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Investment Institute

Weekly perspective on current market sentiment December 23, 2020

Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: +1.3%

Getting from here to there

Key takeaways

- Congress has passed legislation providing additional stimulus targeted largely toward consumer spending and small businesses.
- We believe this stimulus should provide a temporary patch that will allow the economy to grow modestly until the vaccines are more widely distributed.

Congress has been arguing over the terms of an additional stimulus plan for months. Now, finally, as legislators were on the verge of heading home for the remainder of the holiday season, it appears few wanted to face their constituents without results. The new stimulus deal is a $900 billion package that is largely consumer-oriented and includes direct income payments, an extension of the small business Paycheck Protection Program (PPP), transportation segment support, as well as funds for vaccine development, distribution, virus testing, and tracing. The final ingredients have been the foundation of most of the proposed legislation that the media has been reporting in recent months.

Remember that the consumer is responsible for nearly 70% of economic activity in the United States and that millions remain unemployed as a result of the pandemic. While the unemployment rate has dropped from nearly 15% to under 7% over the last six months, many out-of-work consumers are still in financial dire straits when it comes to rent, utility bills, mortgage payments, and other basic monthly expenses. For example, recent data suggest that approximately 6 million workers in the restaurant, bar, and retail segments of the economy are currently without jobs and the recent moves in a number of states to implement additional lockdowns have fueled further uncertainty in these industries. In our opinion, this additional stimulus was necessary to help consumers get through the current rough patch and boost spending until the COVID-19 vaccines are more widely distributed and more people are vaccinated. This is likely to take some time, but a number of estimates suggest mid-year 2021 as the time frame.

The stock market has anticipated good news in terms of additional stimulus as well as vaccines and their availability for some time as most of the major indexes are trading just off their all-time record highs. In sync with these expectations, the market has taken on more of a risk profile as equities ran hard in November with small caps and lesser quality stocks outperforming the larger cap growth issues that investors had been gravitating toward. It is typical in the early stages of a new cycle for investors to accept a higher degree of risk and become less attached to the largest stocks that are perceived to offer more safety and possess higher quality attributes like stronger balance sheets with less leverage.

The market's faith in a more positive 2021 has been partially based on expectations that Washington was going to provide more stimulus that would be targeted toward consumer spending and small business. We believe the new package should help carry the economy and consumers from the current state of modest growth to a point where widespread vaccine distribution will help move day-to-day life toward some semblance of normality.

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