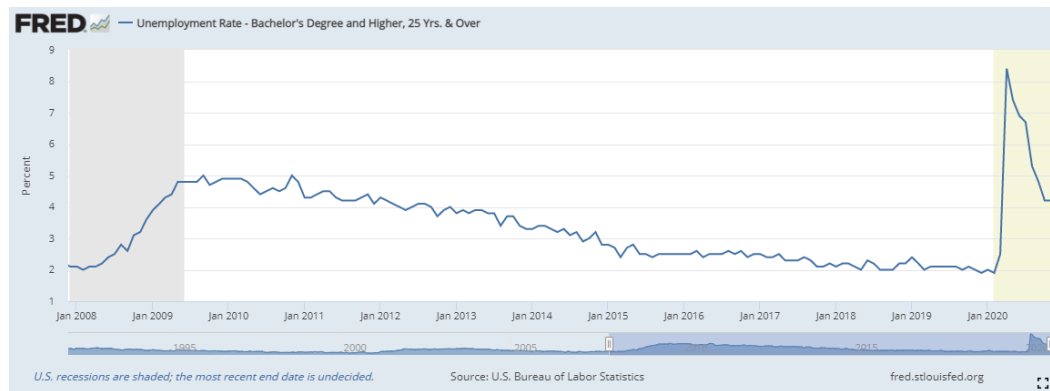
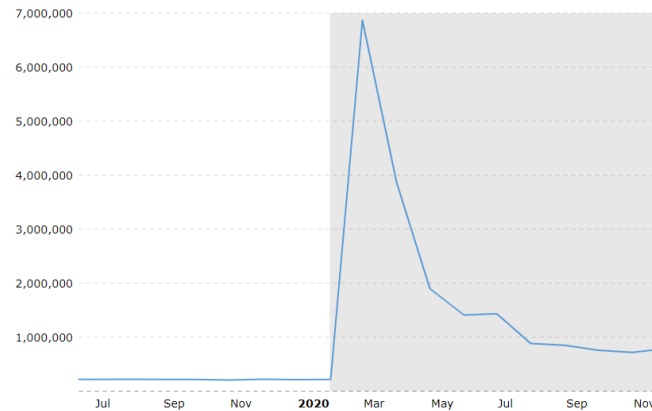


Interesting Charts and Commentary

U.S. Labor Market Remains Soft

Jobless claims are down from the peak but remain elevated year-over-year. Even the unemployment rate of college educated adults, which typically recovers quickly, has remained stubbornly high. The stimulus package should help but does not totally offset a soft labor market. A nationwide vaccination program is expected to provide significant relief by the second half of 2021. If a vaccine cannot be distributed broadly and in a timely fashion, businesses could face additional closures, resulting in more layoffs.

Initial Jobless Claims Historical Chart

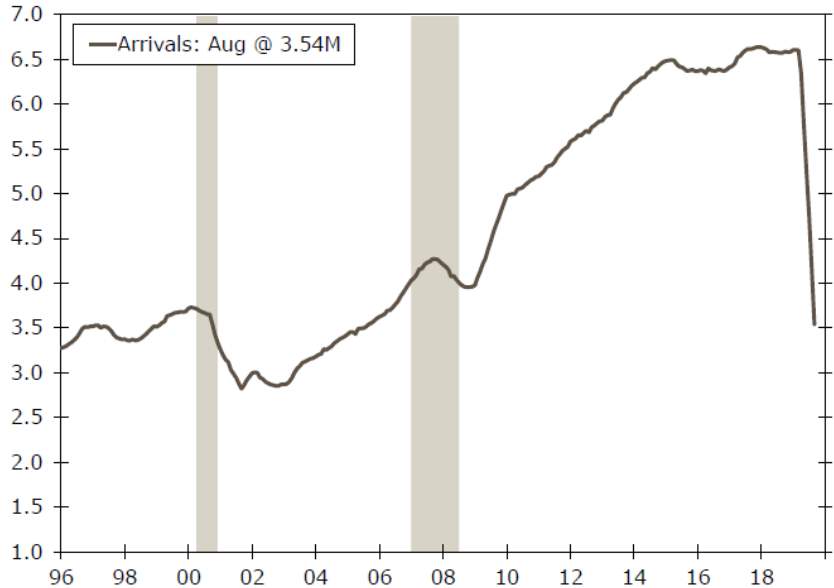


Air Travel and Hotel Occupancy Are Still Materially Impacted

This latest recession was largely and uncharacteristically led by the service sector. While the hotel and food service industries are starting to recover, aided by holiday travel and a slight uptick in business travel, the levels are still well below the 2020 highs. The continued spread of Covid-19, along with concerns about new strains developing in Europe, are negatively impacting international air travel into the U.S. The real test of the strength of these markets will be in the March-October period as the success of the vaccination program becomes clear.

