hedge funds that shorted these stocks to cover their shorts, massively driving up the price. The unusual price action caused trading platforms, like RobinHood, to restrict trading of these stocks, and others, for liquidity reasons. This has sparked a great deal of outrage and controversy from market participants and drawn the attention of regulators and politicians.

QUIET WEEK FOR THE BOND MARKET

There were no major market moves in the U.S. bond market, as all the activity was centered on the frenzied price action in equities this past week. The 10-year U.S. Treasury yield continues to hover above the 1.0% level, closing the week essentially unchanged at 1.09%. The 2-year Treasury yield also traded sideways, ending the week at 0.11%. More remarkably, the investment grade and high yield bond markets, which tend to be more correlated with equity prices, continued to hold steady.

PROMISING EARLY EARNINGS REPORTS

The fourth-quarter earnings season is off to a good start, with many companies reporting better than expected earnings. According to FactSet, 82% of S&P 500 companies that have reported thus far have had a positive earnings surprise, with many beating estimates by a wider margin than the 5-year average. This has pushed the S&P 500's year-over-year decline in earnings to -2.3% from -4.8% last week. While encouraging news, the upbeat earnings reports failed to inspire the stock market.

NO SURPRISES FROM THE FED

As expected, Fed officials left interest rates unchanged at their meeting this past week. The market eagerly awaited clues from the Fed about when they might exit their $120 billion per month bond-buying program, Chairman Powell made it clear that it is too soon to begin thinking about it in his press conference. While Fed officials expect a strong economic recovery in the second half of the year, monetary policy will remain highly accommodative as near-term risks are still skewed to the downside.

U.S. ECONOMY SHRINKS IN 2020

U.S. economic growth slowed in the fourth quarter to a 4.0% annualized rate, as the nation struggled to contain the spread of the virus. Despite the economy's V-shaped rebound from the pandemic, U.S. growth contracted 3.5% in 2020. This marks the worst year for the economy since World War 2 and the first time that economic growth contracted since the Great Recession nearly a decade ago.

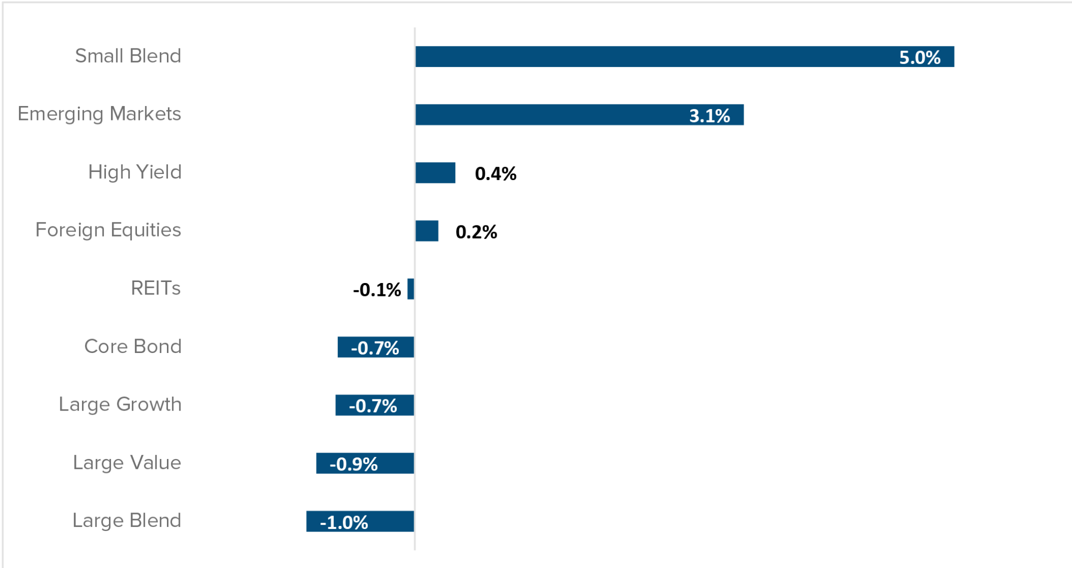
SMALL DECLINE IN JOBLESS CLAIMS

The number of Americans filing for first time unemployment benefits fell slightly to 847,000. Continuing claims, which report those who are already receiving benefits, declined to 4.7 million. While trending in the right direction, the weekly jobless claim filings are nearly four times higher than they were this same week a year earlier, before the pandemic shut down the economy. The number of long-term unemployed, those still looking for work for 27 weeks or more, is also sharply higher at nearly 4 million, up from 1.2 million one year ago.

GAP BETWEEN INCOME AND SPENDING WIDENS

The gap between personal income and household consumption continues to widen. In December, personal incomes, which have been bolstered by the government stimulus programs, climbed 0.6%, while household spending declined 0.2%. While this divergent trend highlights why the economic recovery lost momentum in the final quarter of the year, it could provide a powerful tailwind to growth once the pandemic recedes and businesses are able to fully reopen.

TOTAL RETURNS BY ASSET CLASS YTD AS OF JANUARY 29, 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 February 1, 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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