

## Weekly Market Update (January 4, 2021 – January 8, 2021)

### Markets kick-start the new year with a buy-the-dip scenario as political protests turn into civil unrest on Capitol Hill

On **Monday**, the markets kicked off a new year following an up-and-down 2020. In all, the just-concluded 12 months saw a high single-digit advance by the Dow Jones, a low double-digit gain by the S&P 500 and a stellar increase of more than 43% by the tech-heavy NASDAQ.

This was a remarkable performance given the challenges faced by Covid-19 and the consequences suffered by the economy.

At the start of trading, major indexes declined due to profit-taking across the market.

The Dow Jones dropped 1.3%, the S&P 500 was down 1.5% and the Nasdaq fell 1.5%. Both, the S&P 500 and Dow Jones set all-time high records at market open due to Tesla reporting a record number of vehicle deliveries in Q4 2020.

Investors wanted to take their profits at the start of the year, which in turn, as mentioned, pushed the market downwards.

10 of the 11 S&P 500 sectors finished in negative territory. The worst performer of the day was the real estate sector, while the energy sector was the only sector to finish in the positive territory.

The stock market begins the year with valuations extended and the risks of a reversal on disappointing news certainly present. Overall, though, our sense is that the bull market can be sustained in 2021, however the margin for error will be small.

On **Tuesday**, stocks started the first week of the new year on a mixed note, with mostly positive results in Asia kicking off the day's trading, and the European bourses followed suit. In the United States however, stocks posted sizable losses for their session possibly driven by slow distribution of the much-anticipated Covid-19 vaccines which in turn spooked investors.

Notably, several travel-related stocks took big hits, with Norwegian Cruise Lines, Carnival Corp, MGM Resorts, and Marriott International, all posting mid-single-digit losses

Meanwhile, new cases continue to rise, driven by virulent new strains, prompting officials to impose stricter lockdown measures.

A buy-the-dip scenario however assisted major indexes in finishing the day in the positive territory.

The Dow Jones grew 0.6%, the S&P 500 was up by 0.7% and the Nasdaq increased 1%. The market also rallied due to a strong ISM Manufacturing Index reading for December. December's manufacturing index rose to 60.7% and therefore indicated an acceleration in manufacturing activity.

Cyclicals, small-caps, and commodities benefited from this news and as a result, the materials, energy, and industrials sectors performed strongly during daily trading.

However, market performance seemed somewhat restrained as investors waited on news of the Senate runoff elections in Georgia.

Altogether, declining outpaced advancers by more than a 2-to-1 margin.

Elsewhere, oil prices also had a down day, with light sweet crude falling 2.5%, to about USD 47.35 a barrel. OPEC and its allies are meeting again today as they work toward an agreement on output levels. The commodity has advanced 2.7% over the past 30 days, but it is still off nearly 25% from where it was a year earlier.

As we look to the new day, most of the Asian markets had another positive session, but the European bourses are in negative territory.

Meanwhile, U.S. stock futures are suggesting the major indexes will open to the downside, while crude oil is up about 1%.

On **Wednesday**, small-cap and cyclical stocks performed well due to the prospect of a Democratic-controlled Senate.

Investors seemed optimistic due to the possibility of more fiscal stimulus. The Dow Jones was up by 1.4% by close but reached higher territory during intraday trading. The index lost its gains when a group of pro-Trump protesters breached Capitol Hill.

The S&P 500 grew 0.6%, while the Nasdaq dropped 0.6% due to weakness among the mega-cap stocks. Due to standout performances amongst small-cap and cyclical stocks, the financial, materials, energy, and industrial sectors in turn, performed well in daily trading.

The information technology and communication services sectors underperformed due to the prospect of enhanced tech scrutiny under a Democratic Senate.

Overall, stocks gained back more than half the week's opening-session loss. Also advancing on the day were oil prices, which reached their highest point in the past 10 months, as Saudi Arabia said it would further reduce output.

Importantly, the stock market gains came despite the continuing spread of Covid-19 and the consequent lockdowns.

On **Thursday**, the day began with historic and very troubling events in the United States of America, as political protests turned into civil unrest on Capitol Hill.

The United States stock market delivered strong gains during the middle day of the trading week, except for some of the big technology stocks. The investment community also looked past the election results from Georgia, that will change the balance of power in the Senate.

Leading up to the runoff elections, investors were worried that if Republicans lost control of the Senate - and there was no divided government in Washington D.C. - it would lead to more regulations and possibly higher taxes for corporations, of which neither is viewed favourably by investors.

The Georgia development brought fears that the tech giants may now face tougher regulations in the coming years and may see higher tax bills if President-Elect Joe Biden follows through on his campaign promise to raise the corporate tax rate, thus we saw some major rotation out of the big tech names and into the small-cap sector. The small-cap Russell 2000 climbed 4% on the day.

major indexes closed higher due to strengthening in the information technology sector.

