



Economic & Market Commentary

Stock markets posted strong gains last week with several closing at new record highs on Friday. Driving stocks higher were continued better than expected fourth-quarter earnings and progress towards an economic stimulus package. FactSet's February 5, 2021 Earnings Insight report cites, "with 60% of the companies in the S&P having reported 4Q20 earnings, the blended earnings growth rate stands at +1.7%." This is much better than the estimate on December 31, 2020 which forecasted a decline of -9.3%. Nine of the eleven S&P 500 sectors have posted better than expected earnings growth with the Financials, Materials, and Information Technology sectors leading the way. For full-year 2020 and 2021, S&P 500 forecasted earnings growth are -11.4% and +23.4% respectively. It is increasingly looking like a \$1.9 trillion economic relief package is going to be passed along party lines in Congress. The current level of outstanding U.S. debt is \$27.9 trillion and this will surely breach the \$30 trillion mark by year end. Of the \$27.9 trillion debt, \$21.8 is public and \$6.1 trillion is intra-governmental. As of 4Q20, nominal U.S. GDP totaled \$21.5 trillion bringing the U.S. debt-to-GDP ratio for public and total debt to 101.4% and 129.8% respectively. This level of debt along with the Federal Reserve's \$7.4 trillion balance sheet, which is 34.4% of U.S. GDP, poses serious long-term challenges to U.S. fiscal and monetary policy. How is the Federal Reserve going to be able to unwind their balance sheet without again disrupting capital markets? Look what happened in fourth-quarter 2017 when the Fed's balance sheet stood at \$4.2 trillion and they began to gradually unwind their treasury and agency bond holdings. As 2018 unfolded interest rates were on the rise and at the end of the year stock markets were in turmoil. In response to the volatility, the Fed caved to market pressure and curtailed the unwinding process. While these policies provide short-term gain, longer-term they will ultimately result in considerable pain.

Total Returns - February 5, 2021

	1-Wk	YTD	1-Yr
Russell 2000	7.72	13.14	34.55
MSCI-Emerging	4.96	8.18	30.92
NASDAQ	6.04	7.57	47.03
S&P 400	5.87	7.46	21.00
S&P 500	4.67	3.61	18.70
Dow Jones	3.90	1.87	8.79
MSCI-Developed	2.75	1.66	10.36
Barclay's U.S. Bond Index			
High Yield	0.70	1.04	7.71
Municipal	0.09	0.73	4.34
5-year Muni	0.05	0.38	3.58
Int. Gov. Credit	-0.11	-0.38	4.97
Aggregate	-0.39	-1.11	4.84

2yr and 10yr Treasury Yields



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	0.07	0.09	1.49
U.S. 2-Yr	0.09	0.12	1.45
U.S. 3-Yr	0.18	0.19	1.44
U.S. 5-Yr	0.46	0.44	1.46
U.S. 10-Yr	1.17	1.09	1.65
U.S. 30-Yr	1.97	1.85	2.13

S&P 500 - Sector Total Returns - February 5, 2021

Sector	1-Wk	YTD	1-Yr
Energy	8.29	12.39	-18.30
Consumer Discretionary	5.99	6.42	37.00
Communication Services	7.26	5.87	27.09
Financials	6.62	4.84	2.07
Info Tech	4.93	3.97	37.60
Real Estate	3.16	3.71	-1.20
Health Care	0.50	1.93	13.58
Materials	3.87	1.40	23.25
Utilities	2.31	1.37	-4.22
Industrials	4.90	0.39	8.22
Consumer Staples	2.55	-2.75	5.94

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	0.72	0.71	1.34
U.S. AA	0.79	0.79	1.40
U.S. A	1.14	1.16	1.69
U.S. Baa	1.70	1.73	2.15
U.S. Municipal	0.95	0.95	1.53
Michigan	1.01	1.03	1.64

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	22.35	15.95	1.45
S&P 400 - Mid Cap	19.75	15.79	1.32
S&P 600 - Small Cap	20.00	15.71	1.34