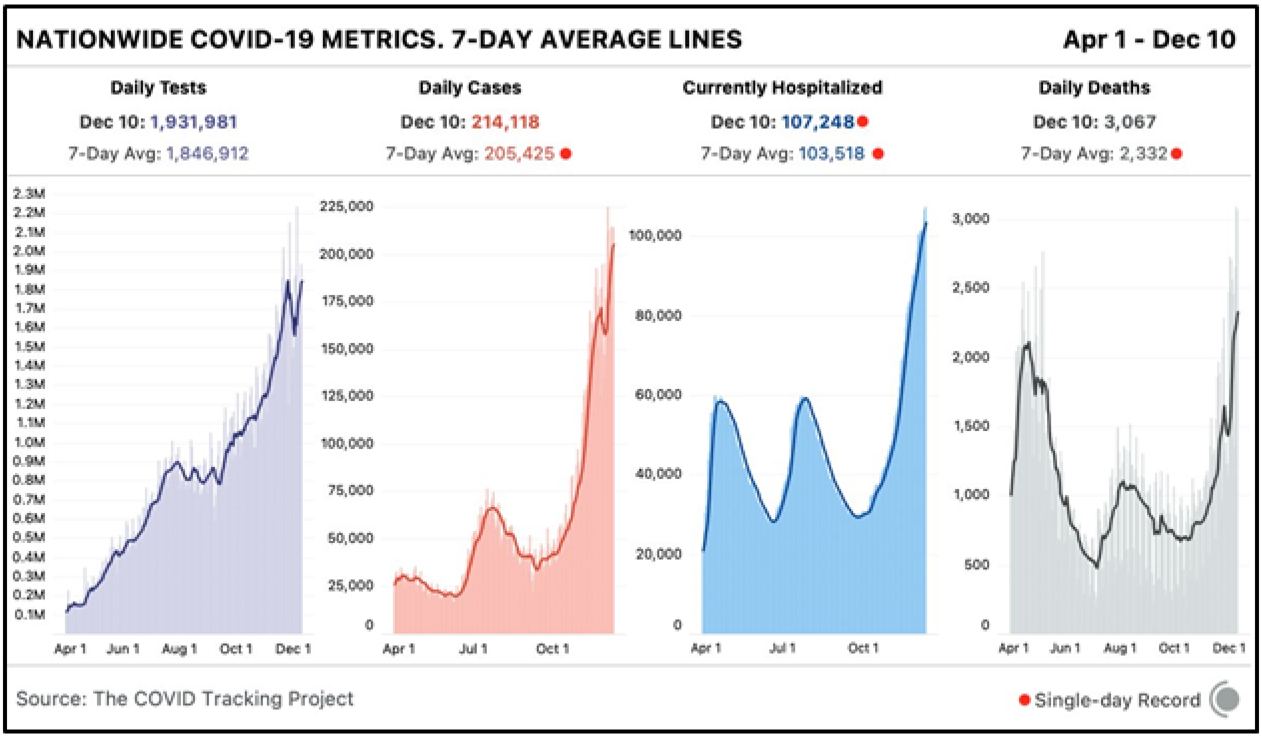
Market Recap

		Weekly Chg.*	YTD Chg*
S&P 500	3,657	-1.2%	+13.1%
Russell 2000	1,911	+1.0%	+14.5%
EAFE	72.08	-0.6%	+3.8%
EM Equity	50.86	+0.0%	+13.4%
Global Stocks	90.79	-0.6%	+12.1%
Commodities	20.83	+1.1%	-8.8%
Gold	1,842	+0.1%	+20.7%
Silver	24.08	-1.0%	+33.4%
Euro	1.2114	-0.1%	+7.1%
Yen	104.02	+0.1%	+3.8%
Pound	1.3221	-1.6%	-0.5%
	Close	Last Week	12/31/19
Fed Funds	0%-0.25%	0%-0.25%	1.50%-1.75%
2-Year	0.121%	0.149%	1.57%
10-Year	0.895%	0.969%	1.92%
10-2 Yield Curve	0.77Bps	0.82bps	0.35bps
German 10-Year	-0.633%	-0.543%	-0.19%
Crude Oil	$46.61	$46.10	$61.16

