MARKET INSIGHTS

from Ziegler Capital Management

January 2021 Market Commentary

The S&P 500 returned -1.02%% in January, after giving up gains during the last week of the month in volatile trading. Small cap stocks, as measured by the Russell 2000 returned 5.03% continuing the pattern of strong positive returns in November and December. There was little differentiation between Growth and Value in January with the Russell 1000 Growth returning -0.74% and the Russell 1000 Value returning -0.92%. Similarly, the Russell 2000 Growth returned 4.82% and the Russell 2000 Value returned 5.26%.

The U.S. Presidential election and inauguration of Joe Biden and his Administration's transition are dominating headlines, as well as the initial roll-out of COVID-19 vaccines.. Central Bank and government stimulus measures, including an additional round of stimulus approved in late December, continue to help reduce the economic damage tied to the virus.

The first Fourth Quarter GDP reading was 4.0% on an annualized basis, shy of projection of 4.3% due to weakness in consumption, which was dragged down by a combination of the withdrawal of fiscal support and the resurgence in COVID-19 infections. Calendar year GDP 2020 estimates are -3.5%, the largest annualized decrease since 1946. Interestingly, these figures include the largest increase in personal income (+6%) since 1984, aided significantly by government stimulus. With COVID-19 cases now falling and Congress' approval of an additional $900 billion stimulus in late December, there are expectations of consumption growth to accelerate in the first half of 2021 with first

Returns by Sector

	S&P 500		Russell 2000	
Sector	**2020**	**Jan 2021**	**2020**	**Jan 2021**
Communication Services	23.61	-1.30	5.05	6.88
Consumer Discretionary	33.30	0.41	32.39	14.62
Consumer Staples	10.75	-5.17	26.20	6.56
Energy	-33.68	3.79	-33.65	13.40
Financials	-1.76	-1.75	-4.45	-0.67
Health Care	13.45	1.42	45.93	6.09
Industrials	11.05	-4.30	24.55	4.50
Information Technology	43.89	-0.92	38.02	4.95
Materials	20.73	-2.38	16.10	-2.73
Real Estate	-2.17	0.53	-5.47	0.45
Utilities	0.52	-0.91	-1.28	-1.08
TOTAL RETURN	**18.39%**	**-1.02%**	**19.93%**	**5.03%**

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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quarter 2021 GDP growth projections of 5% and second quarter 2021 projections of 10%. According to the National Bureau of Economic Research, the U.S. entered a recession in February 2020 and remains there.

According to the U.S. Bureau of Labor Statistics, total nonfarm payroll employment declined by 140,000 in December, and the unemployment rate was unchanged at 6.7%. The decline in payroll employment reflects the recent increase in coronavirus (COVID-19) cases and efforts to contain the pandemic. In December, job losses in leisure and hospitality and in private education were partially offset by gains in professional and business services, retail trade, and construction. The U.S. savings rate was 13.7% in December (released in January) after peaking at a stunning 32.2% in April. As previously discussed, these continued elevated rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