International Arrivals to the U.S.

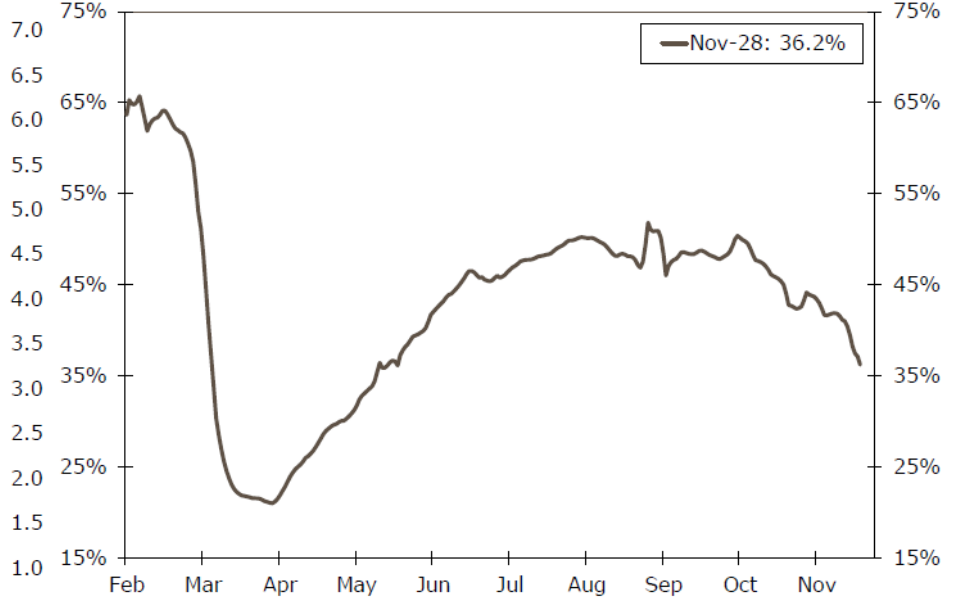
Millions, 12-Month Moving Average



Source: National Travel and Tourism Office and Wells Fargo Securities

Daily Hotel Occupancy

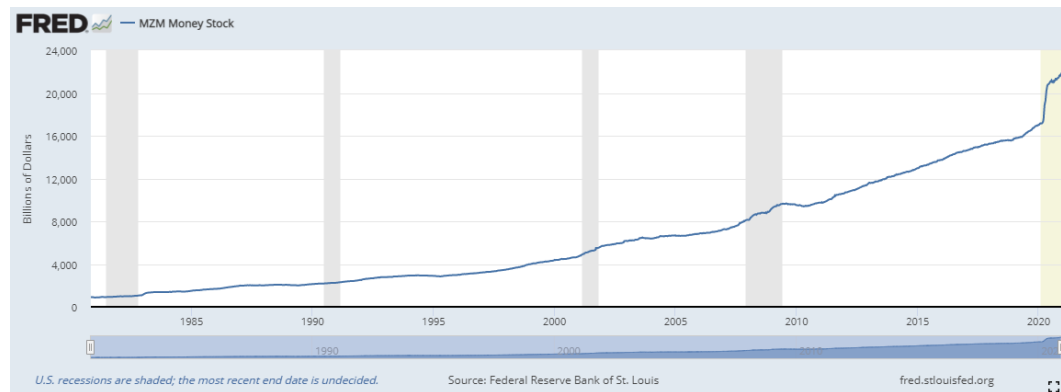
2020; 7-Day Moving Average



Source: STR and Wells Fargo Securities

The Amount of Money in the Financial System Remains Elevated and Continues to Grow

The weakness in the economy has been offset with further rounds of government stimulus. With interest rates at unprecedented lows and monetary liquidity at unprecedented highs, “money” has flooded into stocks, pushing equity prices up to new highs. This abundance of liquidity could provide an additional economic boost once the economy begins moving toward full recovery.



