

December 21, 2020

# Weekly Viewpoint

## Markets Well Positioned Heading into 2021

### Performance for Week Ending 12.18.2020

The Dow Jones Industrial Average (Dow) finished up 0.44%, the Wilshire 5000 Total Market Index<sup>SM</sup> (Wilshire 5000<sup>SM</sup>) added 1.69%, the Standard & Poor's 500 Index (S&P 500) gained 1.25% and the Nasdaq Composite Index (NASDAQ) tacked on 3.05%. Sector breadth was positive with 9 of the 11 S&P sector groups closing higher. The Technology sector (+3.20%) posted the biggest gain while the Energy sector (-4.26%) was the biggest loser.

Index*	Closing Price 12/18/2020	Percentage Change for Week Ending 12/18/2020	Year-to-Date Percentage Change Through 12/18/2020
Dow	30179.05	+0.44%	+5.75%
Wilshire 5000	39130.65	+1.69%	+18.99%
S&P 500	3709.41	+1.25%	+14.81%
Nasdaq	12755.64	+3.05%	+42.16%

### Market Observations: 12/14/20–12/18/20

The major market indices finished the week higher reflecting the approval of a second Covid vaccine and growing hope DC policymakers will roll out a new fiscal stimulus package in the coming days. Late in the week, Senate Majority Leader Mitch McConnell said a deal "appears to be close at hand." According to Bloomberg news, the current bill framework is around \$900bn with \$600 of direct payments for individuals, \$300-per-week in supplemental unemployment insurance payments and separate aid for small businesses, as well as about \$17 billion for airlines. The bill does not include aid to state and local governments or lawsuit liability protection, both of which have held up talks for weeks.

While stimulus talks continued into the weekend, economic data of late is starting to wave a yellow flag. Last week, the Labor Department reported that weekly initial jobless claims rose 32K to 885K, the fourth gain in the past 5 weeks, and the highest level since early September. In addition, the Conference Board Index of Leading Economic Indicators (LEI), a basket of 10 economic indicators that tend to lead changes in economic activity, grew 0.6% during the month of November, the lowest reading since April. The November LEI reading, while still growing, suggests that the economic recovery is beginning to stall. This was also underscored by the 1.1% drop in November retail sales. The weaker than expected reading suggests that new lockdowns and surging Covid cases are weighing on consumer activity. Even though the rollout of the vaccine has started, the bulk of Americans probably will not be vaccinated until at least the middle of next year. In the meantime, additional fiscal stimulus is needed to help bridge the gap.

**FOMC Meeting:** At the conclusion of last week's Federal Open Market Committee (FOMC) meeting, Fed Chairman Jerome Powell pledged that the central bank would keep providing support to the U.S. economy. The Fed said it would maintain its pace of bond buying program, currently at \$120 billion a month, and said its broader strategy of accommodation would continue until it meets its employment and inflation goals. Powell said he expects the economy to rebound at a healthy pace in the second half of 2021 as vaccines become widely available. The Fed committee boosted their outlook for economic growth next year to 4.2% from 4% and lowered the expected year-end unemployment rate from 5.5% to 5%. During the follow-up press conference Fed Chair Powell reiterated that the case for an additional fiscal stimulus is "very strong," adding "I certainly would welcome the work Congress is doing right now."

**Market View:** As we enter into 2021, we maintain our favorable outlook for the equity markets and still believe there is money to be made. 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 now being rolled out, and in turn, will allow the economy to open back up and get people back to work. 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 surge in Covid cases, the rollout of the vaccine and the progress being made on the fiscal stimulus package will all remain front and center during the holiday shortened week. Reports of interest on the data front, include; the final reading on third quarter GDP, December consumer confidence, November existing home sales, November durable goods orders, November personal income & spending, November new home sales, and the University of Michigan sentiment index. There are no Fed speeches scheduled and only 5 members of the S&P 500 are scheduled to release quarterly earnings.

## 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 Index**<sup>SM</sup> 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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