RAYMOND JAMES

Monthly Market Review

Risk-Asset Rally 'Cools' As Market Volatility 'Heats' Up

January 2021

Virus Mutations & Retail Trading Frenzy 'Nipping' At The Post-Pandemic Rally

Monthly Highlights

- US Records Deadliest Month Yet; Vaccination Distribution Improves as US Administers 31 Million+ Vaccinations.
- Biden Inaugurated as the 46th President; Substantial 'Rescue' Stimulus Package Expected.
- The Fed Balance Sheet Still Near Record Level in Efforts to Maintain the Recovery's Pace.
- US Economy Records First Month of Job Loses Since April; Unemployment Rate Unchanged.
- Retail Sales Decline for the Third Consecutive Month Despite Holiday Season.
- 10-Year Treasury Yield Reaches Post-Pandemic High (1.14%) Intra-Month.
- High-Yield Spreads Decline 17 Basis Points Intra-Month to Post-Pandemic Low.
- S&P 500 Posts First Monthly Decline in Four Months after its Worst Week Since October.
- Market Volatility Index Returns to the Highest Level Since November.
- Small-Cap Equities Outperform Large-Cap Equities for Fifth Consecutive Month – Longest Streak Since 2008.
- US Dollar Falls to the Lowest Level Since 2018.
- Copper Prices Reach the Highest Level Since 2013.
- Oil Prices Reach a Post-Pandemic High.

Economy | Fed 'Freezes' Quantitative Easing Purchases With No Plans To Taper Just Yet.

- The first reading of **4Q20 GDP** fell below consensus expectations (+4.0% quarter-over-quarter (QoQ)), with the economy ending the year ~2.5% below pre-pandemic levels. Personal consumption (+2.5%) was relatively weak amid the holiday season, but business fixed investment (+13.8%) was a source of strength.
- The US surpassed 26 million **COVID-19** cases, but the 7-day average fell from ~260k to ~151k intra-month.
- The US has administered over 31 million **vaccines**, making progress on President Biden's goal of 150 million vaccinations in the first 100 days of his term.
- Johnson & Johnson's vaccine has a 66% **efficacy rate**, which should expedite the pace of inoculation.
- The **Fed's balance sheet** remains at the $7.4 trillion level, as the Fed monitors the path of the virus and vaccination progress so that quantitative easing in support of the economic recovery is appropriate.
- Joe Biden was inaugurated as the 46th **president**, and immediately proposed a $1.9 trillion "Rescue" stimulus plan with a "Recovery" package to follow.
- **January ISM Manufacturing** (58.7) remained in expansion (a level above 50) for the eighth month despite weakness in new orders (61.1 vs. 67.9 in Dec.).
- **The US lost 140k jobs** in December, the first month of job losses since the pandemic-induced peak in April. The unemployment rate (+6.7%) was unchanged.
- **Jobless claims** trended higher as restrictions remained in place, averaging 868k over the last four weeks – the highest level since the end of September.
- The pace of **headline inflation** (+1.3% YoY) rose slightly, reaching the fastest pace since September. The pace of **Core CPI** (+1.6% YoY) fell slightly, and is still well below the February pace (+2.4% YoY).
- **Consumer confidence** (89.3) saw dispersion between the "present situation" and "expectations" subsectors, as the former fell to the lowest level since May and the latter rose to the highest level since October.
- **Core retail sales** (ex. food, autos, and gas, -1.9% month-over-month (MoM)) declined for the third consecutive month, however the year-over-year pace (+6.4%) is still well above the 10-year average (+4.0%).
- **Housing data** was positive as housing starts (+5.8%), building permits (+4.2%), new home sales (+1.6%), and existing home sales (+0.7%) all increased. The pace of home price gains (S&P Case Shiller Home Price Index +9.1% YoY) rose for the fifth consecutive month, reaching the fastest pace since May 2014.
- **China's Manufacturing PMI** (51.3) declined from its post-COVID high reached in November for the second consecutive month, but remains in expansion territory for the eleventh consecutive month.
- **Euro Zone Manufacturing PMI** (54.7) fell slightly after reaching the highest level since May 2018 last month. Euro zone economic sentiment (91.5) improved after falling to the lowest level since August last month.

