Horizon Wealth Management
Weekly Market Commentary
February 8, 2021

The Markets

It's not a black diamond ski run yet, but the yield curve for U.S. Treasuries is steeper than it has been in a while.

A yield curve is the line on a graph showing yields for different maturities of bonds. Yield curves provide insight to bond investors' perceptions about the economy. There are four basic types of yield curves:

- **Normal**: The slope is upward because short-term bond yields are lower than long-term bond yields. A normal curve for U.S. Treasuries has a yield gap of about 2.3 percent between 30-year Treasury bonds and 3-year Treasury bills, according to *Fidelity*. On Friday, the difference was 1.78 percent.
- **Steep**. The upward curve is unusually steep. This may occur when an economic expansion is underway, demand for capital pushes interest rates higher, and inflation rises.
- **Flat**: There is no curve because short- and long-term bonds have similar yields. Flattening yield curves can be a precursor of economic slowdown and lower interest rates.
- **Inverted**: The curve slopes down. Long-term bond yields are lower than short-term bond yields. Some believe an inverted yield curve is a signal that recession is ahead.

Right now, the steepening of the U.S. Treasury yield curve is positive news, according to a source cited by Ben Levisohn of *Barron's*:

> "Historically, [a steepening yield curve is a] good sign for both the economy and stock markets…But it is also an early warning sign that the clock is ticking on how long the Fed will remain on hold, or easy, before beginning to hike rates and tighten financial conditions to combat the threat of runaway inflation."

Inflation concerns were part of last week's debate over the size of the pending stimulus. If stimulus is too small, economic growth and jobs recovery may falter. If it's too big, the economy may overheat and inflation could become an issue, according to economist Lawrence Summers in *The Washington Post*.

Judging by January's anemic jobs report, it could be a while before the economy runs too hot.

The *Bureau of Labor Statistics* reported 49,000 jobs were created last month. At that rate, it would take a very long time for the economy to recover the jobs lost in 2020. The pace of hiring is expected to accelerate as more Americans get vaccinated and new stimulus is distributed, reported Matthew Klein of *Barron's*.

Major U.S. stock indices finished the week higher.

Data as of 2/5/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.7%	3.5%	16.6%	13.6%	15.6%	11.4%
Dow Jones Global ex-U.S.	3.6	3.7	14.7	3.2	9.1	2.8

10-year Treasury Note (Yield Only)	1.2	NA	1.7	2.8	1.9	3.6
Gold (per ounce)	-3.3	-4.5	16.1	10.6	9.4	3.0
Bloomberg Commodity Index	3.0	5.7	10.3	-2.3	1.8	-6.7

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

BITS AND BOBS. Investors are always looking for news that might lead them to new trends in the market. Here are a few fascinating tidbits from last week:

- **Currency competition.** China would really like the yuan to replace the U.S. dollar as the world's favored currency. *Reuters* reported, "…the global system for financial messaging and cross-border payments, has set up a joint venture with the Chinese central bank's digital currency research institute and clearing centre, a move some see as a sign that China wants to explore global use of its planned digital yuan."

- **Putting a price tag on nature.** The Treasury of the United Kingdom commissioned an expert panel to evaluate the contributions of species and ecosystems to the size and growth of economies and evaluate how loss of biodiversity will affect economies in the future. The 600-page *Dasgupta Review* reports that sustaining the world's current level of economic growth and standards of living (a.k.a. "global demand for the biosphere's goods and services and the biosphere's current capacity to supply them on a sustainable basis") will require 1.6 Earths.

- **Veggies telling tales.** Scientists are finding ways to help plants monitor the environment and communicate their findings. Researchers at the Massachusetts Institute of Technology (MIT) embedded nanotubes in spinach plants to look for chemical compounds found in explosives, like landmines. *MIT News* explained, "When one of these chemicals is present in the groundwater sampled naturally by the plant, carbon nanotubes embedded in the plant leaves emit a fluorescent signal that can be read with an infrared camera. The camera can be attached to a small computer similar to a smartphone, which then sends an email to the user."

Weekly Focus – Think About It

"Here's to the crazy ones. The misfits. The rebels. The troublemakers. The round pegs in the square holes. The ones who see things differently…Because they change things. They push the human race forward. And, while some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world, are the ones who do."

--Rob Siltanen, Advertising marketer

Best regards,

Chris Dumford, CFP®, AIF®
Larry Makatura, CFP®, AIF®

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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