Investors bought the dip in technology from yesterday, helping the Nasdaq rise by 2.6%. The S&P 500 grew 1.5%, and the Dow Jones advanced 0.7%. Information technology and consumer discretionary were the best performing sectors, but financials and energy also performed well.

The market was additionally optimistic on strong economic news. The ISM Non-Manufacturing Index for December rose to 57.2% as manufacturing expanded more rapidly than it did in November. However, initial claims for the week ending on January 2 remained elevated at 787,000.

On **Friday**, major indexes posted gains with positive performances in the technology and consumer discretionary. The Dow Jones advanced 0.2%, the S&P 500 gained 0.6% and the Nasdaq grew 1%.

Political headlines dominated the day, with a focus on potential additional stimulus as well as possible additional impeachment articles.

With these headlines, value securities struggled to perform. Growth securities outperformed and bolstered the market. The economic news of the day was mixed.

December nonfarm payrolls fell 140 000. Analysts expected payrolls to rise 50 000 – 100 000.

Private payrolls fell 95 000, while analysts expected payrolls to rise 128 000.

The hospitality, leisure and government sectors saw the biggest loss in payrolls.

Manufacturing payrolls increased. Among labour market news, the unemployment rate remained at 6.7%, and average hourly earnings came in above expectations.

## Economic News

- Total construction spending increased 0.9% in November.  
Private construction spending rose 1.2% m/m, while public construction spending fell 0.2%. Overall, the data suggested that the residential construction market remained strong.
- The December IHS Markit Manufacturing PMI rose to 57.1.
- December's manufacturing index rose to 60.7% and showed an acceleration in manufacturing activity.
- Factory orders rose 1% in November as businesses continued to increase spending.
- The ADP Employment Change report for December estimated that private-sector payrolls fell by 123,000.

- The ISM Non-Manufacturing Index for December rose to 57.2% as manufacturing expanded more rapidly than it did in November.
- Initial claims for the week ending in January 2 remained elevated at 787,000.
- December nonfarm payrolls fell 140,000. Analysts expected payrolls to rise 50,000-100,000. Private payrolls fell 95,000, while analysts expected payrolls to rise 128,000. The leisure and hospitality sectors as well as the government sectors saw the biggest loss in payrolls. Manufacturing payrolls increased.
- The unemployment rate remained at 6.7%, and average hourly earnings came in above expectations.

### Major Corporate News

- Tesla reported a record number of deliveries in Q4 of 2020.
- Apple could launch an autonomous vehicle within five to seven years

### Economic Calendar

Time (GMT+2)	Event	Impact
02:30 11.01	AUD Retail Sales s.a. (MoM)(Nov)	High
03:30 11.01	CNY Consumer Price Index (YoY)(Dec)	High
16:40 11.01	EUR ECB's President Lagarde speech	High
16:30 11.01	GBP BoE's Governor Bailey speech	High
01:50 12.01	JPY Current Account n.s.a.(Nov)	Medium
02:00 12.01	GBP BRC Like-For-Like Retail Sales (YoY)(Dec)	Medium
16:35 12.01	USD Fed's Brainard speech	Medium
12:00 13.01	EUR Industrial Production s.a. (MoM)(Nov)	Medium
15:30 13.01	USD Consumer Price Index Core s.a (Dec)	Medium
15:30 13.01	USD Consumer Price Index (MoM)(Dec)	Medium
15:30 13.01	USD Consumer Price Index ex Food & Energy (MoM)(Dec)	High
15:00 13.01	USD Consumer Price Index (YoY)(Dec)	Medium
15:30 13.01	USD Consumer Price Index ex Food & Energy (YoY)(Dec)	High
19:00 13.01	USD Monthly Budget Statement (Dec)	Medium
15:30 14.01	USD Continuing Jobless Claims (Jan 1)	Medium
15:30 14.01	USD Initial Jobless Claims (Jan 8)	Medium
N / A 14.01	USD President-elect Biden speech	High
09:00 15.01	GBP Manufacturing Production (MoM)(Nov)	Medium
09:00 15.01	GBP Industrial Production (MoM)(Nov)	Medium
09:00 15.01	GBP Gross Domestic Product (MoM)(Nov)	Medium
09:30 15.01	GBP Manufacturing Production (YoY)(Nov)	Medium
15:30 15.01	USD Retail Sales ex Autos (MoM)(Dec)	Medium
15:30 15.01	USD Producer Price Index ex Food & Energy (YoY)(Dec)	Medium
15:30 15.01	USD Retail Sales Control Group (Dec)	High

15:30	15.01	USD	Retail Sales (MoM)(Dec)	High
17:00	15.01	USD	Michigan Consumer Sentiment Index (Jan) PREL	High