

In this month's recap: As the month came to a close, stocks were mixed as attention shifted to unprecedented activity around a handful of companies with short-interest positions.

Monthly Economic Update

Presented by Robert W. Romeo, February 2021

U.S. Markets

Stocks were mixed in January, giving up much of the month's gains in the final days of trading, as unprecedented activity in a handful of companies roiled markets.

The Dow Jones Industrial Average dropped 2.04 percent and the Standard & Poor's 500 Index fell 1.11 percent. By contrast, the Nasdaq Composite gained 1.42 percent.¹

Mixed Signals

The stock market stumbled at the start of the month, retreating amid the slow pace of vaccine distribution and concerns that the economic recovery might take longer than anticipated.

However, stocks regained some upside momentum on news of strong manufacturing data, firmer oil prices, and hopes for an additional fiscal stimulus.

"Act Big," Says Yellen

After touching record highs, stocks drifted lower again, weighed down by rising interest rates, which caused some concerns over current stock valuations.

Market sentiment improved after testimony from incoming Treasury Secretary Janet Yellen to the Senate Finance Committee that lawmakers needed to "act big" on fiscal stimulus, thereby raising hopes for substantial federal spending.

Earnings Season

Investor enthusiasm was further supported by a strong start to the fourth-quarter earnings season. With 37 percent of the S&P 500 index companies reporting at month-end, 82 percent reported a positive earnings surprise.

Nonetheless, quarterly reports haven't always translated into higher stock prices. In fact, the share prices of the companies that reported positive earnings surprises fell an average of 1.2 percent in the two days preceding and following the earnings release.^{2,3,4}

Lesson in Short Selling

Stocks closed the month on a volatile note as many retail investors were introduced to the concept of short selling and how it can influence a stock's price. This unexpected buying activity roiled markets and fueled a sharp rise in several stocks.

To sell short, investors are required to open a margin account. Selling short is not suitable for everyone, as margin trading entails greater risk, including the risk of unlimited losses in a position and the incurrence of margin interest debt. You should consider your financial situation and risk tolerance before trading on margin.

Sector Scorecard

Sectors were also mixed, with Energy (+3.75 percent), Health Care (+1.4 percent), Consumer Discretionary (+0.77 percent) and Real Estate (+0.55 percent) posting gains. Consumer Staples (-4.98 percent), Industrials (-4.27 percent), Materials (-2.42 percent), Communication Services (-0.89 percent), Financials (-1.8 percent), Technology (-0.84 percent), and Utilities (-0.88 percent) closed lower.⁵

What Investors May Be Talking About in February

In the month ahead, expect President Biden to continue outlining his agenda. A newly elected president's first 100 days often set the tone for the next four years.

Investors will be looking at his initial priorities as well as how he and Congress will work together. Policy changes can sometimes introduce uncertainty into the markets even as companies wait to learn of new businesses and investment incentives.

TIP OF THE MONTH



At a 4% rate of inflation, expenses will double every 18 years. That's a pretty good argument for growth investing in retirement.

World Markets

Overseas markets were mixed at the start of the year, with the MSCI-EAFE Index gaining 0.56 percent.⁶

In Europe, France lost 2.74 percent while the United Kingdom slipped 0.82 percent. Germany provided a spark, picking up 5.21 percent.⁷

The Pacific Rim markets performed better. Hong Kong gained 3.87 percent and Japan added 0.80 percent. Australia tacked on 0.31 percent.⁸

Indicators

Gross Domestic Product: The nation's economy grew by 4.0 percent in the fourth quarter. For the full year, GDP dropped 3.5 percent.⁹

Employment: Total nonfarm payrolls declined by 140,000, led by losses in the hospitality and leisure sectors. The unemployment rate remained steady at 6.7 percent.¹⁰

Retail Sales: Retail sales fell 0.7 percent. Excluding motor vehicles and gasoline, consumer purchases fell a more substantial 2.1 percent.¹¹

Industrial Production: Industrial production jumped 1.6 percent, well ahead of consensus estimates of a 0.5 percent increase.¹²

Housing: Housing starts increased by 5.8 percent, powered by a 12.0 percent jump in single-family homes.¹³

Existing-home sales reached their highest level in 14 years, with an increase of 0.7 percent in December. Sales were 22 percent higher than in December 2019.¹⁴

New home sales rose by 1.6 percent as the median price of new homes surged by 8.0 percent from a year ago.¹⁵

Consumer Price Index: Consumer prices rose 0.4 percent in December, driven by an 8.4 percent jump in gasoline prices. The inflation rate for 2020 came in at 1.4 percent.¹⁶

Durable Goods Orders: New orders for long-lasting goods increased 0.2 percent. Although it was the eighth straight month of gains, the figure was below expectations, reflecting the general economic softness in December.¹⁷

QUOTE OF THE MONTH



“Believe you can and you’re halfway there.”

THEODORE ROOSEVELT

The Fed

Fed officials believe that economic weakening due to the resurgence of COVID-19 cases is temporary. They also noted that despite the hiccups in the vaccine distribution, they would wait and see how the rollout proceeds in the weeks ahead before considering any actions.¹⁸

“The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals,” Fed officials said in a prepared statement at the conclusion of their two-day meeting on January 27, 2021.¹⁹

MARKET INDEX	Y-T-D CHANGE	January 2020
DJIA	-2.04%	-2.04%
NASDAQ	1.42%	1.42%
S&P 500	-1.11%	-1.11%

BOND YIELD	Y-T-D	March 2020
10 YR TREASURY	+0.17%	1.09%

Sources: Yahoo Finance, January 31, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the

federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

THE MONTHLY RIDDLE



*If an electric train is going south and the wind is blowing north,
what direction is the smoke going?*

*LAST MONTH'S RIDDLE: What do the following six words have in common: fast, away, water, through,
down, neck?*

ANSWER: You can put "break" in front of each of them and make a new word.

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Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

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