

Weekly Update

Fiscal Windfall Boosts Retail Sales

February 19, 2021

The Economy

- Retail sales surged by 5.3% in January, rebounding from a 0.7% drop in December, with every major category experiencing an uptick as millions of Americans received stimulus checks in the New Year. Consumer spending accounts for about 70% of U.S. economic activity.
- Industrial production increased for the ninth consecutive month in January, gaining 0.9% on improved mining output. Overall capacity utilization (the percentage of resources used to produce goods in manufacturing, mining, and electric and gas utilities for all U.S. facilities) grew by 0.6% to 75.6%. Manufacturing output expanded by 1.0% for the month.
- Producer prices advanced in January by a greater-than-expected 1.3%—the largest monthly gain since 2009 (as measured by the Department of Labor's producer-price index, which tracks the average change in prices that producers receive for goods and services)—suggesting that inflation may start to gain traction in the near term.
- The outlook for single-family homes improved from 83 to 84 in February, primarily on robust demand for new construction, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The reading was favorable despite record-high lumber prices.
- Total import prices rose by 1.4% in January, the biggest month-over-month increase since August 2020, due to higher energy prices and a weaker U.S. dollar. Export prices jumped by 2.5% during the month on growing agricultural and nonagricultural costs.
- Preliminary estimates for the February reading of Markit's U.S. purchasing managers' index (PMI) showed that manufacturing activity remained in expansion territory (above 50), despite moderating to 58.5 from 59.2 in the prior month. Estimates showed improvement in services activity, moving to 58.9 from 58.3 over the same period.
- Initial jobless claims increased during the week ending February 13 by 13,000 to 861,000, remaining near historic highs due to renewed business restrictions intended to curb the spread of COVID-19. Warmer weather and a broad vaccine distribution plan is expected to encourage consumer spending and promote job growth later in the spring.
- Mortgage-purchase applications fell by 6.0% for the week ending February 12. Refinancing applications diminished by 5.0% in the same period. The average interest rate on a 30-year fixed-rate mortgage moved higher from 2.73% to 2.81%.
- Industrial production in the eurozone retreated by a worse-than-expected 1.6% in December due to a decrease in the manufacturing of capital goods. The pandemic has stalled business investment and weakened overall demand.
- Preliminary estimates for the February reading of Markit's Japan PMI showed that manufacturing activity rebounded from 49.7 to 51.3. Factory output improved despite the country having been in a state of emergency caused by the ongoing pandemic.

Stocks

- Global equity markets closed lower for the week. Emerging markets were generally in line with developed markets.
- U.S. equities were in negative territory. Energy and financials were the top performers, while utilities and healthcare lagged. Value stocks led growth, and small caps beat large caps.

Bonds

- The 10-year Treasury bond yield moved higher to 1.34%. Global bond markets were in negative territory this week. High-yield bonds led, followed by global corporate bonds and global government bonds.

The Numbers as of February 19, 2021	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI (\$)	-0.5%	5.0%	17.6%	678.7
MSCI EAFE (\$)	-0.3%	3.5%	10.9%	2222.1
MSCI Emerging Mkts (\$)	-0.3%	10.4%	30.1%	1425.1
U.S. & Canadian Equities				
Dow Jones Industrials (\$)	0.1%	2.9%	7.7%	31482.8
S&P 500 (\$)	-0.5%	4.2%	16.0%	3913.8
NASDAQ (\$)	-1.6%	7.6%	42.2%	13866.9
S&P/TSX Composite (C\$)	-0.4%	5.5%	2.5%	18385.4
U.K. & European Equities				
FTSE All-Share (£)	0.4%	2.6%	-9.2%	3770.0
MSCI Europe ex UK (€)	-0.7%	2.8%	-1.5%	1473.4
Asian Equities				
Topix (¥)	-0.3%	6.9%	15.2%	1929.0
Hong Kong Hang Seng (\$)	1.6%	12.5%	11.0%	30644.7
MSCI Asia Pac. Ex-Japan (\$)	0.2%	11.0%	33.4%	734.7
Latin American Equities				
MSCI EMF Latin America (\$)	-1.5%	-2.9%	-12.8%	2381.0
Mexican Bolsa (peso)	1.7%	2.0%	0.4%	44955.0
Brazilian Bovespa (real)	-0.6%	-0.2%	3.6%	118753.1
Commodities (\$)				
West Texas Intermediate Spot	-0.4%	22.1%	10.2%	59.2
Gold Spot Price	-2.0%	-5.9%	10.3%	1783.2
Global Bond Indexes (\$)				
Barclays Global Aggregate (\$)	-0.6%	-2.0%	6.9%	547.8
JPMorgan Emerging Mkt Bond	-0.8%	-1.7%	1.3%	917.7
10-Year Yield Change (basis points*)				
US Treasury	13	43	-17	1.34%
UK Gilt	18	51	12	0.70%
German Bund	12	27	14	-0.31%
Japan Govt Bond	4	9	15	0.11%
Canada Govt Bond	18	53	-10	1.21%
Currency Returns**				
US\$ per euro	0.0%	-0.8%	12.3%	1.212
Yen per US\$	0.5%	2.2%	-5.9%	105.47
US\$ per £	1.1%	2.4%	8.7%	1.400
C\$ per US\$	-0.6%	-0.8%	-4.8%	1.262

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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