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Market Month: February 2021

The Markets (as of market close February 26, 2021)

February began on a high note as investors drew encouragement from strong fourth-quarter earnings reports and encouraging employment data. However, news was not all positive. The COVID-related death toll in the United States reached 500,000. Nevertheless, two vaccines were rolled out last month, with a third one on tap for release in March.

While rhetoric surrounding additional fiscal stimulus continued throughout the month, February saw no congressional deal reached. However, the Federal Reserve continued to offer assurances that continued accommodative measures would remain in place for the foreseeable future.

February saw crude oil and gasoline prices surge. COVID-19 hit economies hard and restricted travel, which limited the demand for oil and gas. In response, several oil-producing countries slashed oil production. However, despite economies gradually recovering and travel picking up, oil-producing nations have been slow to increase production, causing crude oil and gas prices to climb.

Last month also offered more evidence that the economy is slowly regaining some positive momentum. The employment report included the addition of about 50,000 new jobs. The number of unemployed continues to drop, but remains significantly above pre-pandemic levels. The fourth-quarter GDP advanced 4.1%. Industrial production advanced for a second consecutive month, and the housing sector maintained impressive strength.

Despite closing the month on a downturn, stocks ended February in the black. The small caps of the Russell 2000 added 6.1%, followed by the Global Dow, the Dow, the S&P 500, and the Nasdaq. The Russell 2000 remains well ahead of its 2020 closing value, followed by the Global Dow, the Nasdaq, the S&P 500, and the Dow.

The market sectors ended the month mixed, with energy advancing 16.1%, followed by financials (8.4%), real estate (3.2%), industrials (3.2%), and communication services (2.6%). Both consumer discretionary and utilities lost 5.9%. Health care dropped 3.6%, followed by information technology (-2.5%), consumer staples (-1.4%), and materials (-0.2%).

The yield on 10-year Treasuries gained 37 basis points. The dollar inched ahead, and crude oil prices surged past \$60.00 per barrel after climbing over 18.0% in February. Gold fell for the second consecutive month.

The national average retail price for regular gasoline was \$2.633 on February 22, \$0.241 higher than the January 25 selling price of \$2.392, and \$0.078 more than a year ago.



Key Dates/Data Releases

3/1: Markit PMI

Manufacturing Index

3/3: Markit PMI Services Index

3/5: Employment situation, international trade in goods and services

3/10: Treasury budget, Consumer Price Index

3/11: JOLTS

3/12: Producer Price Index

3/16: Retail sales, industrial production, import and export prices

3/17: Housing starts, FOMC statement

3/22: Existing home sales

3/23: New home sales

3/24: Durable goods orders

3/25: GDP

3/26: Personal income and outlays, international trade in goods

Stock Market Indexes

Market/Index	2020 Close	Prior Month	As of February 26	Monthly Change	YTD Change
DJIA	30,606.48	29,982.62	30,932.37	3.17%	1.06%
Nasdaq	12,888.28	13,070.69	13,192.35	0.93%	2.36%
S&P 500	3,756.07	3,714.24	3,811.15	2.61%	1.47%
Russell 2000	1,974.86	2,073.64	2,201.05	6.14%	11.45%
Global Dow	3,487.52	3,455.84	3,667.77	6.13%	5.17%
Fed. Funds target rate	0.00%-0.25%	0.00%-0.25%	0.00%-0.25%	0 bps	0 bps
10-year Treasuries	0.91%	1.09%	1.46%	37 bps	55 bps
US Dollar-DXY	89.84	90.57	90.91	0.38%	1.19%
Crude Oil-CL=F	\$48.52	\$52.17	\$61.63	18.13%	27.02%
Gold-GC=F	\$1,893.10	\$1,847.30	\$1,731.10	-6.29%	-8.56%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Month's Economic News