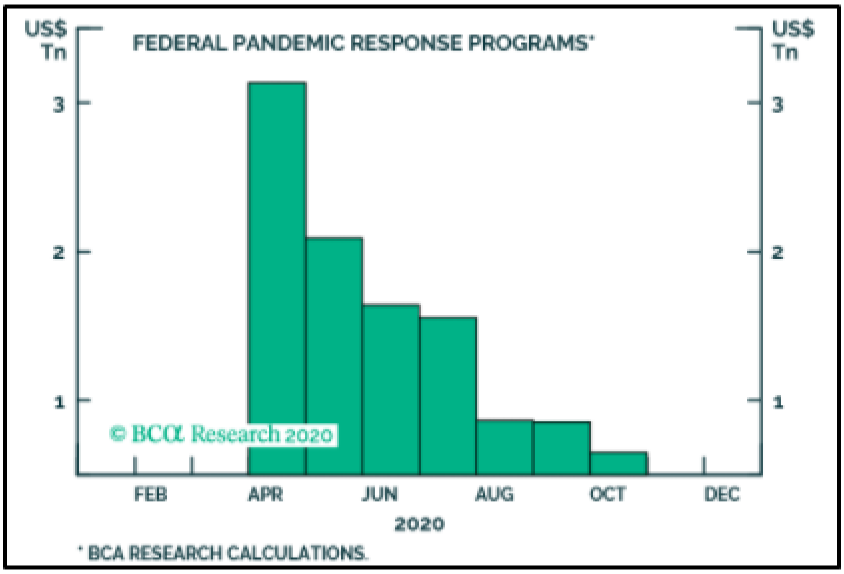
As of 12/11/20

Weekly Recap

A lot of crosscurrents in the markets as 2020 nears its end. We hit an unfortunate milestone yesterday with more than 3,000 deaths in the U.S. and over 100K hospitalized, as you can see below.



And as we are all experiencing, we are seeing renewed lockdowns in many parts of the country. However, unlike earlier in the year the year, lockdowns are not being accompanied by fiscal support. As you can see below, Federal support for struggling businesses and individuals has essentially run out, and Congress continues to argue over a new $900bn plan.



The general view is that new fiscal support will be passed as part of a year-end omnibus spending plan. Time will tell if this proves accurate. As Greg Valliere wrote today:

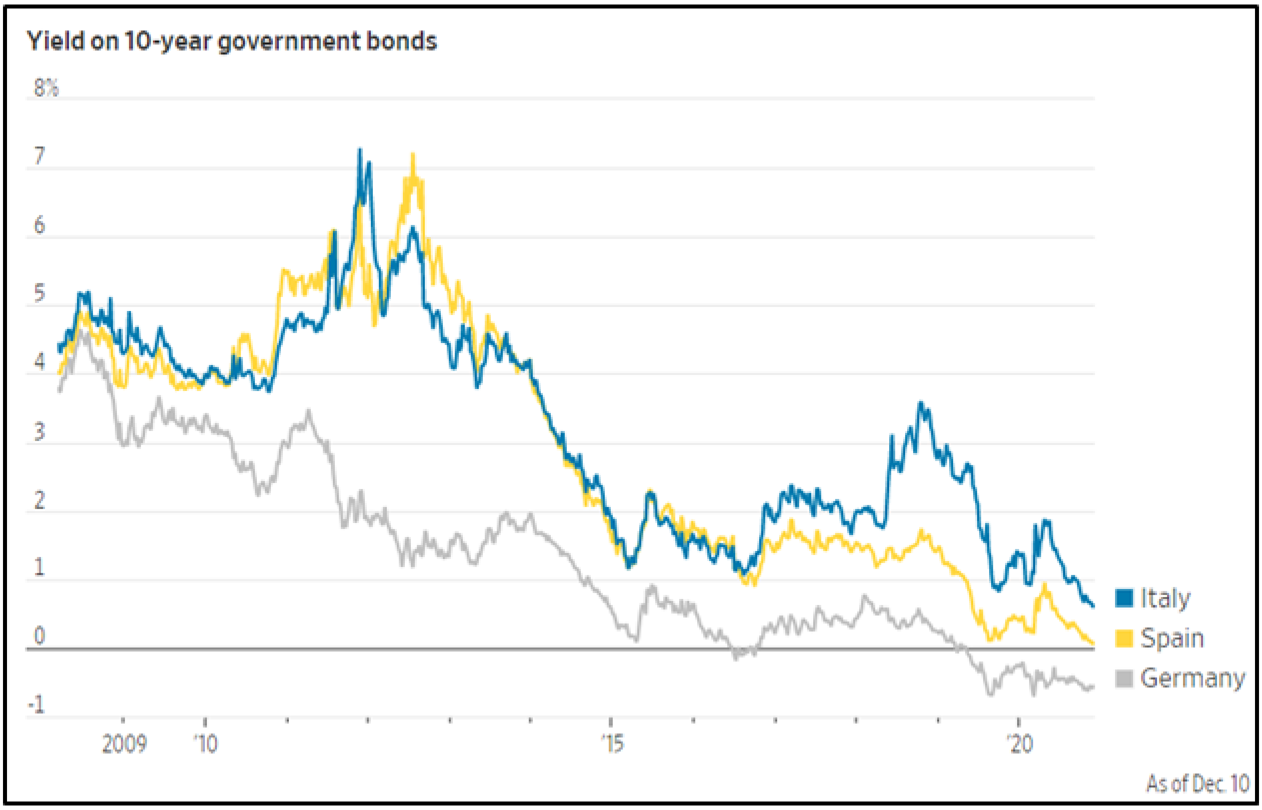
> *"Yet Congress can't get its act together as a virus relief bill — any bill — has bogged down, with no prospect of an agreement for several more days. It's a national embarrassment. Not only has a virus relief package stalled, the vehicle for such a measure — the $1.4 trillion 2021 budget bill — also may stall because just one senator, Rand Paul, may tie Congress into knots next week with a filibuster. Still another extension, past the Dec. 18 deadline, may be necessary."*

