Weekly Market Insights

January 4, 2021

Great Expectations

Hope you all had a very Happy New Year!

Equity Markets

U.S. equity markets closed the year in a subdued fashion but in record territory. Amazingly enough, throughout the year of a devastating pandemic, writing that U.S. equity markets closed in record territory has become common practice. If ever doubters needed proof that markets were anticipatory animals, 2020 was the year that proved it. As you will read in Ryan Schutte's review of economic indicators, investors demonstrated a powerful belief in the recuperative powers of the economy.

Having written about the devastating effects of the pandemic, we have included an interesting chart regarding the progress of vaccines located at the end of this article.

Including dividends, the Dow returned 9.7%, the S&P returned 18.4%, and the NASDAQ returned 43.6% in 2020.

Great Expectations

The pandemic obviously had a long and lasting effect on the economy, both global and domestic. Not only did it create new problems inspiring innovative solutions, but highlighted and accelerated the need to address lingering problems. We divide these into two very broad themes, domestic and global. The domestic themes that must be addressed have been with us for some time, but the pandemic has accentuated them. The global problems are relatively new and very challenging. This week we concentrate on domestic problems and opportunities. The opportunities are the reason for our title, "Great Expectations." Reading the laundry list of opportunities that are available, one might think it like the famous, silk purse from a sow's ear. But these are all possible and just accomplishing a few can make a great difference to economic growth and well-being.

Most of what we list has a cost, and in a time of rapidly rising budget deficits it may appear extravagant. It is important to remember that there are many reasons to go into debt. Most recently, the U.S. went into debt to keep the economy afloat and keep citizens' suffering to a minimum. Most would agree, a worthy cause. Borrowing to achieve what we are writing about is analogous to a private company issuing bonds to buy a new technology, which not only pays for itself, but creates profits.

1) As we have written in the past, the U.S. has long ignored the need for infrastructure spending. It is no secret that our roads, railway systems, bridges, tunnels and harbors are in terrible shape. All inhibit and add expense to commerce of all kinds. Wise infrastructure spending will lower the cost of doing business, add to efficiency, and create well-paying jobs—overtime paying for itself.

2) Both the pandemic and trade difficulties have highlighted the problems that may occur in supply chain management. The idea that the U.S., or any other country, can be self-sufficient is not rational. A lot can be done to create a more secure supply chain system, but it comes at an expense. Aside from the efficiency of infrastructure enhancement, one of the ways to enhance domestic supply chains is through technology. One of the primary reasons to offshore supply chains is the wide differential in labor costs. An answer is the substitution of technology for labor. Since the invention of the wheel, humankind has substituted capital for labor to enhance well-being. The government must do all that is possible to encourage technological investment and innovation; however, the substitution of capital for labor not only has financial costs but human costs. Some, mostly low paying jobs, will be lost, but just as many high paying jobs will be created. The government's obligation is twofold. First, there should be some form of income help. Second, a massive education program should be implemented. During the 2016 presidential campaign, the Trump camp proposed

two excellent ideas. First, encourage the wide ranging network of community and junior colleges to add vocational studies to their curriculum, and, as in countries like Germany, have high-level vocational high schools. The second idea was to create apprenticeship programs between U.S. corporations and these schools. These excellent programs did not materialize after the election. Over time, these programs will easily pay for themselves. While on the subject of education, the entire U.S. educational system can use some work. Higher education in the United States remains at or near the top in drawing students from around the globe; however, our grammar and secondary students continue to sink in world standards. All of these programs will not only pay for themselves, but also boost incomes, enhance GDP growth, add to tax revenue, and lower welfare costs.

Perhaps all are not feasible, but some certainly are. There is a clear opportunity to reaccelerate the U. S. economy, but none of these changes can occur serendipitously. It will take a lot of cooperation, luck and diplomacy to achieve.

All of these programs have the added benefit of enhancing the U.S. position in global trade, which leads us to next week's topic on the rapidly changing global economy.

Economic Indicators

Economic indicators relating to the consumer, employment and small businesses turned lower in December, as the negative impacts resulting from rising coronavirus cases and renewed lockdown restrictions came to fruition.

Consumer confidence declined to 88.6 from 92.9 in the prior month and came in far below consensus estimates of 97. Looking at the details of the report, consumers' outlooks for incomes, businesses, and labor market conditions rebounded to some degree; however, their appraisal of current conditions fell substantially. While December's reading is still above the pandemic low of 85.7 seen in April, we are far from January 2020 levels that exceeded 130. Personal income declined for the second month in a row, falling 1.1% as the effects of income replacement programs put in place earlier this year continued to fade. Household incomes are up 2% from February, yet the renewed virus spread and deteriorating confidence levels seem to have hampered consumers' ability and desire to spend. This showed up in November's consumption expenditures reading with a decline of 0.4% –the first monthly decline since April. Stimulus checks and enhanced unemployment benefits included in the recently-passed stimulus bill will likely provide a boost to these readings in the months ahead.

