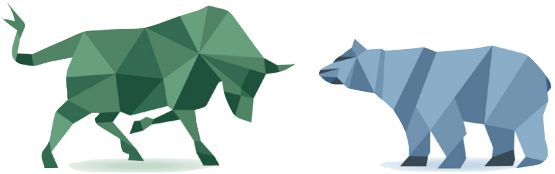
Braeburn Observations



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LOWRY'S 1/29/2021

As has been the case for the past few weeks, short-term indicators suggest near-term volatility. Longer-term indicators remain consistent with an intact and healthy intermediate-term uptrend.

U.S. MARKETS

Stocks declined sharply last week amid much higher volatility and trading volumes. Large caps held up marginally better than mid-cap and small-cap shares. The Dow Jones Industrial Average shed over 1000 points last week closing at 29,983 - a decline of 3.3%. The technology-heavy NASDAQ Composite gave up most of last week's gains finishing down -3.5%. By market cap, the large cap S&P 500 fell -3.3%, while the mid-cap S&P 400 and small-cap Russell 2000 retreated -5.0% and -4.4% respectively.

INTERNATIONAL MARKETS

The number of Americans filing for first-time unemployment benefits dropped to a three-week low despite an uptick in coronavirus cases. The Labor Department reported initial jobless claims fell by 67,000 to a seasonally-adjusted 847,000 last week. Economists had forecast claims to total 875,000. Before the pandemic, new claims were running in the low 200,000s and they had never risen by more than 695,000 in any one week. Meanwhile, the number of people already collecting state jobless benefits declined by 203,000 to a seasonally adjusted 4.77 million. That's the lowest level since the pandemic began.

Home prices surged at a fast pace yet again in November according to two separate indices released this week. The S&P CoreLogic Case-Shiller 20-city home price index posted a 9.1% year-over-year gain in November - a 1.1% increase from the previous month. On a monthly basis, the index increased 1.5% between October and November. Across the country, the broader Case-Shiller national price index showed a 9.5% gain year-over-year, up 8.4% from the prior month. Prices rose in at least 19 of the 20 large cities tracked by Case-Shiller. Detroit, which is typically included in the 20-city index, was again excluded because of issues collecting data during previous coronavirus-related shutdowns. Phoenix experienced the largest price increase for the 18th consecutive month with a 13.8% year-over-year increase, followed by Seattle (12.7%) and San Diego (12.3%).

Despite rising prices, sales of newly built homes continued to rise in December. The Census Bureau reported new home sales occurred at a seasonally-adjusted annual rate of 842,000 last month. That was a 1.6% increase over November's reading. Analysts had expected an annual rate of 875,000. Compared to 2019, December's numbers were up roughly 15% year-over-year. Gains varied by part of the country, led by a 30.6% increase in the Midwest, but sales in the Northeast and South fell on a monthly basis, by 6.1% and 5.1% respectively. Inventory rose slightly to a 4.3-month supply. A six-month supply of homes is generally considered indicative of a balanced market. The median price of new homes for sale was $355,900, up 8% from 2019.

U.S. economic growth slowed to a 4% annual pace at the end of last year as a record wave of coronavirus cases weighed on the recovery. It followed a 33.4% surge in the previous quarter, which reflected the reopening of the economy and massive fiscal and monetary stimulus. But with COVID cases and deaths spiking since the fall, partial shutdowns in some industries and states, and brewing social unrest around the presidential election, the economic recovery lost momentum at yearend. Jim Baird, chief investment officer at Plante Moran Financial Advisors summed it up stating, "The bottom line is that the economy remains in a delicate spot."

Confidence among the nation's consumers recovered a bit in January as the number of coronavirus cases and fatalities continued to decline. The Conference Board reported its index of consumer confidence rose 2.2 points to 89.3 this month, after two months of declines. Last month's reading was the lowest in five

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months. Economists had forecast a further decline to 88. Other measures of confidence, including the consumer-sentiment survey and daily report by Morning Consult, also recovered in January. Consumer confidence is still far below pre-pandemic levels, however. The index stood at 132.6 before the viral outbreak last February.

Americans continued to cut their spending in December, for the second month. The Commerce Department reported consumer spending declined 0.2% last month. On a positive note, spending didn't fall as much as expected. Economists had forecast a 0.4% drop. Spending fell the most in December on recreation goods and vehicles, groceries, liquor and services such as dining out. Americans also cut spending on non-essentials. Despite the decline, at least one analyst is optimistic of a rebound in spending in the first quarter of 2021. U.S. economist Andrew Hunter at Capital Economics stated, "The recent wave of virus infections and restrictions on activity ensured that consumption ended last year on a weak note, but there are a number of reasons to expect spending to rebound sharply in the first few months of this year."

Orders for goods expected to last at least 3 years, so-called "durable goods" rose for an eighth month in a row. Orders rose 0.2% in December, below economists' estimates, but analysts stated it was still a solid report. The drag stemmed predominantly from a slump in new aircraft orders. Excluding transportation and transportation, core orders rose a fairly robust 0.6%. Orders for new cars and trucks increased 1.4% in the final month of 2020. Auto sales have held up pretty well during the pandemic as car buyers took advantage of ultra-low rates to lock in good deals. Jennifer Lee, senior economist at BMO Capital Markets stated, "This report shows firm upward momentum for business investment as the longest year ever came to an end."

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time prefessional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

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