More Central Bank Support

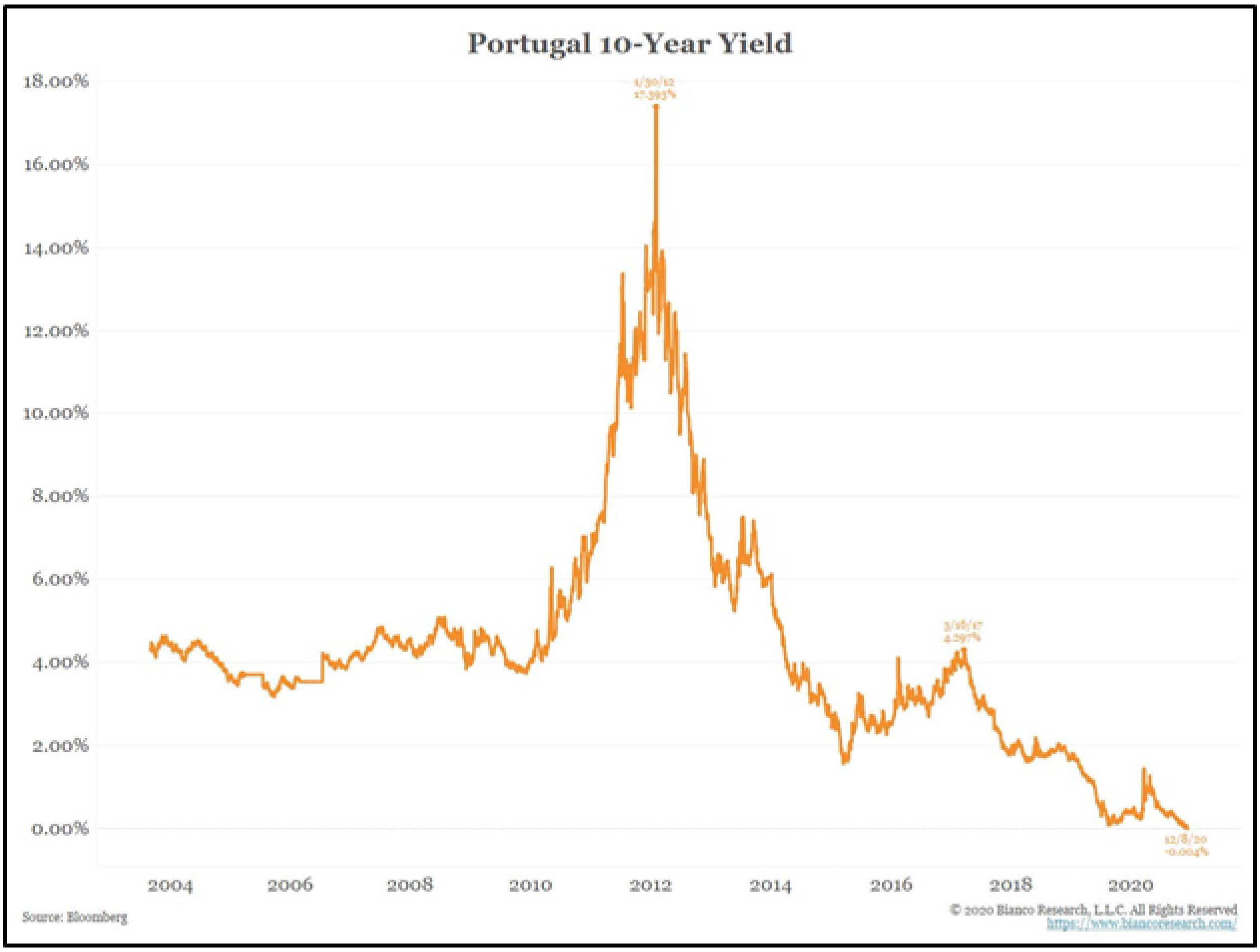
Offsetting the short-term worries are a couple key points.

