



EVERETT FINANCIAL GROUP

## Weekly Commentary

January 11, 2021



### **The Man Who Didn't Discover America**

Bjarni was lost at sea. On his way to Greenland, fierce autumn storms had buffeted his ship for days. They had blown him so far off course that he had no idea where he was. Once the weather cleared, he was relieved to see land. But this land looked totally unfamiliar. It had no mountains or glaciers as Greenland did, only small hills and forests. Bjarni didn't know it, but he had crossed the Atlantic and sailed to what is now Canada.

His crew begged him to land. If only he had the spirit of a Christopher Columbus, this might have been a defining moment in exploration. But Bjarni was intent on going home, not going down in history. So without even leaving his boat, he turned right around and headed out to sea. He and his crew finally made it to Greenland a week later.

Years afterward, he told his tale of adventure to a friend, who decided to retrace Bjarni's course. And so it was that Leif Eriksson staked his claim as the first European to walk on the American continent.

Bjarni went down in history as the man whose curiosity did *not* get the better of him.

Many thought he lacked curiosity, and for this reason he was somewhat slandered. - The Norse Sagas, Describing Viking reaction to Bjarni's journey.

*This is the page from the Flateyjarbok, the Norse saga that describes Bjarni's journey, as well as Eriksson's. Written in the 1300s, it is based on manuscripts and oral histories that date back centuries earlier.*

The Greatest War Stories Never Told

## Weekly Market Commentary January 11, 2021

### The Markets

The event at the United States Capitol building had a resounding impact around the world, but it didn't deter global stock markets.

Last week, investors weighed the violent disruption of America's 2020 presidential election process against the outcome of the Senate runoff in Georgia, and decided the latter was more significant. *Financial Times* reported the Democratic party's win in Georgia improves the possibility of additional government relief spending in 2021:

"In turn, this renews the momentum behind trends within equity and bond markets that have been unfolding in recent months. These include rising long-term interest rates and inflation expectations that reflect hopes of an accelerating economy later this year."

Last week, the yield on 10-year U.S. Treasuries moved above 1 percent for the first time since March 2020, closing on Friday at 1.13 percent.

Disappointing employment numbers may provide an impetus for additional government stimulus measures. Last Friday, the *U.S. Bureau of Labor Statistics* reported the loss of 140,000 U.S. jobs in December 2020. It was the first decline in eight months, reported *MarketWatch*, and resulted from a surge of coronavirus cases across the country. The unemployment rate remained unchanged at 6.7 percent.

Major U.S. stock indices moved higher last week. The Standard & Poor's 500 Index, Dow Jones Industrial Average, and Nasdaq Composite all closed at record highs. The small-cap Russell 2000 Index gained almost 6 percent.

Global stock markets also moved higher. A strategist cited by *Financial Times* commented, "The only noise in markets...was a bullish stampede as [they] continued their strong start to 2021."

Data as of 1/8/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.8%	1.8%	17.6%	11.7%	14.8%	11.7%
Dow Jones Global ex-U.S.	3.6	3.6	13.7	2.9	8.6	3.2
10-year Treasury Note (Yield)						

Only)	1.1	NA	1.9	2.5	2.1	3.3
Gold (per ounce)	-1.3	-1.3	18.5	12.2	11.1	3.1
Bloomberg Commodity Index	2.1	2.1	-1.1	-3.2	0.8	-6.6

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.

**WHAT'S A MELT-UP?** If you're a student of language or just interested in words, the term 'melt-up' is a bit mystifying. The base word - melt - conjures visions of ice cream and glaciers. Meltdown also is clear. It brings to mind tantrums and nuclear reactor disasters. The apparent opposite, melt-up, begs the question - is it even possible for something to melt-up?

In the stock market, the answer is yes.

A melt-up occurs when share or index prices move sharply higher for reasons that have little to do with fundamentals (e.g., profits, revenues, assets, liabilities, potential growth).

Last week, *The Economist* reported, "In short, the conditions seem ripe for further stock market gains. So ripe, indeed, that a persistent thought keeps surfacing in the minds of strategists. What is to stop stock prices worldwide going on a really crazy run? Several things could get in the way of a market melt-up."

Among the obstacles that could hinder a melt-up, *The Economist* cites:

- **The world economy.** Despite vaccines and surprisingly strong economic data in the United States and China, "The harm to the world economy is likely to be more prolonged than hoped."
- **Bullishness.** "Paradoxically, positive sentiment is often seen as a reason to be wary, and that investors have got ahead of themselves. Indeed, 2018 began with much talk of a market melt-up but ended with heavy stock market losses."
- **Rising inflation.** "Lockdowns and fiscal transfers have left rich-world consumers with extra savings and a lot of pent-up demand - fuel for a post-pandemic spending spree." At the same time, COVID-19 has been constrained supply. High demand and limited supply can lead to inflation.
- **Less stimulative policies.** High levels of bullishness are supported by current fiscal and monetary policies. If those policies change to address inflation and other issues, how will markets be affected?

There is no disputing some indexes in the United States are at record highs. It is less certain what will happen in 2021.

In early December 2020, *MarketWatch* published an article by Robert Shiller, Laurence Black, and Farouk Jivraj. They wrote high prices may be warranted, as long as bond yields remain low. "Eventually, down the line, bond yields may just rise, and equity valuations may also have to reset alongside yields. But, at this point, despite the risks and the high CAPE ratios, stock-market valuations may not be as absurd as some people think."

Last week, the real yield (the yield after inflation) for 10-year U.S. Treasuries was -0.93 percent. That's pretty low, but it's better than it was the previous week.

## Weekly Focus - Think About It

"People generally see what they look for and hear what they listen for."

--Harper Lee, *Author*

Best Regards,



Brian Everett  
Certified Financial Planner™  
Certified Wealth Strategist®  
Retirement Income Certified Professional®  
Everett Financial Group

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- \* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- \* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- \* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
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