

Weekly Market Commentary

February 8, 2021

The Markets

It's not a black diamond ski run yet, but the yield curve for U.S. Treasuries is steeper than it has been in a while.

A yield curve is the line on a graph showing yields for different maturities of bonds. Yield curves provide insight to bond investors' perceptions about the economy. There are four basic types of yield curves:

- **Normal:** The slope is upward because short-term bond yields are lower than long-term bond yields. A normal curve for U.S. Treasuries has a yield gap of about 2.3 percent between 30-year Treasury bonds and 3-year Treasury bills, according to *Fidelity*. On Friday, the difference was 1.78 percent.
- **Steep.** The upward curve is unusually steep. This may occur when an economic expansion is underway, demand for capital pushes interest rates higher, and inflation rises.
- **Flat:** There is no curve because short- and long-term bonds have similar yields. Flattening yield curves can be a precursor of economic slowdown and lower interest rates.
- **Inverted:** The curve slopes down. Long-term bond yields are lower than short-term bond yields. Some believe an inverted yield curve is a signal that recession is ahead.

Right now, the steepening of the U.S. Treasury yield curve is positive news, according to a source cited by Ben Levisohn of *Barron's*:

“Historically, [a steepening yield curve is a] good sign for both the economy and stock markets...But it is also an early warning sign that the clock is ticking on how long the Fed will remain on hold, or easy, before beginning to hike rates and tighten financial conditions to combat the threat of runaway inflation.”

Inflation concerns were part of last week's debate over the size of the pending stimulus. If stimulus is too small, economic growth and jobs recovery may falter. If it's too big, the economy may overheat and inflation could become an issue, according to economist Lawrence Summers in *The Washington Post*.

Judging by January's anemic jobs report, it could be a while before the economy runs too hot.

The *Bureau of Labor Statistics* reported 49,000 jobs were created last month. At that rate, it would take a very long time for the economy to recover the jobs lost in 2020. The pace of hiring is expected to accelerate as more Americans get vaccinated and new stimulus is distributed, reported Matthew Klein of *Barron's*.

Major U.S. stock indices finished the week higher.

Data as of 2/5/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.7%	3.5%	16.6%	13.6%	15.6%	11.4%
Dow Jones Global ex-U.S.	3.6	3.7	14.7	3.2	9.1	2.8
10-year Treasury Note (Yield Only)	1.2	NA	1.7	2.8	1.9	3.6

Gold (per ounce)	-3.3	-4.5	16.1	10.6	9.4	3.0
Bloomberg Commodity Index	3.0	5.7	10.3	-2.3	1.8	-6.7

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, djindexes.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.

BITS AND BOBS. Investors are always looking for news that might lead them to new trends in the market. Here are a few fascinating tidbits from last week:

- **Currency competition.** China would really like the yuan to replace the U.S. dollar as the world's favored currency. *Reuters* reported, "...the global system for financial messaging and cross-border payments, has set up a joint venture with the Chinese central bank's digital currency research institute and clearing centre, a move some see as a sign that China wants to explore global use of its planned digital yuan."
- **Putting a price tag on nature.** The Treasury of the United Kingdom commissioned an expert panel to evaluate the contributions of species and ecosystems to the size and growth of economies and evaluate how loss of biodiversity will affect economies in the future. The 600-page *Dasgupta Review* reports that sustaining the world's current level of economic growth and standards of living (a.k.a. "global demand for the biosphere's goods and services and the biosphere's current capacity to supply them on a sustainable basis") will require 1.6 Earths.
- **Veggies telling tales.** Scientists are finding ways to help plants monitor the environment and communicate their findings. Researchers at the Massachusetts Institute of Technology (MIT) embedded nanotubes in spinach plants to look for chemical compounds found in explosives, like landmines. *MIT News* explained, "When one of these chemicals is present in the groundwater sampled naturally by the plant, carbon nanotubes embedded in the plant leaves emit a fluorescent signal that can be read with an infrared camera. The camera can be attached to a small computer similar to a smartphone, which then sends an email to the user."

Weekly Focus – Think About It

"Here's to the crazy ones. The misfits. The rebels. The troublemakers. The round pegs in the square holes. The ones who see things differently...Because they change things. They push the human race forward. And, while some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world, are the ones who do."

--Rob Siltanen, Advertising marketer

Best regards,

Bobby

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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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* 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.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

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