Fixed Income | Rising Treasury Yields Leave Most Sectors 'Out In The Cold.'

- The **Bloomberg Barclays US Aggregate Index** (-0.7% MoM) declined for the first time since Oct. and posted its worst decline since August. While investment-grade spreads were stable, rising Treasury yields weighed on the broader fixed income market.
- **International sovereign bonds** (G7 ex. US -1.5%) posted their first decline in four months and their worst decline since March amid rising sovereign yields and despite accommodative global monetary policy.
- **US investment-grade bonds** (-1.3% MoM) posted their worst month since August. Risk-asset volatility kept IG spreads within a narrow range, rising only two basis points. The weakness was led by the Technology (-1.5%) and Utilities (-1.5%) sectors.
- **Treasurys** (-1.0%) declined for the third time over the last four months as the 10-year Treasury yield rose 22 basis points to the highest level since March 2020.
- **Emerging market bonds** (-0.8% USD MoM) posted their worst month since September due to fears that the ongoing COVID surge and mutations would dampen economic growth and delay the recovery.
- **High-yield bonds** (+0.3% MoM) rallied for the ninth time over the last ten months due to strength in the Energy sector. High-yield spreads narrowed 17 basis points during the month, falling to the lowest levels since February of last year.
- **TIPS** (+0.6% MoM) rallied for the third consecutive month as breakevens rose 14 basis points. The sector outpaced Treasurys for the ninth time in ten months.
- **Municipals** (+0.6% MoM) rallied for the fourth time in five months as municipal bond spreads narrowed to the lowest levels since January of last year. The high yield (+2.1%), revenue (+0.7%), and general obligation (+0.5%) municipal sectors all rallied.

Equities | Most Regions Get 'Cold Feet' As Virus Mutations Weigh On Optimism.

- **Global equities** (MSCI All Country World Index -0.4% USD MoM) declined for the first time in three months as further progress on the vaccination front was overshadowed by fears that virus mutations and the remaining necessary restrictions could delay the sustainable reopening of the global economy.
- **European** equities (MSCI Europe ex UK -1.8% USD MoM) declined for the first time in three months and underperformed global equities for the third time over the last four months.
- **U.S Large-Cap** equities (S&P 500 -1.0% MoM) posted their first monthly decline since October. Better than expected 4Q20 earnings contributed to US equities rallying over 2.6% to a new record high before concerns over the vaccine efficacy rates against new strains caused fears that valuations were stretched.
- 4 of 11 **S&P 500 sectors** were positive, with elevated dispersion at the sector level. The Energy sector (+3.8%) was the best performer while the Consumer Staples (-5.2%) sector was the worst performer.
- **Japanese equities** (MSCI Japan -1.0% USD MoM) declined for the first time since October, and were outpaced by global equities for the second month.
- **EM equities** (MSCI EM +3.1% USD MoM) rallied for the ninth time over the last ten months and outperformed the developed markets (MSCI EAFE USD -1.1% MoM) for the fourth time over the last five months.
- Within EM, **Asia** (MSCI Asia ex JP +4.1% USD MoM) outperformed **LATAM** (MSCI LATAM -6.7% USD MoM) for the first time in three months.
- **US Small-Cap** equities (Russell 2000 +5.0% MoM) rallied for the ninth time in the last ten months and outperformed large-cap equities for the fifth consecutive month – the longest streak since 2008.

Commodities | Global Oil Demand Still 'Warming Up' As Global Economy Recovers.

