MEEDER
INVESTMENT MANAGEMENT

CAPITAL MARKETS COMMENTARY

A Better Year Ahead?

JANUARY 2021

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TRANSITION OF POWER

The series of unfortunate events that occurred during 2020 continued in early 2021. On January 6th, demonstrators broke into the U.S. Capital to protest the certification of the electoral college results from the U.S. Presidential election. After the security breach, the National Guard was dispatched to secure the area for the electoral college certification, as well as the presidential inauguration. Fortunately, the transition of power on January 20th was relatively uneventful as Joe Biden was sworn in as the 46th President of the United States.

One of the first initiatives of the new administration was to promote and increase the use of renewable energy. Later in the month, one of the world's largest auto manufacturers, General Motors, announced that all their production models will be electric by the year 2035. This provided a boost of legitimacy to around the trend toward electric cars, led by Tesla. The car manufacturer committed to advancing its battery technology and saw its share price increase more than 700% last year. Other companies that continue to gain market share during the pandemic include Apple and Amazon. Both companies reported revenue of more than $100 billion each last quarter. It was the first time that either company accomplished this feat and the two tech giants now join Walmart and Exxon Mobil as the third and fourth companies respectively, to do so.

SHORT SQUEEZE

The most unusual market-related story involved a Wall Street hedge fund manager that placed a very large short position on GameStop. Investors on the social media platform Reddit, launched a movement to collectively try to short squeeze the fund manager by greatly increasing the demand of the stock to spur the stock price higher. The price of GameStop rose from $17 a share to several hundred dollars a share in less than 3 days. Ultimately, the hedge fund was forced to cover the short positions to prevent further losses. This meant the hedge fund was forced the purchase back the stock at the new elevated price, which went as high as $469 per share. Nearly a week later, the stock price recoiled, and GameStop was trading at nearly $100. The event is a reminder that even the most powerful investors on the street can be on the wrong side of a trade if there is a collective effort from a group of retail investors.

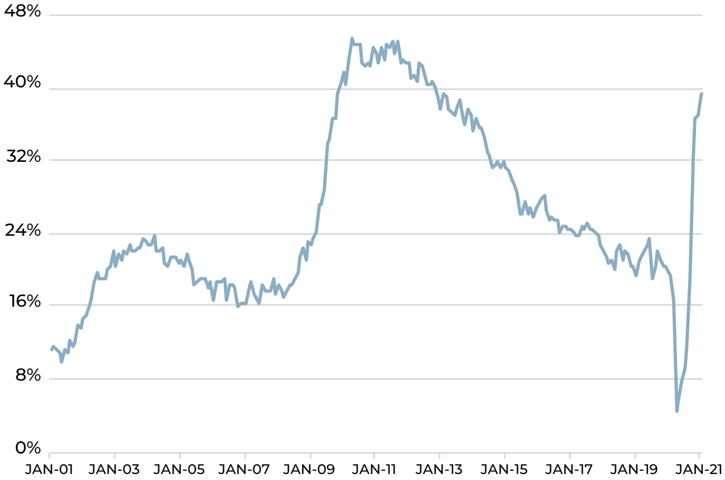
Many investors lost their appetite for risk after witnessing the large volume of speculative behavior surrounding GameStop. This was a contributing driver for broader U.S. equity markets pulling back for the month, as the total return for the S&P 500 Index was -1.01%. The U.S. Dollar gained strength in January and yields moved higher on longer-term maturity bonds. The inverse relationship of bond prices and yields pulled the price of bonds down for a total return of -0.71% as represented by the Bloomberg Barclays U.S. Aggregate Bond Index. Developed international markets were also negative as the economic impact of a delayed COVID-19 vaccine rollout continued. Emerging market equities were one of the only major benchmarks to post positive returns. The MSCI EM Index total return gained 3.07% in January driven by a report that showed China's economy still managed to grow at 2.3% in 2020.

The manufacturing and services industries continue to expand in the U.S. The ISM Manufacturing PMI Index fell from its three year high in December at 60.5 to 58.7 in January. Although it was a reduction in output, it remains a very strong number. The ISM Services Index increased to 58.7 in January from 57.7 in December. This result exceeded consensus estimates of 56.8. Both scores are positive signs as the economy continues to rebound from impact of the COVID-19 pandemic. ISM levels that exceed 50 indicate that the sector is expanding, while a score below 50 indicates that a contraction is occurring.

UNEMPLOYMENT STAGNATION

According to the Bureau of Labor Statistics, the U.S. created 49,000 new jobs in January and reestablished positive monthly job gains. Since April 2020, the only job losses in 2020 were in December of 227,000, after the U.S. economy was in a freefall from March through April due to the COVID-19 pandemic. Although job growth continues to occur, it is at a much slower pace than economists and workers hoped. At the end of January, the unemployment level fell from 6.7% to 6.3%.

UNEMPLOYED 27 WEEKS OR LONGER AS A PERCENATGE OF TOTAL UNEMPLOYED (SA)



Source: BLS

Looking at unemployment further, a more concerning number is represented by those that are defined as long-term unemployed. This group is defined as those workers that have been unemployed for at least six months. As you can see from the chart, the average is approaching nearly 40%. The only period that saw more long-term unemployed Americans was during the Great Recession. Someone who is monitoring the job picture closely is Janet Yellen, the former head of the Federal Reserve, who was recently confirmed as the U.S. Treasury Secretary and is working with the new administration on a stimulus plan. The new administration is actively garnering support for a stimulus bill and Yellen stated that if the current $1.9 trillion proposal is passed, it could bring the U.S. back to full employment in 2022.

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