Manufacturing Is Improving in A Generally Soft Economy

Despite some large pockets of weakness in the economy, the U.S. manufacturing sector continues to improve. Worldwide manufacturing appears to be gathering steam as well. The December ISM reading of 60.7% reflects strength and accelerating growth. Since 1949, the U.S. has avoided recession as long as the Manufacturing PMI is expanding. In fact, recessions usually occur when the PMI reaches 45 and lower. Absent another near total shutdown of the global economy, we may skirt a double-dip recession.

(Institute For Supply Management Manufacturing Purchasing Manager Index)

Manufacturing at a Glance

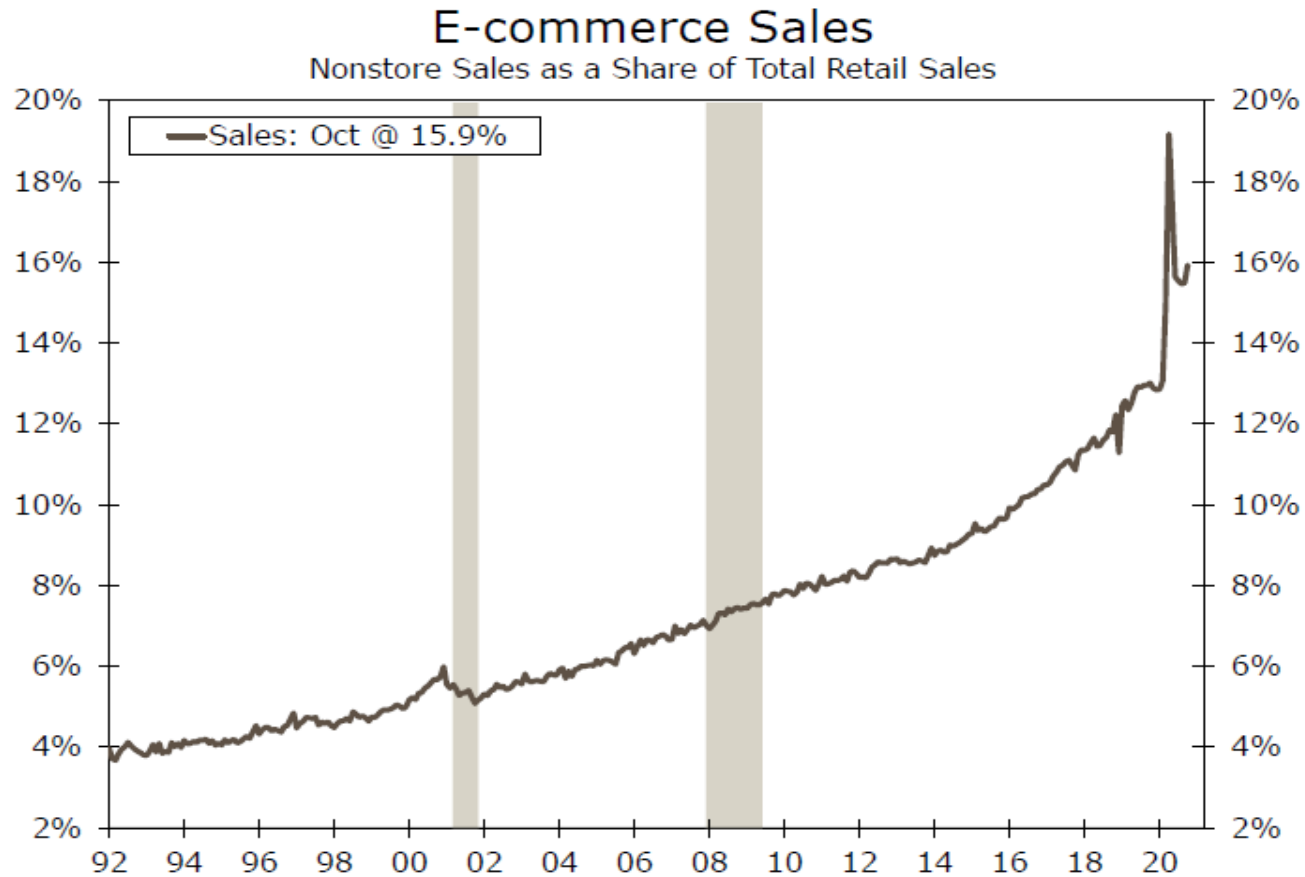
INDEX	Dec Index	Nov Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	60.7	57.5	+3.2	Growing	Faster	7
New Orders	67.9	65.1	+2.8	Growing	Faster	7
Production	64.8	60.8	+4.0	Growing	Faster	7
Employment	51.5	48.4	+3.1	Growing	From Contracting	1
Supplier Deliveries	67.6	61.7	+5.9	Slowing	Faster	14
Inventories	51.6	51.2	+0.4	Growing	Faster	3
Customers' Inventories	37.9	36.3	+1.6	Too Low	Slower	51
Prices	77.6	65.4	+12.2	Increasing	Faster	7
Backlog of Orders	59.1	56.9	+2.2	Growing	Faster	6
New Export Orders	57.5	57.8	-0.3	Growing	Slower	6
Imports	54.6	55.1	-0.5	Growing	Slower	6
Overall Economy				Growing	Faster	8
Manufacturing Sector				Growing	Faster	7