- The **Bloomberg Barclays Commodity Index** (+2.6% MoM) rallied for the eighth time in nine months. The asset class improved despite the ongoing surges and mutations, as progress on the vaccine front should bring a sustainable reopening in the months ahead.
- The **US Dollar Index** (+0.7% MoM) rallied for the first time in three months despite declining to the lowest level since April 2018 intra-month. Concerns about vaccine efficacy against new strains of the virus spiked volatility in the final week of the month, increasing demand for safe-haven assets.
- The **Bloomberg Energy Index** (+5.5% MoM) rallied for the second time in three months. OPEC and Russia agreed to keep production levels steady for at least the next two months as countries continue to grapple with lockdowns that negatively impact demand, which led crude oil prices to rise (+7.6%) to the highest level since February of last year. Strength in natural gas prices (+1.5%) also led the index higher.
- The **Bloomberg Grains Index** (+4.8% MoM) rallied for the sixth consecutive month due to strength in soybean oil (+5.2%) and soybean (+4.5%) prices.
- The **Bloomberg Softs Index** (+0.1% MoM) rose for the seventh time in the last eight months due to strength in sugar prices (+2.2% MoM).
- The **Bloomberg Industrial Metals Index** (+0.01% USD MoM) posted its ninth month of gains over the last ten months as copper prices (+1.1%) rose to the highest level since January 2013 intra-month.
- The **Bloomberg Precious Metals Index** (-1.6% MoM) declined for the fourth time in five months as gold prices (-2.4% MoM) receded further from the recent historic high of $2,069/oz. Strength in silver prices (+1.9% MoM) was unable to lead the index higher.

Figure 1: Still Below Pre-Pandemic GDP Levels

The first reading of 4Q20 GDP (+4.0%) was below consensus estimates, and the US economy remains ~2.5% below pre-pandemic GDP levels.

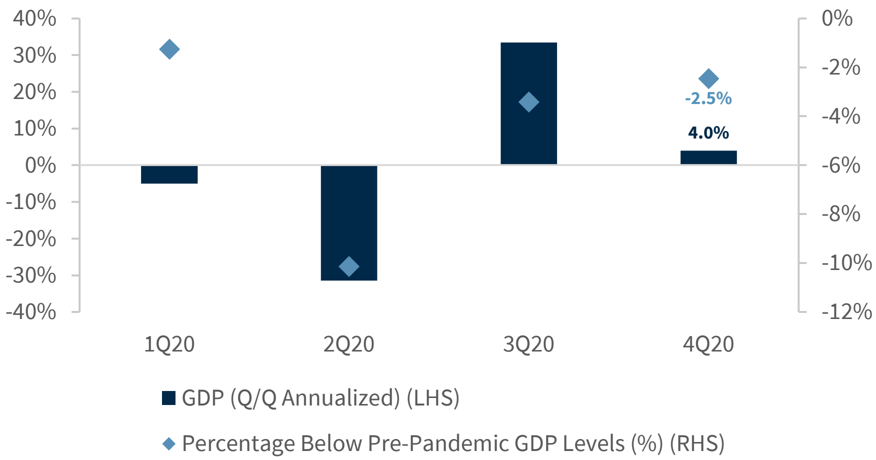


Figure 2: Trend of Dispersion Still Intact

Only 4 of the 11 S&P 500 sectors were positive for the month, with dispersion still evident. The Energy sector (+3.8%) was the best performer while Consumer Staples (-5.2%) was the worst.

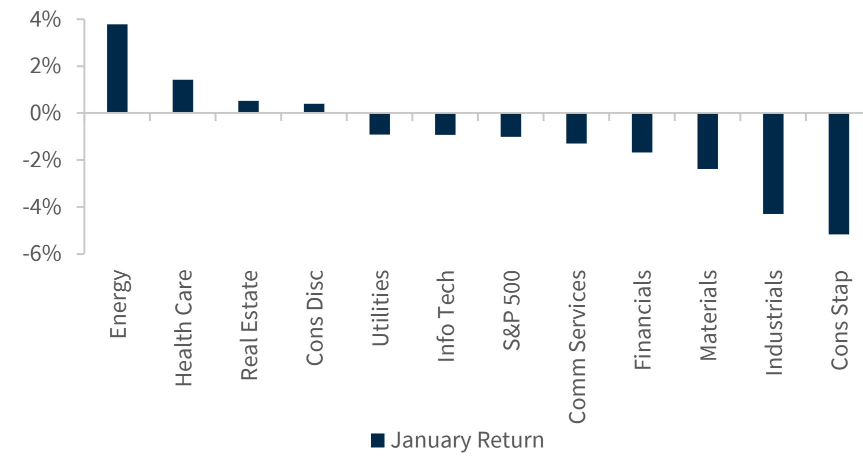


Figure 3: Municipal Bond Spreads Contract Further

Municipal bond spreads have narrowed over 290 basis points from their peak in March of last year, falling below their 20-year average, and returning to the lowest levels since January 2020.

