



Market Update – January 2021

At Passage Wealth it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

The Federal Reserve Chair Jerome Powell made it clear he will continue to support the bond market, saying "now is not the time" for a discussion to end that help. The Fed further stated that they had learned lessons from the 2013 taper tantrum and would telegraph any changes in their approach with ample guidance (1). This is good news for bond investors as it may help keep bond values stable during periods of equity market volatility.

The holiday shopping season did not go as well as hoped for retailers with sales down 0.7% amid COVID new cases and hospitalization numbers (2). In fact, the economy reported poor sales and consumption numbers in almost every category vs. what is normally expected during December. The good news is that online numbers continued to do OK. This signals that consumers still have some discretionary income and are shifting their buying patterns.

Some of the shopping weakness in December is due to the employment figures as the U.S. lost 140,000 jobs in December, the first monthly loss since April (3). On the positive side, November figures were revised upwards by approximately 90,000. The net impact of all of this was the unemployment rate stayed at 6.7% (4).

In contrast to the retail shopping figures, the manufacturing and industrial recovery continued in December, with both production readings being above consensus expectations. Mild November weather played a bit of a role here in beating December's expectations, but the further recovery helps put manufacturing output only 2.6% below its February peak (5).

The stimulus bill signed in late December will likely ripple through economic data over the first quarter of the year with direct payments, small business programs, and extended unemployment benefits (among other programs) that may reverse the concerning sales and retail data. Further, President Biden unveiled the outline for his economic relief package, which comes in at a cost of \$1.9 trillion with increased direct assistance payments, tax credits, state and local aid, and vaccine distribution funds, (among other programs) (6). As the political process unfolds, we expect negotiations to bring down the dollar figure of the final bill, however any increased aid will likely provide a boost to a slowing recovery.

Bottom line: We continue to see a mix of good and bad news as the economy tries to gain traction in a complicated environment. We believe the economic data is doing well enough to support growth, but periods of equity market volatility should be expected throughout 2021.

- (1) Schneider, H. A. S. (2021, January 14). Fed's Powell: "Not the time" to discuss any change to bond purchases. U.S. <https://www.reuters.com/article/us-usa-fed-powell/feds-powell-not-the-time-to-discuss-any-change-to-bond-purchases-idUSKBN29J2JW>
- (2) Torry, H., & Nassauer, S. (2021, January 15). U.S. Retail Sales Fell 0.7% in December as Covid-19 Cases Rose. WSJ. <https://www.wsj.com/articles/us-economy-december-retail-sales-coronavirus-recovery-11610676272>
- (3) FRED Economic Data. (2021b, January 14). FRED. <https://fred.stlouisfed.org/series/ICSA>
- (4) FRED Economic Data. (2021a, January 8). FRED. <https://fred.stlouisfed.org/series/UNRATE>
- (5) FRED Economic Data. (2020, December 8). FRED. <https://fred.stlouisfed.org/series/OUTMS>
- (6) Rubin, R., & Collins, E. (2021, January 15). Biden Proposes \$1.9 Trillion Covid-19 Relief Package. WSJ. <https://www.wsj.com/articles/biden-to-propose-1-9-trillion-covid-19-package-11610661977>

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