

December 14, 2020

Weekly Viewpoint

Vaccine Approval is a Healthy Development for the Path Forward

Performance for Week Ending 12.11.2020

The Dow Jones Industrial Average (Dow) finished up 1.03%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 1.70%, the Standard & Poor's 500 Index (S&P 500) gained 1.67% and the Nasdaq Composite Index (NASDAQ) tacked on 2.12%. Sector breadth was positive with 9 of the 11 S&P sector groups closing higher. The Energy sector (+4.46%) was the best performer followed by Healthcare (+2.84%) and Technology (+2.78%).

Index*	Closing Price 12/11/2020	Percentage Change for Week Ending 12/11/2020	Year-to-Date Percentage Change Through 12/11/2020
Dow	30046.37	-0.57%	+5.28%
Wilshire 5000	38481.00	-0.57%	+17.01%
S&P 500	3663.46	-0.96%	+13.39%
Nasdaq	12377.87	-0.69%	+37.95%

Market Observations: 12/7/20–12/11/20

After ending the prior week at new all-time highs, stocks reversed course to finish the week modestly lower. Driving the losses was the impasse in fiscal stimulus talks and surging Covid cases, which left investors worried that the economic recovery may hit an “air pocket.” Late last week, New York Governor Andrew Cuomo announced that indoor dining in New York City would be halted starting on Monday (12/14), as the number of Covid-19 cases and hospitalizations reached levels not seen since May. Pennsylvania also announced a suspension of indoor dining and gyms until January 4th.

While stimulus talks continued, further lockdowns are likely to encourage lawmakers to get a deal done sooner than later. The selling pressure throughout the week was very orderly, suggesting some well-deserved profit taking and not necessarily the beginning of a major leg lower. Also, favorable vaccine news likely tempered the losses. The vaccine from Pfizer and Germany's BioNTech won approval Thursday from a Food and Drug Administration advisory committee and was recommended for emergency use authorization. The FDA followed through and granted the authorization late-Friday. According to media reports, the vaccination process around the country will begin early this week with frontline healthcare workers and the elderly scheduled to receive the first shots. While the broader population is not likely to receive the vaccine until late-March or early April, the rollout should put the economy on a path to reopening and economic normalization.

Market View: Despite the tug of war between the rollout of a Covid vaccine and the recent surge in cases, we continue to maintain a favorable outlook for the markets. Equity markets tend to look forward and the key is to look beyond the next 3-4 weeks or even the next 3-4 months and to focus on how things will look like in the next 3 to 4 quarters. Through our lens, the economic recovery remains intact, earnings expectations continue to move higher, and the Federal Reserve is expected to maintain its very accommodative monetary policy for the foreseeable future. In addition, the Covid vaccine is now being rolled out and the odds that policymakers will reach an “eleventh hour” fiscal stimulus package remain favorable. While a near-term period of consolidation can not be ruled out, we continue to believe the return profile over the next 12 to 24 months remains asymmetrical, favoring the upside.

The Week Ahead: The focal point in the coming week will be the two-day FOMC meeting scheduled for Tuesday and Wednesday. While no changes in interest rates or the pace of bond buying activity are expected, the latest Summary of Economic Projections could show upgrades to growth and unemployment forecasts. Covid-19 developments will continue to dominate attention with the FDA scheduled to meet on Thursday to discuss an Emergency Use Authorization for the Moderna vaccine. Reports of interest on the data calendar include; the December Empire Manufacturing Index, November Import/Export price data, November Industrial Production, November Retail Sales, November Housing Starts and Building Permits, the December Philly Fed Index, and the November Leading Economic Indicators Index. The earnings calendar will be relatively quiet with just five members of the S&P 500 scheduled to release quarterly results.

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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