First, obviously, is the expectation of widespread vaccine distribution in the first and second quarters of next year. So far investors have been willing to focus on the longer-term view and the possibility that much of the global economy will be returning to whatever normal is going to be in the second half of 2021.

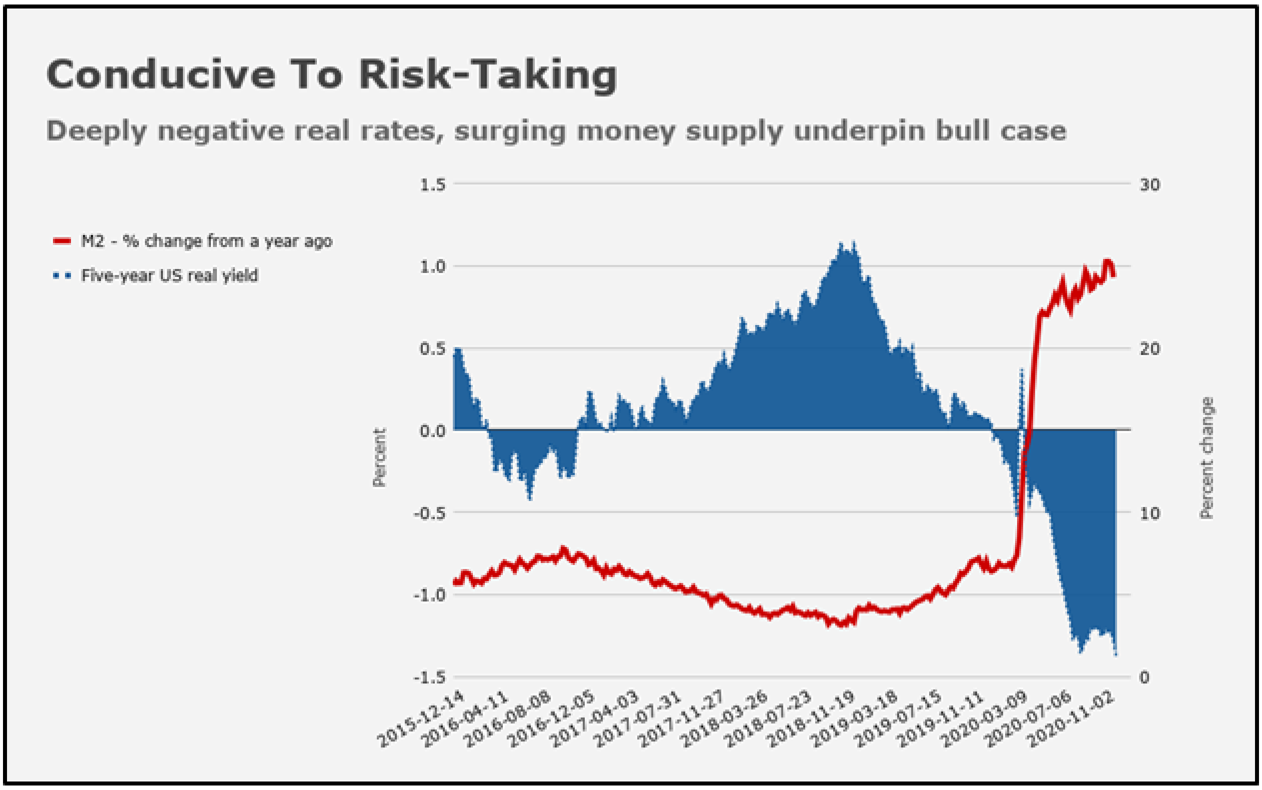
The second key point is central bank accommodation. Just this week the European Central Bank scaled up its emergency bond-buying program by more than a third and unveiled a new batch of ultracheap loans for banks. This latest move takes the ECB's monetary stimulus this year above 3 trillion euros, equivalent to $3.6 trillion. This served to pushed bond yields even lower in the eurozone.



