



Market Commentary January 11, 2021

Dear Investors:

The event at the United States Capitol building had a resounding impact around the world, but it didn't deter global stock markets.

Last week, investors weighed the violent disruption of America's 2020 presidential election process against the outcome of the Senate runoff in Georgia, and decided the latter was more significant. *Financial Times* reported the Democratic Party's win in Georgia improves the possibility of additional government relief spending in 2021:

“In turn, this renews the momentum behind trends within equity and bond markets that have been unfolding in recent months. These include rising long-term interest rates and inflation expectations that reflect hopes of an accelerating economy later this year.”

Last week, the yield on 10-year U.S. Treasuries moved above 1 percent for the first time since March 2020, closing on Friday at 1.13 percent.

Disappointing employment numbers may provide an impetus for additional government stimulus measures. Last Friday, the *U.S. Bureau of Labor Statistics* reported the loss of 140,000 U.S. jobs in December 2020. It was the first decline in eight months, reported *MarketWatch*, and resulted from a surge of coronavirus cases across the country. The unemployment rate remained unchanged at 6.7 percent.

Major U.S. stock indices moved higher last week. The Standard & Poor's 500 Index, Dow Jones Industrial Average, and Nasdaq Composite all closed at record highs. The small-cap Russell 2000 Index gained almost 6 percent.

Global stock markets also moved higher. A strategist cited by *Financial Times* commented, “The only noise in markets...was a bullish stampede as [they] continued their strong start to 2021.”

Data as of 1/8/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.8%	1.8%	17.6%	11.7%	14.8%	11.7%
Dow Jones Global ex-U.S.	3.6	3.6	13.7	2.9	8.6	3.2
10-year Treasury Note (Yield Only)	1.1	NA	1.9	2.5	2.1	3.3
Gold (per ounce)	-1.3	-1.3	18.5	12.2	11.1	3.1
Bloomberg Commodity Index	2.1	2.1	-1.1	-3.2	0.8	-6.6

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S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, MarketWatch, djiindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT'S A MELT-UP?

If you're a student of language or just interested in words, the term 'melt-up' is a bit mystifying. The base word – melt – conjures visions of ice cream and glaciers. Meltdown also is clear. It brings to mind tantrums and nuclear reactor disasters. The apparent opposite, melt-up, begs the question – is it even possible for something to melt-up?

In the stock market, the answer is yes.

A melt-up occurs when share or index prices move sharply higher for reasons that have little to do with fundamentals (e.g., profits, revenues, assets, liabilities, potential growth).

Last week, *The Economist* reported, "In short, the conditions seem ripe for further stock market gains. So ripe, indeed, that a persistent thought keeps surfacing in the minds of strategists. What is to stop stock prices worldwide going on a really crazy run? Several things could get in the way of a market melt-up."

Among the obstacles that could hinder a melt-up, *The Economist* cites:

- **The world economy.** Despite vaccines and surprisingly strong economic data in the United States and China, "The harm to the world economy is likely to be more prolonged than hoped."
- **Bullishness.** "Paradoxically, positive sentiment is often seen as a reason to be wary, and that investors have got ahead of themselves. Indeed, 2018 began with much talk of a market melt-up but ended with heavy stock market losses."
- **Rising inflation.** "Lockdowns and fiscal transfers have left rich-world consumers with extra savings and a lot of pent-up demand – fuel for a post-pandemic spending spree." At the same time, COVID-19 has been constrained supply. High demand and limited supply can lead to inflation.
- **Less stimulative policies.** High levels of bullishness are supported by current fiscal and monetary policies. If those policies change to address inflation and other issues, how will markets be affected?

There is no disputing some indexes in the United States are at record highs. It is less certain what will happen in 2021.

In early December 2020, *MarketWatch* published an article by Robert Shiller, Laurence Black, and Farouk Jivraj. They wrote high prices may be warranted, as long as bond yields remain low. "Eventually, down the line, bond yields may just rise, and equity valuations may also have to reset alongside yields. But, at this point, despite the risks and the high CAPE ratios, stock-market valuations may not be as absurd as some people think."

Last week, the real yield (the yield after inflation) for 10-year U.S. Treasuries was -0.93 percent. That's pretty low, but it's better than it was the previous week.

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Weekly Focus – Think About It

“People generally see what they look for and hear what they listen for.”

--Harper Lee, *Author*

Best regards,

SYMPHONY FINANCIAL SERVICES, INC.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * The Cyclically Adjusted Price-to-Earnings (CAPE) ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. It is also known as the Shiller P/E ratio. The P/E ratio is a valuation metric that measures a stock's price relative to the company's earnings per share. Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.
- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
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- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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- * Consult your financial professional before making any investment decision.

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