*Number of months moving in current direction.
Manufacturing ISM® Report On Business® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

Secular Shifts to E-commerce Accelerated in 2020

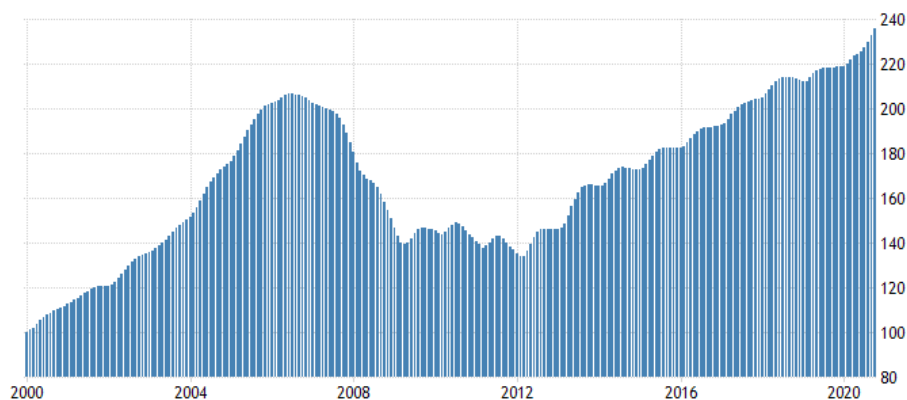
It is not surprising that e-commerce sales thrived in 2020's stay-at-home environment. Nevertheless, the magnitude of the spike and the pace at which both retailers and consumers changed buying habits were stunning. These trend should only continue.



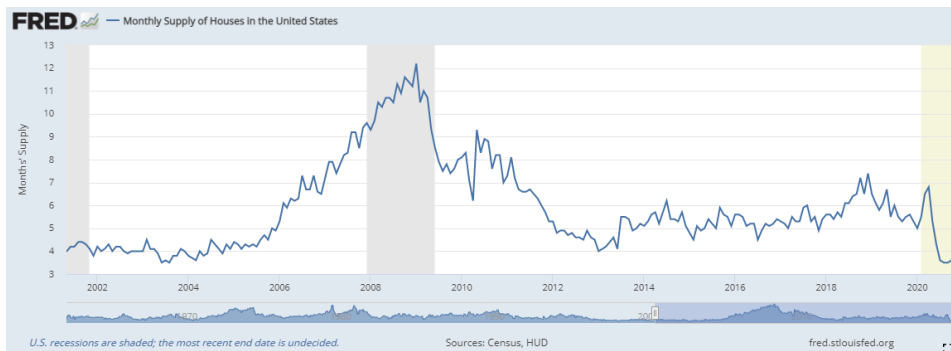
Source: U.S. Department of Commerce and Wells Fargo Securities

High Demand, Low Inventory, and Low Rates Have Led to Record High Average Home Prices

Another bright spot has been the housing sector. The S&P CoreLogic Case-Shiller 20-City Home Price Index rose nearly 8% percent in October of 2020, following a nearly 7% increase in September. It was the largest increase in U.S. house prices since June of 2014 and can be attributed to record low interest rates, the lowest supply of housing in a decade, and higher demand from people moving away from cities.



