

January 25, 2021

Weekly Viewpoint

Fed on Deck but No Changes Expected

Performance for Week Ending 1.22.2021

The Dow Jones Industrial Average (Dow) finished up 0.59%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) gained 2.0%, the Standard & Poor's 500 Index (S&P 500) added 1.94% and the Nasdaq Composite Index (NASDAQ) tacked on 4.19%. Sector breadth was mixed with 6 of the 11 S&P sector groups closing higher. The Communication Services sector (+6.11%) posted the biggest gain while the Energy sector (-5.53%) was the biggest loser.

Index*	Closing Price 1/22/2021	Percentage Change for Week Ending 1/22/2021	Year-to-Date Percentage Change Through 1/22/2021
Dow	30996.98	+0.59%	+1.28%
Wilshire 5000	40783.59	+2.00%	+3.36%
S&P 500	3841.47	+1.94%	+2.27%
Nasdaq	13543.06	+4.19%	+5.08%

Market Observations: 1/18/21–1/22/21

The major market indices finished the week higher with the tech-heavy Nasdaq Composite pacing the gains. Driving the upside was the smooth transition in political power, a solid kick-off to fourth quarter earnings season, and a batch of economic data showing the US economy remains on firm footing. President Biden kicked off his first days in office by issuing a flurry of executive orders that included rejoining the World Health Organization and the Paris Climate Accord, while extending the eviction moratorium to aid those struggling from the pandemic fallout. The new administration also vowed to ramp up vaccination efforts with a goal of 100 million vaccinations in the first 100 days.

Shares were also buoyed by hopes of an additional stimulus spending after Treasury Secretary nominee Janet Yellen told lawmakers at her confirmation hearing that the benefits of a big package outweigh the costs of a higher debt burden. Yellen said she'd focus on America's workers as Treasury Secretary, adding that

providing assistance for the unemployed and small businesses would provide the "biggest bang for the buck." The former Fed Chair also tamped down some fears about a sweeping slate of higher taxes under the Biden administration, saying it would not pursue a complete repeal of the 2017 Trump tax cuts, a concern that has plagued investors in recent weeks.

Q4 Earnings – So Far, So Good: Earnings season kicked off in earnest last week and, so far, results are trending at a better than feared pace. Through Friday, 68 members of the S&P 500 have released results with 86 percent surprising to the upside. While it is still too early to draw any firm conclusions, aggregate earnings growth is up +0.2% but still solidly ahead of the 8.9% decline that analysts were forecasting at the start of the month. Sector wise, the biggest upside in aggregate earnings growth has come from Financials, Consumer Staples, and Consumer Discretionary.

Despite Some Headwind, the Economic Recovery Remains Intact: While we have seen some bouts of economic weakness related to Covid and the related lockdowns, the broader economy still appears to be in a durable recovery. The manufacturing sector entered the New Year with solid momentum. Last week the Philadelphia Fed manufacturing survey increased by 17.4pt to +26.5 in January (note – reading above zero signal expansion), solidly above expectations for a more modest increase. The “guts” of the report were also strong with shipments, new orders, and employment all posting solid gains. Meanwhile, on Friday the Markit flash U.S. Manufacturing PMI climbed to 59.1 in January, the highest-level dating back to 2007. The housing market also remains a bright spot. The National Association of Realtors reported that existing home sales during December increased 0.7% to a 6.76-million-unit annual rate, close to the highest level since March 2006, and well above the consensus forecast of a 6.55-million-unit rate. The report followed data earlier in the week showing that housing starts jumped 5.8% in December to a 1.669-million-unit annual rate, the highest level since September 2006. The December report marked the seventh increase in the past eight months.

Market View: As we look out over the course of 2021, we believe the bullish narrative remains intact. Through our lens, despite some near-term headwinds, the economic recovery appears durable, earnings expectations continue to trend higher, and the Federal Reserve is expected 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 just off 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 focal point for the upcoming week will be the two-day Federal Open Market Committee (FOMC) meeting on Tuesday and Wednesday. While no materials changes to policy are expected, investors will parse the after-meeting statement for clues on the timetable for tapering bond purchase. Fed Chair Powell has recently tamped down expectations and is likely to reiterate that it is still premature to contemplate a potential timeline given the challenging near-term outlook and remaining

uncertainties. Earnings season will move to the front burner with 120 members of the S&P 500 scheduled to release results. Highlights of the data calendar include; January Consumer Confidence, December Durable Goods Orders, Jobless Claims, the initial reading on Q4 GDP, December Leading Economic Indicators, December New Home Sales, Personal income and spending during December, and the University of Michigan Sentiment reading for January. Also, likely to get a lot of press will be an online event called The Davos Agenda. The speaking lineup will include Chinese President Xi Jinping, German Chancellor Merkel and French President Macron. Several central bankers will also make an appearance, including Bank of Japan Governor Kuroda, ECB President Lagarde and Bank of England Governor Bailey.

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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