

February 8, 2021

Weekly Viewpoint

February Off to a Strong Start

Performance for Week Ending 2/5/2021

The Dow Jones Industrial Average (Dow) finished up 3.89%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) gained 5.21%, the Standard & Poor's 500 Index (S&P 500) added 4.65% and the Nasdaq Composite Index (NASDAQ) tacked on 6.01%. Sector breadth was positive with all 11 of the S&P sector groups closing higher. The Energy sector (+8.29%) posted the biggest gain followed by Communication Services (+7.26%) and Financials (+6.59%).

| Index* | Closing Price 2/5/2021 | Percentage Change for Week Ending 2/5/2021 | Year-to-Date Percentage Change Through 2/5/2021 |
|---------------|---------------------------|---|--|
| Dow | 31148.24 | +3.89% | +1.77% |
| Wilshire 5000 | 41448.86 | +5.21% | +5.05% |
| S&P 500 | 3886.83 | +4.65% | +3.48% |
| Nasdaq | 13856.30 | +6.01% | +7.51% |

Market Observations: 2/1/21–2/5/21

The major market indices finished the week higher with the S&P 500, Nasdaq and Wilshire all closing the week at new all-time highs. The gains were driven by solid corporate earnings reports, more signs the economic recovery is intact, and optimism surrounding President Biden's push for another round of fiscal stimulus after Congressional Democrats opened the door to using the budget reconciliation process to enact their program.

Labor Markets Slowly Healing: The Labor Department reported that January nonfarm payrolls rose by 49K, well short of the +105K forecast by economists but solidly above the 227K decline in December. The unemployment rate fell to 6.3% from 6.7% in December. It was another strong month temporary, which is notable as the category is often a leading indicator of broader employment gains. The report followed the

initial jobless claims data, which fell for a third consecutive week and currently stands at the lowest level since late-November. Meanwhile, the ADP private payrolls rebounded to 174K in January, more than reversing the decline in the prior month, and above the consensus estimate of 70K. While the January gain was the smallest in the past nine months, it is nonetheless a positive sign that the labor market recovery is regaining traction.

Q4 Earnings – Trend Remains our Friend: Fourth quarter earnings season continues to trend at a better than forecast rate. Through Friday, 292 members of the S&P 500 have released results with 81 percent surprising to the upside. Aggregate earnings are currently up 6.8%, well ahead of the 9% decline that analysts were forecasting in early January. The better than feared results have forced analysts to upwardly revise their quarterly expectations, with current estimates calling for a 3.6% gain when all is said and done. Sector wise, the biggest upside in aggregate earnings growth has come from Real Estate, Materials, Financials, and Consumer Discretionary.

Vaccine News: Late last week, Johnson & Johnson submitted its vaccine to the U.S. Food and Drug Administration for emergency use authorization. The company said it plans to distribute the vaccine to the U.S. government following authorization. It expects to supply 100 million doses to the U.S. in the first half of the year. The application follows the announcement that its single-dose vaccine was 66% effective in preventing moderate to severe Covid-19. A Phase 3 trial of more than 43,000 participants showed it was 85% effective at preventing severe disease. It also prevented hospitalization and death from Covid-19 completely at 28 days following vaccination. Meanwhile, Novavax said it has begun to submit the materials required for emergency authorization by the FDA of its Covid-19 vaccine even as it continues to run its Phase 3 trials in the U.S. Novavax said its shots were 89% effective at preventing the virus in a U.K. study.

The Economic Recovery Remains Intact: While there have been some pockets of economic weakness related to Covid and the resulting lockdowns, the broader economy still appears to be in a durable recovery. The Institute for Supply Management (ISM) reported that the ISM Manufacturing Index fell 1.8 points in January to 58.7 as factory activity moderated somewhat at the start of the year. Still, that was only the second pullback in the index since last April and the current level remains close to its highest since November 2018. Separately, the Markit U.S. Manufacturing PMI increased 2.1 points in January to 59.2, a new record. Meanwhile, construction spending increased 1.0% in December, up now in six of the past seven months. Lastly, the ISM Services Index increased 1.0 point in January to 58.7, the highest level since February 2019, as services activity accelerated at the start of the year. The forward-looking new orders component grew at the fastest rate in six months.

Market View: As we look out over the course of 2021, we believe the bullish narrative remains intact. Through our lens, the economic recovery appears durable, earnings expectations continue to trend higher, and the Federal Reserve is committed to maintain its very accommodative monetary policy for the foreseeable future. In addition, the Covid vaccine is being rolled out, which in turn, will allow the economy to open back up and get people back to work. However, with the S&P 500 trading at record levels and

valuations a bit stretched, a near-term period of consolidation cannot be ruled out. If a pullback were to occur, we would view it as corrective in nature and not the start of a broader leg lower. Hence, a pullback would be viewed as a buying opportunity as we continue to believe the return profile over the next 12 to 24 months favors additional upside.

The Week Ahead: The coronavirus pandemic will remain top-of-mind in the week ahead, as case counts have been declining and vaccinations are ramping up. Stimulus talks will also be monitored closely after Congressional Democrats opened the door to using the budget reconciliation process, which needs a simple party-line vote, to enact their stimulus program. It will be a relatively quiet week in terms data flow. Highlights on the calendar include the January Consumer Price Index (CPI), Jobless claims, and the University of Michigan Sentiment report. Earnings season will begin to wind down with 80 members of the S&P 500 scheduled to release results. Included in this group is three components of the Dow. While it will be a slow week for Fed speak, all eyes are expected to be on Fed Chairman Powell's speech at the Economic Club of New York on Wednesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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