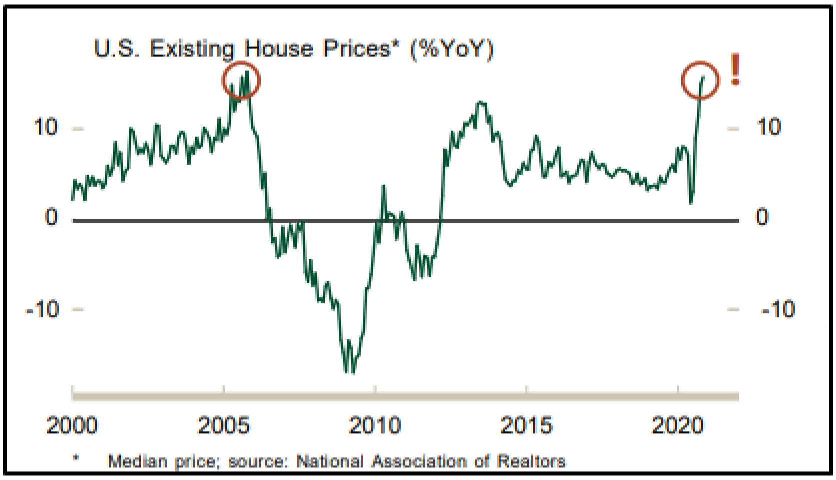
The yield on Portugal's 10-year bond flipped negative for the first time ever.



For all the talk about how central banks are only pushing on a string, it really does make a difference. As you can see below, real interest rates (adjusted for inflation) have been pushed deep into negative territory while money supply growth has surged in the U.S. It is the same story in Europe and Japan.



Just look at housing prices in the U.S. Rates play a huge roll in this latest run up.



This topic won't go away next week. The Fed meets on Tuesday and Wednesday and analysts are looking at two possible changes:

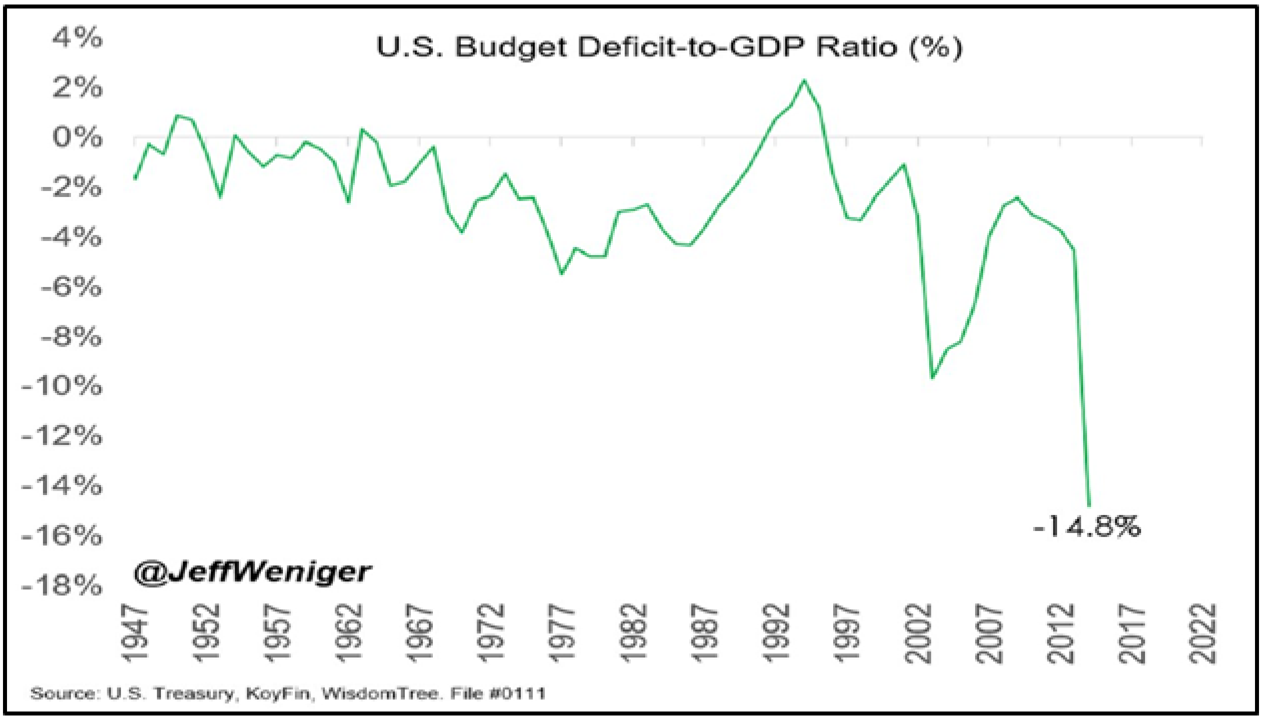
1) The Fed pledging to keep current policies in place until the public health crisis is over.