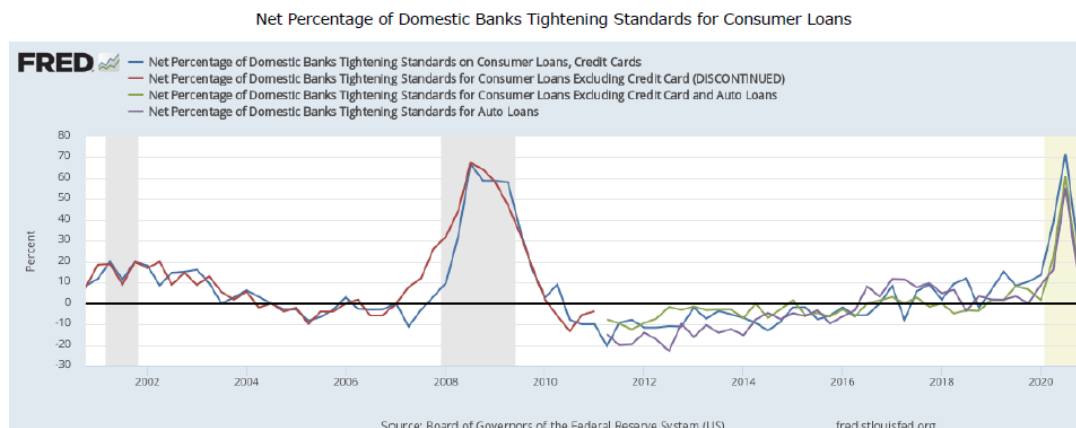
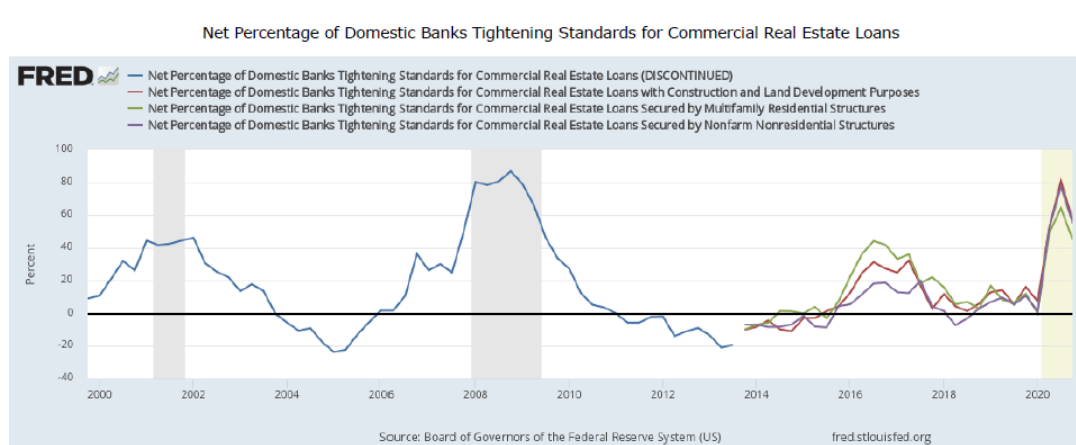
SOURCE: TRADINGECONOMICS.COM | STANDARD & POOR'S



