

January 11, 2021

Weekly Viewpoint

New Year, Same Rally

Performance for Week Ending 1/8/2021

The Dow Jones Industrial Average (Dow) finished up 1.61%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 2.36%, the Standard & Poor's 500 Index (S&P 500) gained 1.83% and the Nasdaq Composite Index (NASDAQ) tacked on 2.43%. Sector breadth was positive with 7 of the 11 S&P sector groups closing higher. The Energy sector (+9.31%) posted the biggest gain while the Real Estate sector (-2.55%) was the biggest loser.

Index*	Closing Price 1/8/2021	Percentage Change for Week Ending 1/8/2021	Year-to-Date Percentage Change Through 1/8/2021
Dow	31097.97	+1.61%	+1.61%
Wilshire 5000	40386.09	+2.36%	+2.36%
S&P 500	3824.68	+1.83%	+1.83%
Nasdaq	13201.98	+2.43%	+2.43%

Market Observations: 1/4/21–1/8/21

Despite a wobbly first day of trading in the New Year, the major market indices finished the week solidly higher with all four indices closing the week at a new all-time high. Driving the gains was the conclusion of the election process, the ongoing rollout of the Covid vaccine, and the newly approved \$900 billion fiscal stimulus package. Investors brushed off a wave of violence in Washington as they looked ahead to the prospect of more stimulus efforts and less political volatility under the Biden administration.

Blue Ripple: In addition to the Presidential election results being certified by Congress, last week saw the runoff races for Georgia's two Senate seats. Expectations ahead of the runoff were for the Republicans to capture one of the two races and therefore maintain their slight majority in the Senate. While the races were very close, the Democratic candidates ultimately prevailed, leaving the Senate with 50 Democrats and 50

Republicans. Despite the even split, Democrats will have effective control as Vice President elect Kamala Harris would have the deciding vote in the case of a tie. However, due to the razor thin majorities in both the House and Senate, major policy initiatives are not likely to occur. In addition, moderate members of both parties could hold all the cards on certain votes. As an example, Democratic Senator Joe Manchin of West Virginia seemed to flex his newfound power on Friday, saying he is not committed to sending out additional stimulus checks unless they are targeted to people who need them the most.

Payrolls Dip but Likely to Prove Temporary: On Friday, the Labor Department reported that nonfarm payrolls during the month of December fell by 140K, the first decline in job growth since April, when payrolls dropped by over 20 million. The bulk of the job losses during the month came from the leisure and hospitality sectors, which shed 498K jobs reflecting cold weather, rising Covid infections and new restrictions on businesses. The unemployment rate held steady at 6.7% versus expectations for a mild increase to 6.8%, as the lockdown related losses were offset by strong job growth in such industries as manufacturing (+38K), construction (+51K) and even retail (+120.5K). While the setback in nonfarm payrolls was disappointing, the weakness is likely to prove temporary as the Covid-19 vaccine becomes widely available and consumers resume activities such as dining out and travel.

Market View: As we look out over the course of 2021, we believe the bullish narrative remains intact. Through our lens, the economic recovery remains 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 at record levels, 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 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 remains asymmetrical, favoring the upside.

The Week Ahead: With the election now behind us, coronavirus headlines will likely move back to the front burner. Despite the vaccine rollout, Covid cases and deaths are still surging in much of the world, leading to new lockdowns. Germany has extended its lockdown and tightened restrictions; England was ordered into a third lockdown; and Japan declared a state of emergency for Tokyo and adjacent areas. New York's Governor Andrew Cuomo expressed a universal worry about the new U.K. strain, now active in many countries including the U.S., calling it a potential "game-changer." On the data docket, reports of interest include; the December Consumer Price Index, the January Empire Manufacturing Index, the December Retail Sales, the December Producer Price Index, and the University of Michigan's reading on sentiment. The Fed speaking calendar will be robust with over a dozen presentation scheduled, including Fed Chair Powell on Thursday. Also of note will be the release of the Fed's Beige Book report 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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