2) Increasing the level of support, possibly through the purchase of more longer-term bonds.

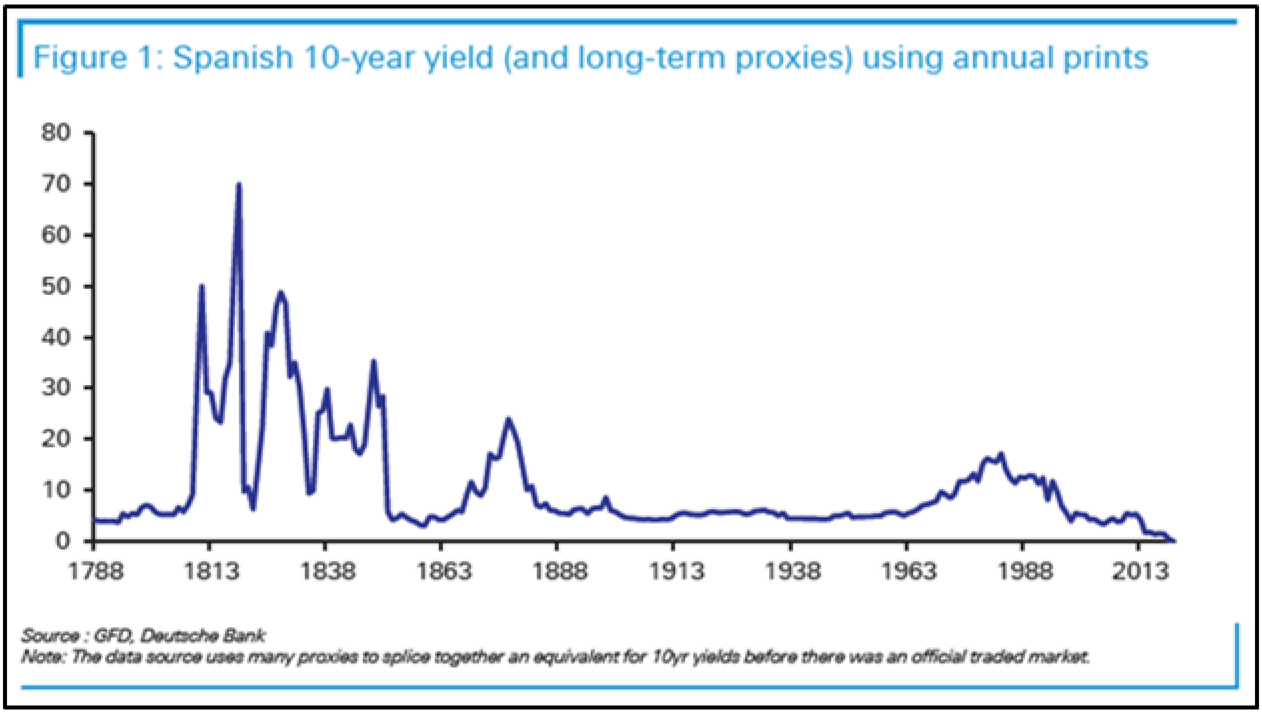
The first point is glaringly obvious, but they feel a need to make it official. The second is more controversial and may hinge on the total failure of Congress to add more fiscal stimulus. Which is another way of saying that you can't rule it out entirely.