Small business confidence took a hit as well, with the NFIB Small Business Index falling 3.6 points to 101.4. This comes in stark contrast to a recent report from the Business Roundtable CEO Confidence Index[1] indicating a 22.4 point increase in the 4th quarter to 86.2. Clearly, there is a disparity between large and small businesses' ability to adapt and survive in the COVID environment. While many large companies have turned the corner, small businesses are instead faced with the decision of whether to shut their doors or continue with limited operations until the vaccines are widely distributed to the American public. $325 billion of the $900 billion stimulus bill is allotted to aid small businesses with the hope that these funds can provide a much needed bridge to a more normalized second half of 2021.

The latest retail sales report indicated a 1.1% drop in November, marking its first turn lower since April's unprecedented 14.7% decline. Clothing stores, restaurants, and gas stations weakened the most, a reflection of more homebound consumers from the latest COVID surge. Even the usual lockdown beneficiaries, non-store retailers, home-improvement stores, and grocery stores, managed only marginal gains. Furthermore, after showing steady improvements, higher frequency data from OpenTable is now in a declining trend with reservations down over 70% year-over-year.

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[1]The Business Roundtable CEO Economic Outlook Index is based on a survey — conducted quarterly since the fourth quarter of 2002 — of member CEOs' plans for hiring and capital spending, and their expectations for sales, over the next six months. Taking these factors together, the survey signals the direction of the U.S. economy.

Unemployment insurance claims fell in the holiday week after jumping higher in the first two weeks of December. The rise in claims earlier this month coincided with reports of surging coronavirus cases around the country, and as the virus numbers have calmed more recently, unemployment claims followed. There were 787 thousand first-time claims for unemployment insurance in the latest report, and while these levels are well below the 7 million peak seen in late March, they remain higher than any at other time in history before this year. It is also worth noting that the weekly claims data can be especially volatile during the holiday season due to challenges with the seasonal adjustment. Consequently, the 4-week moving average may be a better metric to focus on. As such, this average has been moving higher in recent weeks, further indicating a loss of momentum in the labor market. The latest COVID relief bill will provide $300 a week in additional unemployment aid and will extend to pandemic-specific unemployment programs used by around 14 million people that would have otherwise expired at year-end. The bill was signed into law by President Trump on December 27, so potential filers did not know with certainty that enhanced unemployment benefits would come to fruition during last week's filing period. This may have encouraged potential filers to hold off another week, so it may not be surprising to see claims data tick higher in the coming weeks.[2]

December's economic indicators took a noticeable turn lower; however, the latest stimulus bill is heavily front-loaded and provides significant aid to consumers and businesses. Furthermore, additional stimulus is expected early in president-elect Biden's term. While continued vaccine distributions provide a light at the end of the tunnel, the road ahead remains a bumpy one to say the least.

[2]Mackrael, Kim. (December 31, 2020). "U.S. Unemployment Claims Fell Modestly Last Week." *The Wall Street Journal. https://www.wsj.com/articles/weekly-jobless-claims-coronavirus-12-31-2020-11609366589?mod=hp_lead_pos1*.

The Different Types of Vaccines in Late Stage Development or Approved for Use Against COVID-19 in The U.S.

Type of Vaccine	mRNA	Viral-Vector	Protein Subunit
How they Work	Messenger RNA instructs the body to make a piece of protein, the body recognizes this as foreign and engages the immune system.	Viral vector (weaken or dead virus) delivers a piece of a virus to the body's immune system which in turn recognizes as foreign and invokes and immune response.	Sends copies of a virus (weaken or dead) to stimulate the body's immune system.
Developer/Team	Pfizer/BioNTech and Moderna	AstraZeneca/Oxford University and JNJ***	Novavax****
Advantages versus Disadvantages	Speed of Development versus Manufacturing, Storage and Transportation	Manufacturing, Storage and Transportation versus Vector Delivery system	Manufacturing, Storage, Transportation versus Speed of Development
FDA Approved Examples	None	Ebola	HPV, Shingles and Influenza

***Merck Phase 1/2
****Sanofi and GlaxoSmithKline Phase 1/2

Phase Three Clinical Trial Results; What we Know so Far

Developer/Team	**Pfizer/BioNTech**	**Moderna**	**AstraZeneca/Oxford University**
Number of Trial Participants	44,000	30,000	11,632 (this trial is not the U.S. based one)
Efficacy rate	95.0% across all ages, genders and race	94.1% across all ages, genders and race	*** 70% total across all ages
Adverse events	Fatigue, headache, muscle/joint pain and injection site reaction.	Fatigue, headache, muscle/joint pain and injection site reaction.	Transitory and non-severe
Total Infection rate Placebo Versus Vaccine (Severe/Hospitalized)	168 Versus 8 (Severe/Hospitalized- 9 versus 1)	185 versus 11 (Severe/Hospitalized- 30 versus 0)	101 versus 30 (Severe/Hospitalized- ?? Versus 0)

*** This trial was confounded by a dosing error (in the U.K.) resulting in different efficacy results among the different doses: initial full dose followed by full dose booster resulted in a 62% efficacy rate versus 50% initial dose followed by full dose booster resulted in a 90% efficacy.