Source: Tradingeconomics.com, : St. Louis
Federal Reserve Bank S&P

Bank Lending Standards Point to A Slowly Recovering Economy

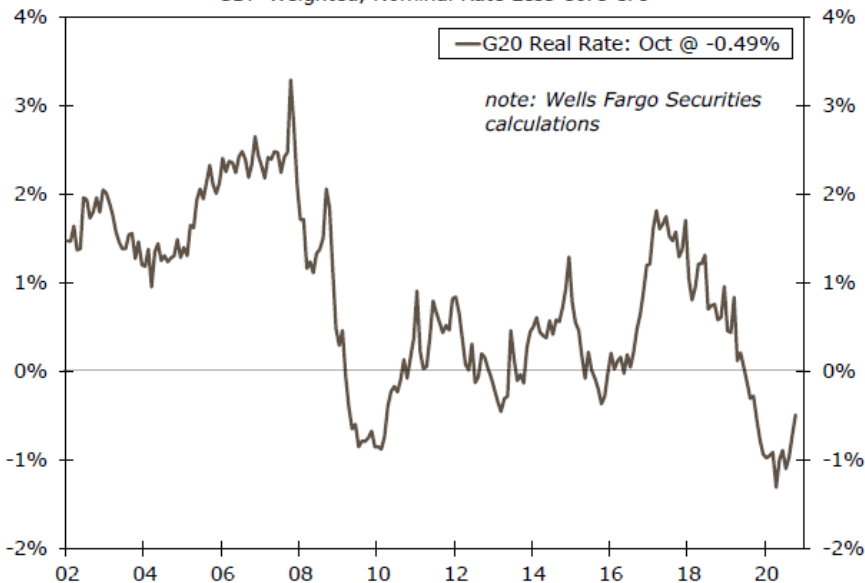
Banks continue to loosen lending standards for commercial real-estate and consumer loans, but overall standards remain tight versus pre-pandemic levels. Conversely, as the manufacturing sector has improved, bank lending has quietly ticked up, albeit modestly.



Rates Remain Low, Making Dividends Attractive

Much of the developed world continues to have short-term interest rates below or near 0%. Dividend paying stocks could continue to be attractive avenues for income generation, especially given the amount of money “on the sidelines” earning little to no interest.

G20 Real Short-Term Interest Rate
GDP-Weighted, Nominal Rate Less Core CPI



Source: Wells Fargo, Tullett Prebon

10 Year Govt Yields

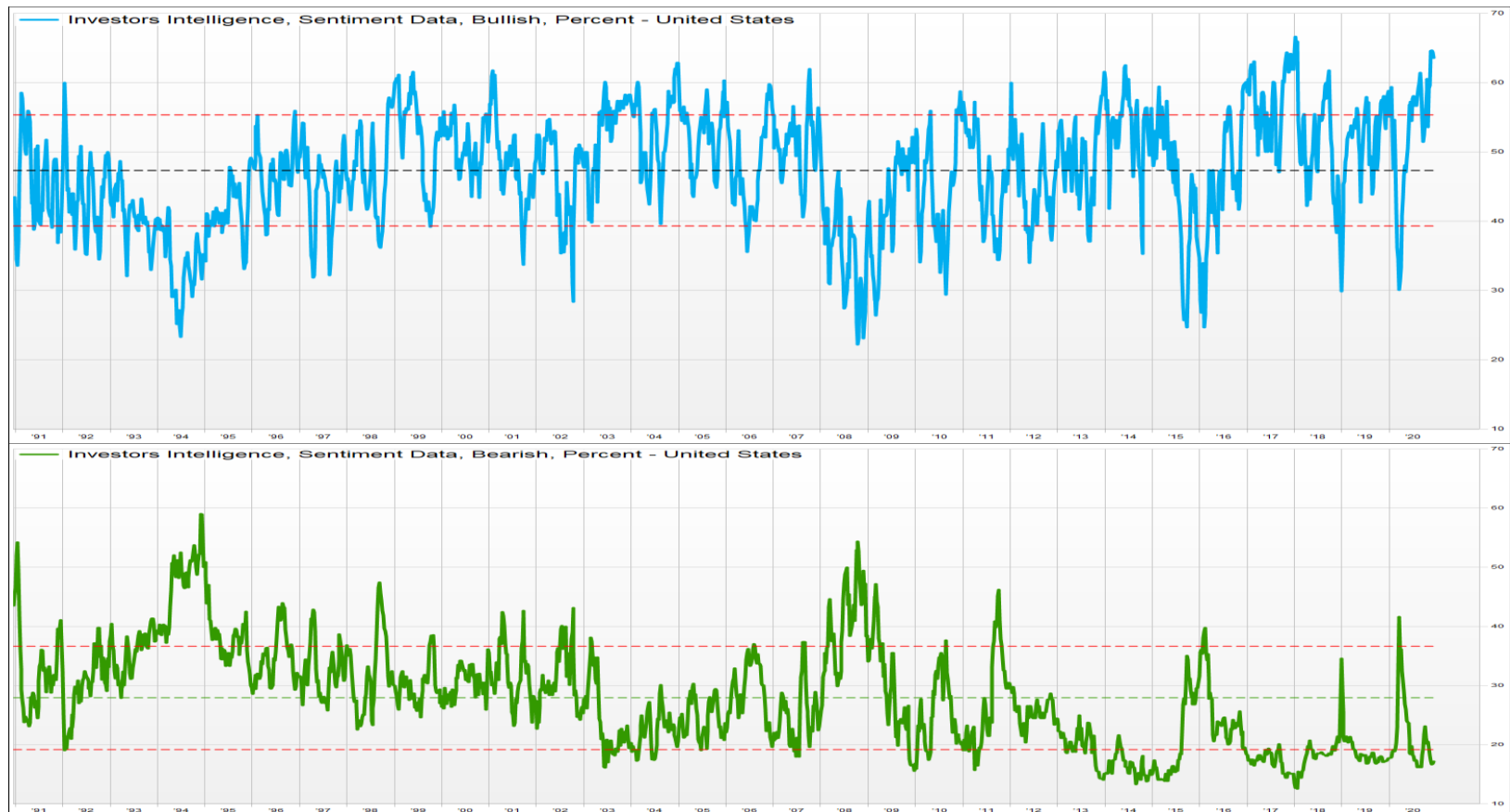
	Latest	Change	Spread vs. US 10 yr
US	0.93%	-0.009	-
UK	0.20%	-0.046	-72.40
Europe	-0.58%	-0.012	-151.00
Australia	0.95%	-0.008	2.70
Belgium	-0.40%	-0.015	-132.40
Canada	0.73%	-0.008	-20.26
Denmark	-0.47%	0.000	-140.00
France	-0.34%	-0.008	-126.90
Germany	-0.58%	-0.012	-151.00
Greece	0.65%	0.000	-28.10
Ireland	-0.30%	0.000	-122.40
Italy	0.57%	0.000	-35.70
Japan	0.01%	-0.002	-92.12
Netherlands	-0.50%	-0.016	-143.20
New Zealand	0.96%	0.011	3.40
Norway	0.92%	0.000	-1.30
Portugal	0.03%	0.000	-89.40
Spain	0.06%	0.009	-87.20
Sweden	-0.11%	0.000	-104.10
Switzerland*	-0.48%	0.000	-141.19