- Employment:** Employment added 49,999 new jobs in January after decreasing by 140,000 in December. In December, the unemployment rate fell by 0.4 percentage point to 6.3%, and the number of unemployed persons decreased by 600,000 to 10.1 million. Although both measures are much lower than their April highs, they remain well above their pre-pandemic levels in February 2020 (3.5% and 5.7 million, respectively). Among the unemployed, the number of persons on temporary layoff decreased in January to 2.7 million. This measure is down considerably from the recent high of 18.0 million in April but is 2.0 million higher than its February 2020 level. In January, the number of persons not in the labor force who currently want a job, at 7.0 million, was little changed over the month (7.3 million in December) but is 2.3 million higher than in February 2020. In January, the number of employed persons who teleworked because of the coronavirus pandemic edged down to 23.2%, 0.5 percentage point lower than December. In January, 14.8 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic. This measure is 1.1 million lower than in December. In January, notable job growth occurred in professional and business services (97,000), local government education (49,000), management and technical consulting services (16,000), computer systems design and related services (11,000), and scientific research and development services (10,000). In January, employment in leisure and hospitality declined by 61,000, following a steep decline in December (-536,000). The labor force participation rate and the employment-population ratio were little changed over the month, at 61.54% and 57.5%, respectively. Average hourly earnings increased by \$0.06 to \$29.96 in January and are up 5.4% from a year ago. The average work week increased by 0.3 hour to 35.0 hours in January.
- Claims for unemployment insurance continued to drop in February. According to the latest weekly totals, as of February 20 there were 4,419,000 workers receiving unemployment insurance benefits, down from the January 23 total of 4,881,750. The insured unemployment rate fell 0.3 percentage point to 3.1%. During the week ended February 6, Extended Benefits were available in 18 states (19 states during the week of January 9); 51 states reported 7,518,951 continued weekly claims for Pandemic Unemployment Assistance benefits (7,334,193 in January), and 51 states reported 5,065,890 continued claims for Pandemic Emergency Unemployment Compensation benefits (3,863,548 in January).
- FOMC/interest rates:** The Federal Open Market Committee did not meet in February and is scheduled to meet during the third week of March. It will bear watching how the Committee responds to signs that the economy and inflationary pressures are showing signs of picking up steam.
- GDP/budget:** The gross domestic product advanced at an annual rate of 4.1% in the fourth quarter of 2020. The GDP increased 33.4% in the third quarter after contracting 31.4% in the second quarter. Consumer spending, as measured by personal consumption expenditures, increased 2.4% in the fourth quarter after surging 41.0% in the third quarter. Nonresidential (business) fixed investment climbed 14.0% following a 22.9% increase in the third quarter; residential fixed investment continued to advance, increasing 35.8% in the fourth quarter after soaring 63.0% in the prior quarter. Exports advanced 21.8% in the fourth quarter (59.6% in the third quarter), and imports increased 29.6% in the fourth quarter

(93.1% in the third quarter). Federal nondefense government expenditures decreased 8.9% in the fourth quarter following a third-quarter decline of 18.3% as federal stimulus payments and aid lessened. The GDP fell 3.5% in 2020 after increasing 2.2% in 2019. Personal consumption expenditures dropped 2.63%; nonresidential fixed investment declined 0.53%; residential fixed investment rose 0.23%; exports dropped 1.47%; imports rose 1.33%; and nondefense government spending advanced 0.14%.

- The federal budget deficit in January came in at a smaller-than-expected \$162.8 billion, but is still five times higher than the January 2020 deficit of \$32.6 billion. The deficit for the first four months of fiscal year 2021, at \$735.7 billion, is \$346.5 billion, or nearly 89%, higher than the first four months of the previous fiscal year. Through January, government outlays, at \$547.5 billion, were 35% above the January 2020 figure, while receipts increased only 3%. Economic Impact Payments of \$139 billion were a major contributor to the increased January outlays.
- **Inflation/consumer spending:** Inflationary pressures showed definite signs of increasing in January. According to the latest Personal Income and Outlays report, personal income climbed 10.0% in January, and disposable personal income advanced 11.4% after each index increased 0.6% in December. Consumer spending increased 2.4% in January after falling 0.4% the previous month. Consumer prices edged up 0.3% in January after climbing 0.4% in December. Over the last 12 months, consumer prices increased 1.5%, personal income advanced 6.1%, while personal consumption expenditures (consumer spending) dipped 2.7%.
- The Consumer Price Index climbed 0.3% in January after advancing 0.2% (revised) in December. This is the largest monthly gain since August 2020. Over the 12 months ended in January, the CPI rose 1.4%. The increase in the index was driven by a 7.4% increase in gasoline prices. The food prices rose marginally in January, edging up just 0.1%. The CPI less food and energy prices was unchanged in January, but is up 1.4% over the past 12 months. In January, prices for apparel rose 2.2% (0.9% in December), while prices for new vehicles and used cars and trucks dropped 0.5% and 0.9%, respectively.
- Prices that producers receive for goods and services advanced 1.3% in January — the largest monthly increase in the history of the index. Producer prices increased 1.7% for the 12 months ended in January 2021, which is the largest yearly gain since climbing 2.0% for the 12 months ended in January 2020. Producer prices less foods, energy, and trade services rose for the ninth consecutive month after advancing 1.2% in January. Food prices increased 0.2% in January, while energy prices climbed 5.1%.
- **Housing:** The housing sector continued to advance in January. Sales of existing homes rose 0.6% in January after climbing 0.7% in December. Over the past 12 months, existing home sales increased 23.7%. The median existing-home price was \$303,900 in January (\$309,800 in December), up 14.1% from January 2020. Unsold inventory of existing homes fell 25.7% from January 2020 and represents a 1.9-month supply at the current sales pace, a record low. Sales of existing single-family homes also increased, climbing 0.2% in January after advancing 1.4% in December. Year over year, sales of existing single-family homes rose 23.0%. The median existing single-family home price was \$308,300 in January, up from \$272,200 in December.
- New single-family home sales also advanced, climbing 4.3% in January after advancing 1.6% in December. Sales of new single-family homes have increased 19.3% since January 2020. The median sales price of new single-family houses sold in January was \$346,400 (\$353,100 in December). The January average sales price was \$408,800 (\$394,900 in December). The inventory of new single-family homes for sale in January represents a supply of 4.0 months at the current sales pace, down slightly from the December estimate of 4.1 months.
- **Manufacturing:** The manufacturing sector is clearly trending upward. Industrial production advanced 0.9% in January after climbing 1.6% in December. Manufacturing output rose 1.0%, mining production advanced 2.3%, while the output of utilities declined 1.2%. Total industrial production in January was 1.8% lower than it was a year earlier and 1.8% below its January 2020 reading. Notable increases in January include machinery output (0.5%), aircraft output (2.9%), consumer goods (0.7%), and materials (1.3%).
- For the ninth consecutive month, new orders for durable goods increased in January, soaring 3.4% following a 1.2% jump in December. Transportation, up eight of the last nine months, led the increase, advancing 7.8%. New orders for aircraft drove the transportation sector. New orders for nondefense aircraft and parts vaulted 389.9% in January, while new orders for defense aircraft and parts climbed 63.5%. Excluding transportation, new orders increased 1.4%. Excluding defense, new orders increased 2.3% in January (1.4% in December). New orders for capital goods increased 8.5% in January after falling 1.2% in December.
- **Imports and exports:** Both import and export prices rose higher in January for the second consecutive month. Import prices climbed 1.4% in January following a 1.0% increase the prior month. The January increase was the largest monthly advance since March 2012. Import fuel prices rose 7.4% in January

