Weekly Market Update (January 18, 2021 – January 22, 2021)

Hawkish market sentiment as European Central Bank indicates it may not use full funds in pandemic emergency bond-purchasing program

Europe

The STOXX Europe 600 Index finished the week relatively flat, as United States economic stimulus doubts couples with renewed coronavirus concerns held back gains.
Germany's DAX Index grew 0.63%, France's CAC 40 dropped 0.93%, and Italy's FTSE MIB fell 1.31%.
The UK's FTSE 100 Index was down 0.60%, held back by the GBP strength relative to the USD and fears that the strict coronavirus lockdown would not end anytime soon.

Core eurozone government bond yields rose after the European Central Bank (ECB) indicated that it may not use the full amount available in the pandemic emergency bond-purchasing program. This news was interpreted by the market as somewhat hawkish.

Growing expectations for additional United States fiscal stimulus under President Joe Biden sent yields higher. Peripheral eurozone bond yields largely tracked core markets, although they eased before the ECB's statement, when Italian Prime Minister Giuseppe Conte won a confidence vote in Parliament.

Gilt yields rose on optimistic comments about an economic recovery from Bank of England Governor Andrew Bailey and the encouraging pace of inoculations in the UK.

Prolonged Lockdowns

Governments continued to extend lockdown measures amid concerns about the spread of highly infectious mutations of the coronavirus.
Germany extended its tough lockdown restrictions until February 14.
The *Dutch* government imposed the first nationwide curfew since World War II and banned flights from the UK to stop the spread of a mutated variant of the virus.
European Union leaders stepped back from imposing an EU-wide travel ban but warned that stricter lockdowns measures are likely to persist due to the new strains of the virus.
Ireland will extend its lockdown, which was due to end February 5, through to March 5.
UK Prime Minister Boris Johnson told broadcasters that it is "too early" to say when the national lockdown will end, raising fears that restrictions could last until mid-year.

Italy's Conte wins confidence votes but reportedly mulls elections.

Prime Minister Conte comfortably won a confidence vote in the lower house of Parliament and scraped by in a Senate vote after the exit of a coalition partner last week precipitated a political crisis. He also won backing for a EUR 32 billion economic support package to deal with the coronavirus pandemic and its fallout however, he is struggling to attract sufficient support among senators to strengthen his minority government and is considering whether to call fresh elections.

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United Kingdom

BoE Governor Bailey said at an online event that he expected a "pronounced" economic recovery in the UK later in the year due to the rollout of vaccines. Earlier, the BoEs Chief Economist Andy Haldane said he expected the economy to begin to recover quickly in the second quarter, potentially enabling the government to end its support for furloughed workers before the recovery is complete.

United States

Stocks continue to new highs on stimulus hopes.

The major indexes moved higher for the week, hitting new intraday highs on Thursday before a pullback on Friday. Communication services led the gains in the S&P 500 Index, boosted by a sharp gain in Netflix shares following its report of surprisingly large subscriber gains in the fourth quarter.
Facebook and Google's parent company, Alphabet, were also strong, as were video-gaming stocks, while energy shares lagged as oil prices fell back on a surprising rise in U.S. inventories. As fast-growing technology-related stocks led the gains, the market's recent rotation into small-caps and value stocks reversed, at least temporarily.
Trading volumes remained exceptionally high, reflecting, in part, heavy participation by individual investors.
The market was closed on **Monday** in observation of Martin Luther King Jr. Day.

Hopes for substantial new stimulus under the Biden administration appeared to drive much of the gains early in the week.

On **Tuesday**, former Federal Reserve Chair and Treasury Secretary nominee Janet Yellen told the Senate Finance Committee that it was necessary to "act big" to help the economy deal with lockdowns and high unemployment. Investors may have been further encouraged by her statement that President-elect Joe Biden was focused on supporting the economy rather than raising taxes.
Biden's inauguration on **Wednesday** took place without any significant protests or violence, which also seemed to calm nerves on Wall Street.

Coronavirus news appeared to be another driver of sentiment. President Biden repeated his goal of 1 million vaccinations a day for the first 100 days of his presidency, although there was some confusion about whether this meant 50 million Americans getting the recommended two doses of the Pfizer/BioNTech and Moderna vaccines, or 100 million first doses. Among his first acts in office, Biden also reversed the Trump administration's decision to withdraw from the World Health Organization, while the nation's leading infectious disease official, Dr. Anthony Fauci, said that additional vaccines should be on their way soon.
Daily deaths from the virus in the U.S. hit the second-highest level on record on **Wednesday**, but daily cases and hospitalizations showed signs of moderating. Some health experts warned that the reprieve might be temporary given the arrival of more infectious strains of the virus, however.