*©SWX Swiss Exchange

©Tullett Prebon Information

Contrarian Indictors Point to a Potential Market Pullback...

The amount of optimism (and/or lack of pessimism) in the market right now is nearing a short-term extreme. Such conditions typically can lead to a near-term pullback and/or a sector leadership rotation.



...But Overall Market Health Remains Strong

While sentiment has become exuberant and stock prices may have become extended, the overall health of the market, measured by the number of stocks advancing, has remained strong. Both NASDAQ and NYSE market breadth readings are confirming the highs in the market. Money has rotated from sector to sector, which is typical of a potentially sustainable market advance.



Conclusion: It is A Tale of Two Economies in the U.S., with The Potential for A Market Pullback or Leadership Rotation on the Horizon

- The faster-than-expected economic recovery from the depths of the Covid-19 shutdown in Spring of 2020 has decelerated in some parts of the economy. Air travel and hotel trends remain depressed, and the overall labor market remains weak – particularly in the low earnings end of the labor force spectrum. Conversely, manufacturing and housing are doing very well and show no signs of slowing.
- Bank lending standards remain tight for consumers and commercial borrowers, but they have begun loosening. The Fed has made it very clear that it will keep interest rates low for the foreseeable future until the economy is on strong footing. This stance should help banks continue to provide loans and liquidity.
- With developed market interest rates near or below zero, high-quality dividend yielding stocks still appear to be one of the most attractive sectors for income-oriented investors. Further, at the corporate level, high cash balances and low rates should continue to push investment towards mergers and acquisitions, stock buybacks, and dividend increases.
- After the strong end to the year, some stock market indicators appear quite “overbought” in the short-term, with the bull/bear ratio nearing an extreme. Such conditions typically lead to a market pause, a pullback, or a sector leadership rotation. Nonetheless, other measures reflect market health, including the recent broadening in the number of stocks participating in the rally.

Disclosure:

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