following an 8.1% increase in December. Despite the recent increases, import fuel prices decreased 13.4% for the year ended in January. Nevertheless, the 12-month decrease in fuel prices was the smallest over-the-year drop for the index since February 2020. Nonfuel import prices rose 0.8% in January following a 0.4% advance the previous month. Export prices advanced 2.5% in January after advancing 1.3% in December. The price index for exports rose 2.3% for the year ended in January, the largest 12-month increase since the index advanced 3.1% in October 2018. Agricultural export prices increased 6.0% in January following a 0.9% advance in December. Nonagricultural exports rose 2.2% in January, the largest one-month increase since the index was first published monthly in December 1988.

- In January, the international trade in goods deficit was \$83.7 billion, up 0.7% over December's deficit. Exports increased 1.4% and imports advanced 1.1%. For the 12 months ended in January, exports have fallen 0.7%, while imports have jumped 8.2%.
- The latest information on international trade in goods and services, out February 5, is for December and shows that the goods and services trade deficit was \$66.6 billion, 3.5% under the November deficit. December exports were \$190.0 billion, or 3.4%, more than November exports. December imports were \$256.6 billion, or 1.5%, more than November imports. For 2020, the goods and services deficit was \$678.7 billion, up \$101.9 billion from the 2019 deficit. Exports were \$2,131.9 billion, down \$396.4 billion from 2019. Imports were \$2,810.6 billion, down \$294.5 billion from 2019.
- **International markets:** Economic recovery from the devastation caused by the COVID-19 pandemic has been slow to ramp up. The gross domestic product for the Eurozone was at an annualized rate of -0.6% for the fourth quarter and -5.0% for 2020. Within this group, the fourth-quarter GDP for France fell 1.3%, Italy dipped 2.0%, and Austria plunged 4.3%. On the other hand, the fourth-quarter GDP for Germany and Spain advanced 0.1% and 0.4%, respectively. In China, the Consumer Price Index increased 1.0% in January, but fell 0.3% year over year. In the markets, the EURO STOXX gained about 3.6% in January; the United Kingdom's FTSE inched up 1.2%; Japan's Nikkei 225 advanced 4.7%; and China's Shanghai Composite Index added about 1.0%.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® improved again in February after increasing in January. The index stood at 91.3 in February, up from 88.9 in January. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, increased from January's 85.5 to 92.0 in February. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, fell from 91.2 in January to 90.8 in February.

Eye on the Month Ahead

The economy continues to show signs of recovery. Decreasing numbers of COVID cases and increasing distribution of vaccines provide some measure of optimism that some semblance of normalcy is approaching. Focus will be on the FOMC, which meets in March for the first time since January. The Committee could project a timeline for scaling back the quantitative easing that has been in place for more than a year.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuate with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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