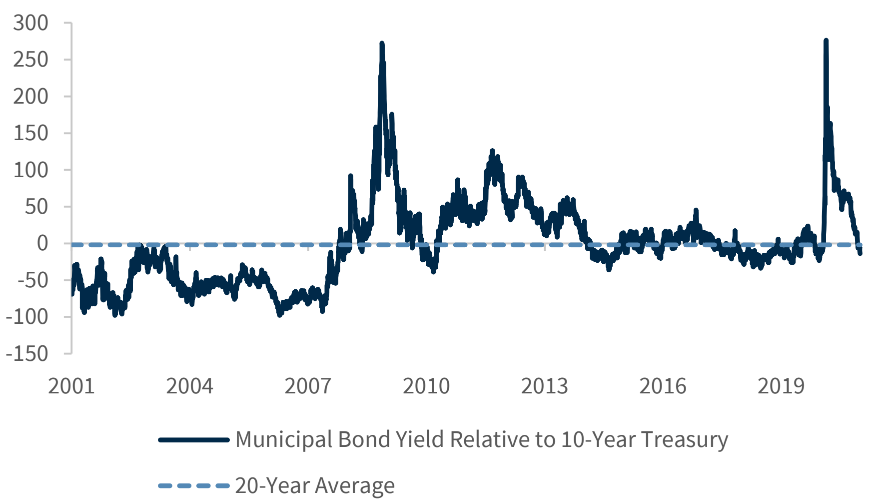
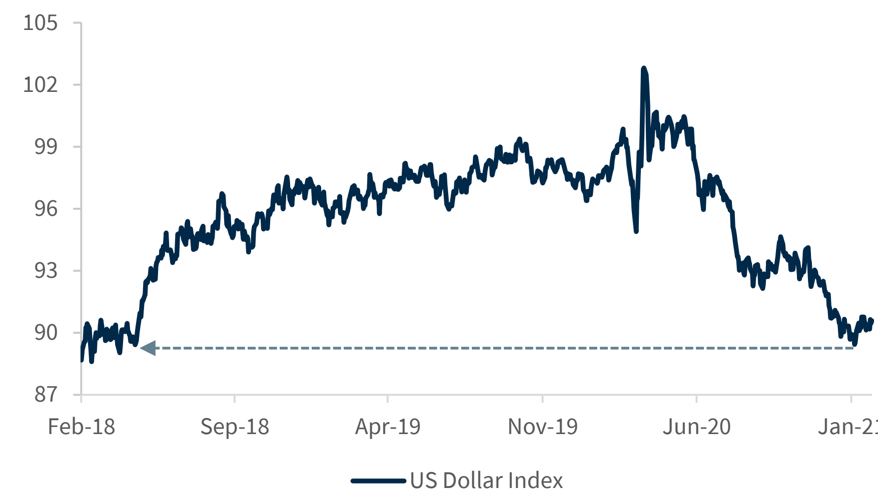


Figure 4: US Dollar Reaches Lowest Level Since 2018 Intra-Month

The US dollar reached the lowest level since April 2018 intra-month, before elevated volatility led to a rally toward the end of the month.



Fixed Income | Treasury Yields Reach Post-Pandemic Highs

	January	1 Year	3 Year	5 Year	10 Year
Municipals	0.6%	4.0%	5.3%	3.8%	4.8%
TIPS	0.6%	7.7%	5.4%	4.0%	2.8%
High Yield	0.3%	7.4%	6.1%	9.0%	6.6%
US Aggregate	-0.7%	4.7%	5.5%	4.0%	3.8%
EM Bonds	-0.8%	4.0%	5.3%	6.7%	6.0%
Treasuries	-1.0%	4.4%	5.3%	3.1%	3.2%
US Investment Grade	-1.3%	6.0%	6.9%	6.4%	5.5%
International Bonds	-1.5%	6.0%	2.7%	4.1%	1.2%