Charts We Found Interesting

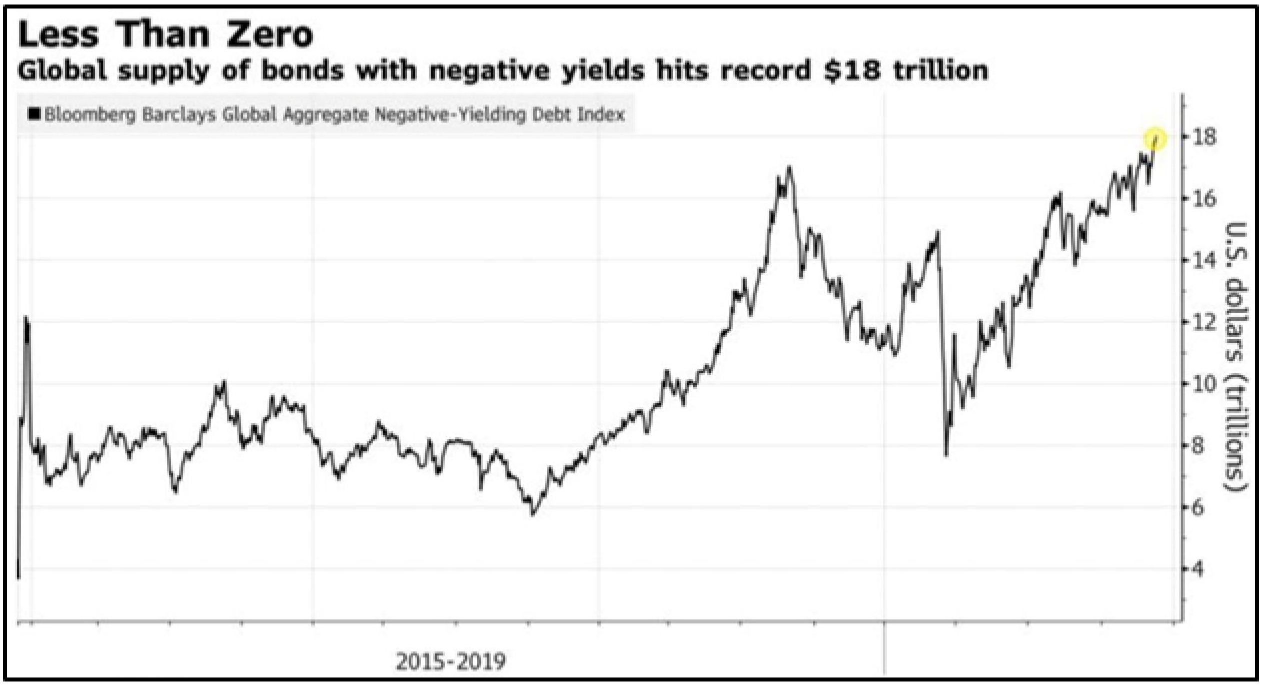
1. Of course, it isn't all monetary policy. This chart is a little deceptive because it doesn't have the war years on it, but even so. The US government spent $6.55tn in fiscal 2020, which ended in September. That was $2.1tn more than in 2019, itself a record year. With receipts of "just" $3.42tn, the US ran a $3.1tn deficit..



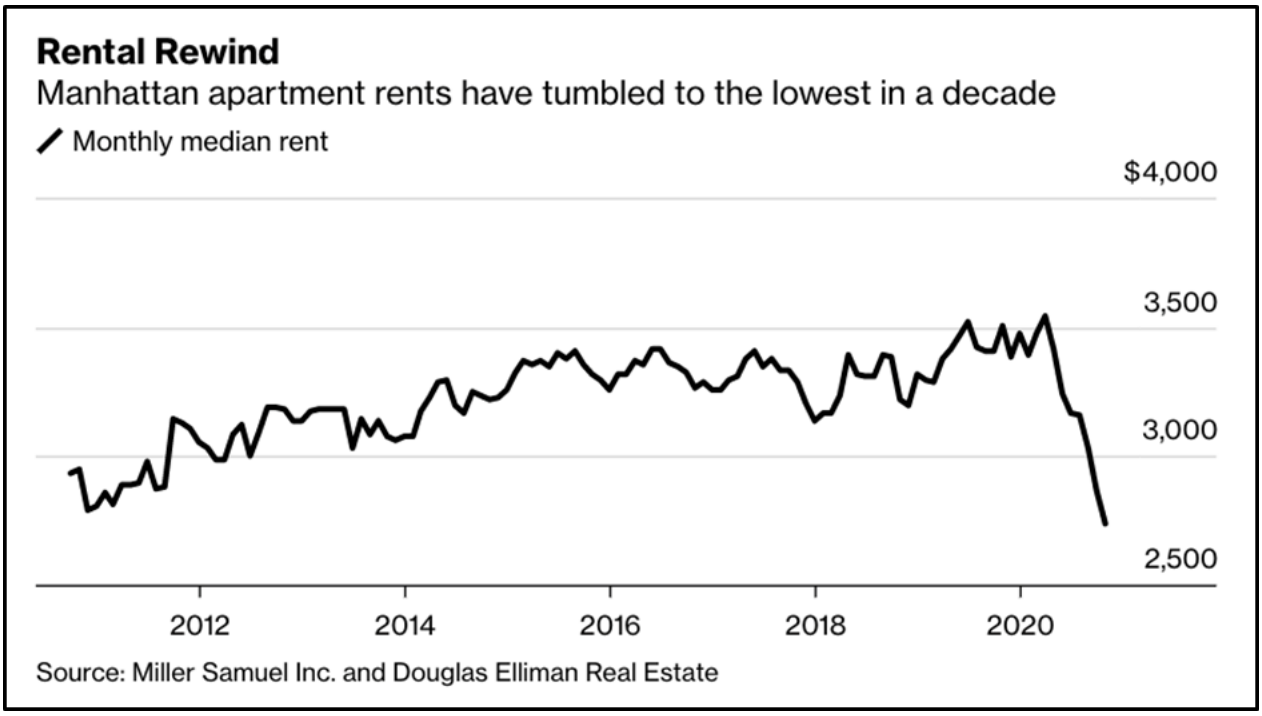
2. How low are European bond yields? Well, in Spain they are the lowest since 1788 (which is the year, by the way, when Australia was essentially founded).