United States Stocks

Index	Friday's Close	Week's Change	% Change YTD
DJIA	30,996.98	182.72	1.28%
S&P 500	3,841.47	73.22	2.27%
Nasdaq Composite	13,543.06	544.56	5.08%
S&P MidCap 400	2,463.18	38.94	6.79%
Russell 2000	2,168.27	45.49	9.63%

Japan

Japan's stock markets were relatively unchanged for the week. The Nikkei 225 Stock Average grew 0.4% and recorded another multi-decade weekly closing high. For the year-to-date period, the widely watched market yardstick is ahead 4.3%.
The large-cap TOPIX Index was about flat, however, and the TOPIX Small Index modestly declined.
The yen was little changed for the week and closed near JPY 104 versus the U.S. dollar.

Japans exports increase for the first time in two years.

According to customs data, exports climbed 2.0% in December versus the year-ago period and marked the first positive reading since November 2018. The export data showed significant improvement from November's 4.0% decline and the early-2020 double-digit contractions. The gains were powered by growth in plastics, nonferrous metals, and semiconductor production equipment, although auto-related product shipments were lower. Import data were also weak, declining 11.6% versus forecasts for a 13.9% fall-off due to a reduction in crude oil, coal, and aircraft products.

Japan's government announced that it has agreed to buy additional vaccines for 12 million people from Pfizer. The latest agreement means the government will have enough to treat 72 million people, which is more than half of the country's population of 126 million. The Pfizer/BioNTech vaccine is the only product under review by the Health Ministry, and it is expected to receive approval on February 15. Officials said that the vaccination efforts for Japan's general population are expected to begin in May, after prioritizing

medical staff, people 65 years and older, those with pre-existing conditions, and workers caring for the elderly.

China

Chinese stocks rallied amid strong economic data and on hopes of warmer U.S.-China relations under President Biden.
The Shanghai Composite Index advanced 1.1% to 3,606.8 and the CSI 300 large-cap index rose 2.0%, closing at 5,569.8.
In an early test case for U.S.-China relations, China's three biggest telecom companies appealed the New York Stock Exchange's recent decision to delist their U.S.-listed shares, a move that is expected to receive a response within 25 days.

On the coronavirus front, China now has 22 million people under lockdown as officials try to contain a recent outbreak in Hebei Province. Case numbers remain low compared with other countries, though a high number of asymptomatic infections and the rural location of some clusters have concerned authorities.
The yield on China's sovereign 10-year bond ended broadly flat despite a raft of strong December economic data.
The People's Bank of China left the loan prime rate unchanged for the ninth straight month.
In currency trading, China's Yen was stable versus the USD.

Economic Calendar

Time (GMT+2)		Event		Impact
10:45	25.01	EUR	ECB's President Lagarde speech	High
15:30	25.01	USD	Chicago Fed National Activity Index (Dec)	Medium
16:45	25.01	EUR	German Buba President Weidmann speech	Medium
19:00	25.01	GBP	BoE's Governor Bailey speech	High
22:45	25.01	USD	President Biden speech	High
01:50	26.01	JPY	BoJ Monetary Policy Meeting Minutes	High
09:00	26.01	GBP	Claimant Count Change (Dec)	High
09:00	26.01	GBP	ILO Unemployment Rate (3M) (Nov)	High
09:00	26.01	GBP	Average Earnings Including Bonus (3Mo/Yr) (Nov)	Medium
16:40	26.01	USD	Housing Price Index (MoM)(Nov)	Medium
17:00	26.01	USD	Consumer Confidence (Jan)	Medium
02:30	27.01	AUD	RBA Trimmed Mean CPI (QoQ)(Q4)	High
02:30	27.01	AUD	Consumer Price Index (QoQ)(Q4)	High
N / A	27.01	EUR	10-y Bond Auction	High
15:30	27.01	USD	Durable Goods Orders (Dec)	High
15:30	27.01	USD	Nondefense Capital Goods Orders ex Aircraft (Dec)	High
21:00	27.01	USD	Fed Interest Rate Decision	High
21:00	27.01	USD	FOMC Press Conference	High

21:00	27.01	USD	Fed's Monetary Policy Statement	High
15:00	28.01	EUR	Harmonized Index of Consumer Prices (YoY)(Jan) PREL	High
14:45	28.01	USD	Gross Domestic Product Price Index(Q4) PREL	Medium
15:30	28.01	USD	Initial Jobless Claims (Jan 22)	Medium
15:30	28.01	USD	Gross Domestic Product Annualized(Q4) PREL	High
17:00	28.01	USD	New Home Sales (MoM)(Dec)	Medium
01:30	29.01	JPY	Unemployment Rate (Dec)	Medium
10:55	29.01	EUR	Unemployment Rate s.a. (Dec)	Medium
11:00	29.01	EUR	Gross Domestic Product (QoQ)(Q4) PREL	High
15:30	29.01	USD	Personal Income (MoM)(Dec)	Medium
17:00	29.01	USD	Pending Home Sales (MoM)(Dec)	Medium

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