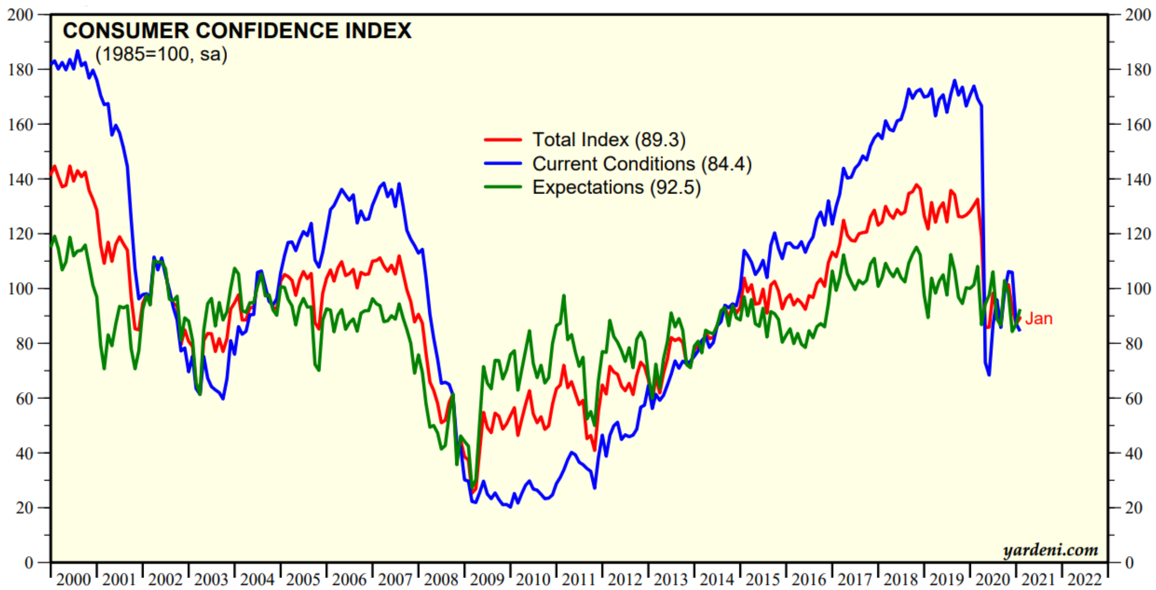
The Federal Reserve's January statement reiterated that they are "committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals". They noted, "The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook." The Committee kept the target range for the federal funds rate at zero to 0.25% and expects it will maintain this target range for the near future. In addition, the Federal Reserve said it will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. They believe these asset purchases help foster smooth market functioning and accommodative financial conditions and support the flow of credit to households and businesses.

With sizable returns in November, December and January, small cap stocks, as measured by the Russell 2000, have returned 35.15% for the trailing three months through January 31, 2021. In comparison, large cap stocks, as measured by the S&P 500, have returned 14.04% over the same time period. Value stocks over this same time period have lead Growth stocks with the Russell 1000 Value returning 16.72% versus the Russell 1000 Growth at 14.46%. This pattern was also seen in small cap stocks, albeit more muted, with the Russell 2000 Value returning 35.53% versus the Russell 2000 Growth returning 34.83%. In contrast, Growth stocks outperformed Value considerably in calendar year 2020 in both large (by 35.69%) and small (by 30.00%).

West Texas Intermediate (WTI) finished January at $52.21, increasing by nearly 8% since the December month-end reading of $48.42 a barrel. WTI is significantly higher than April 2020's close at $18.84 per barrel, but remains down from the 2020 starting price of $61.06 per barrel.

Consumer Confidence increased modestly to 89.3 in January from 87.1 in December. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased in January as it did in December to 84.4, as COVID-19 remains a drag on present thoughts. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased to 92.5 in January from 87.0 in December. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned -0.72% in January on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended January at 1.07%, after beginning the year at 0.92%. It remains sharply lower than the 2020 beginning reading of 1.92%, but has increased dramatically since hitting an all-time low of 0.54% in July 2020. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) ended January at 97 basis points relatively unchanged from December at 96 basis points. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended January at 33.09, spiking over 25% during the last week of the month, and finishing that the December reading of 22.75. While the VIX saw a similar spike in October due to election related news, it remains considerably lower than the March 16, 2020 peak of 82.69. The long-term average of the VIX is approximately 20.

In the last week of the month, the market was introduced to a phenomom of retail investors going toe to toe with hedge fund managers who had positioned themselves "short" in some fundamentally questionable companies. These retail investors drove up the interest in these companies with semi-organized market/company news threads. Some hedge funds suffered very serious losses, and needed to raise funds resulting in them selling some very solid companies that provided liquidity. Therefore, not only were some of the questionable companies trading far above their most recent prices, some very good companies suffered price decreases so managers could raise funds by selling them. We are not sure how long this phenomom lingers but we believe that over the long run stocks will trade at their fair value.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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