3. I thought we might have seen the peak in negative yielding bonds back in 2019. Nope. New high this week.

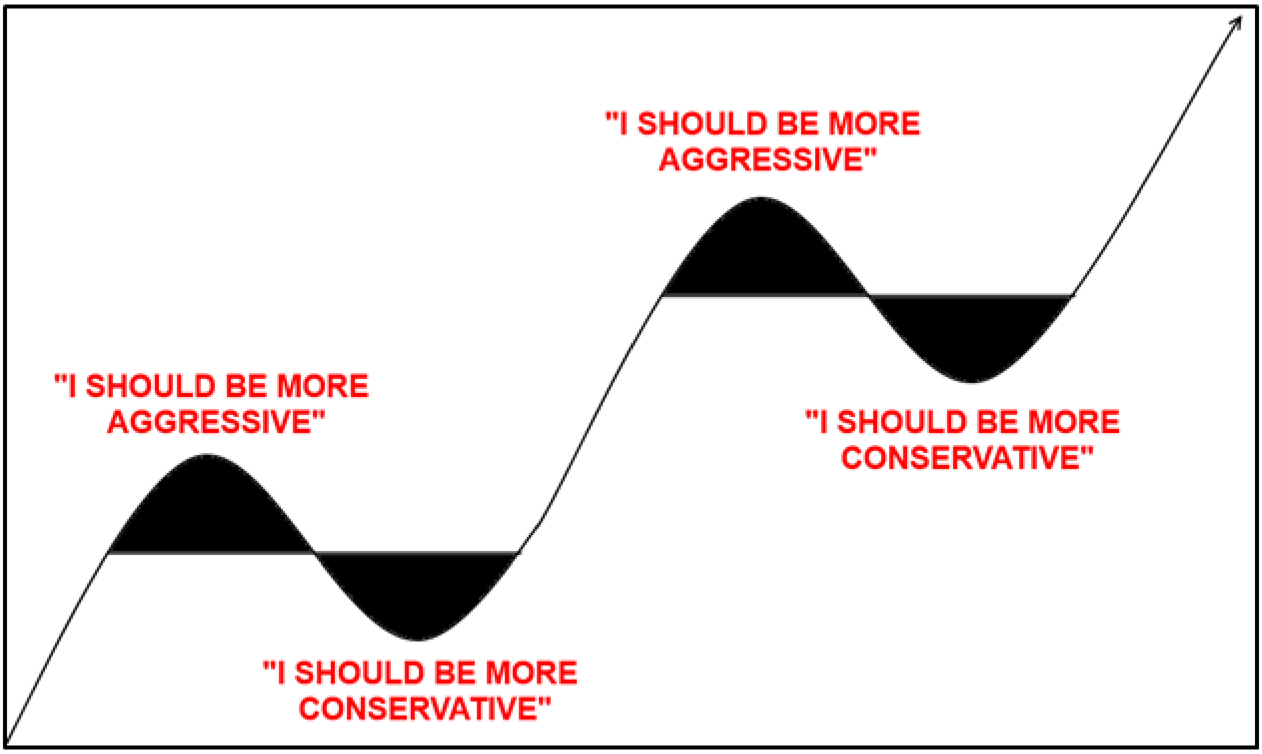


4. It’s getting cheaper and cheaper to live in Manhattan.



5. Even during bull markets corrections can come quickly. Take a look at the NASDAQ during the 1999 to March 2000 bull run. There were seven corrections of greater than 10%. The quickest was four days – the longest 17 days.

6. We've all done this before. We were probably doing it wrong.



Have a good weekend.

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