Equities | Small Cap Outperforms Large Cap

	January	1 Year	3 Year	5 Year	10 Year
Russell 2000 Value	5.3%	16.4%	5.1%	12.3%	9.2%
Russell 2000	5.0%	30.2%	11.1%	16.5%	11.8%
Russell 2000 Growth	4.8%	42.7%	16.5%	20.2%	14.1%
Russell 1000 Growth	-0.7%	34.5%	19.9%	22.2%	16.8%
Russell 1000	-0.8%	19.8%	12.5%	16.7%	13.6%
Russell 1000 Value	-0.9%	4.1%	4.4%	10.7%	10.2%
S&P 500	-1.0%	17.2%	11.7%	16.2%	13.5%
DJ Industrial Average	-2.0%	6.1%	4.7%	12.7%	9.7%

Commodities & FX | Oil Prices Continue Reopening Rally

	January	1 Year	3 Year	5 Year	10 Year
Crude Oil (WTI)	7.6%	1.2%	-6.9%	9.2%	-5.5%
BBG Energy Index	5.5%	-29.3%	-18.6%	-7.8%	-15.7%
BBG Commodity Index	2.6%	7.0%	-3.7%	0.7%	-6.9%
Copper	1.1%	41.3%	3.6%	11.5%	-2.2%
US Dollar Index	0.7%	-7.0%	0.5%	-1.9%	1.5%
BBG Industrial Metals	0.0%	25.2%	-1.4%	8.3%	-4.3%
BBG Precious Metals	-1.6%	19.4%	9.0%	8.6%	0.8%
Gold	-2.4%	16.5%	11.3%	10.6%	3.3%

International Equities (in USD) | EM Equities Outperform Developed

	January	1 Year	3 Year	5 Year	10 Year
MSCI Asia ex JP	4.1%	36.6%	7.3%	16.7%	7.3%
MSCI EM	3.1%	28.3%	4.8%	15.4%	4.6%
MSCI UK	-0.2%	-7.1%	-3.4%	3.9%	2.9%
MSCI AC World	-0.4%	17.6%	8.5%	14.2%	9.5%
MSCI Japan	-1.0%	15.3%	4.5%	10.7%	6.7%
MSCI EAFE	-1.1%	9.4%	2.7%	9.4%	5.6%
MSCI Europe ex UK	-1.8%	11.9%	3.6%	10.2%	6.3%
MSCI LATAM	-6.7%	-14.6%	-7.6%	8.8%	-3.4%

S&P 500 Sectors | Increased Volatility Impacts Most Sectors

	January	1 Year	3 Year	5 Year	10 Year
Energy	3.8%	-22.6%	-15.3%	-3.9%	-3.0%
Health Care	1.4%	18.3%	11.5%	13.7%	16.0%
Real Estate	0.5%	-3.0%	8.1%	8.3%	9.5%
Consumer Discretionary	0.4%	33.0%	16.4%	18.9%	17.8%
Utilities	-0.9%	-6.6%	10.6%	10.2%	11.0%
Information Technology	-0.9%	37.1%	25.7%	28.8%	20.1%
Communication Services	-1.3%	20.9%	12.1%	10.1%	10.2%
Financials	-1.7%	-0.8%	1.4%	12.8%	10.3%
Materials	-2.4%	25.6%	6.3%	15.1%	8.7%
Industrials	-4.3%	6.8%	4.2%	12.7%	11.0%
Consumer Staples	-5.2%	4.6%	6.5%	7.8%	11.4%

Key Asset Class Levels

	January	1 Year	3 Year	5 Year	10 Year
S&P 500	3,714	3,273	2,854	1,940	1,276
DJIA	29,983	28,734	26,439	16,466	11,824
MSCI AC World	643	567	547	375	335
S&P 500 Dividend Yield	1.58	1.90	1.85	2.46	2.01
1-3M T-Bills (Cash, in %)	0.05	1.55	1.35	0.27	0.14
2YR Treasury Yield (in %)	0.11	1.43	2.11	0.78	0.53
10YR Treasury Yield (in %)	1.08	1.59	2.70	1.93	3.33
30Yr Treasury Yield (in %)	1.84	2.05	2.94	2.76	4.53
EURUSD	1.21	1.10	1.24	1.08	1.36
Crude Oil - WTI ($/bbl)	53	53	66	34	89
Gold ($/oz)	1863	1570	1340	1116	1341

Data as of January 31, 2021: Asset classes ranked by January performance.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

BLOOMBERG BARCLAYS CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

INTERNATIONAL DISCLOSURES

DATA SOURCES:

FactSet, as of 1/31/2021

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