Weekly Market Review

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The Week Ending December 18, 2020

All eyes were focused on Washington D.C. last week as Congress continued negotiations on a pandemic stimulus bill. Yet, this uncertainty did not slow down the stock market, specifically technology stocks, as much as one might think, with the S&P 500 Index closing at a record high on Thursday. But what is driving stocks to all-time highs? The same day stocks closed at records, initial unemployment claims were announced at near 900,000, and new data showed continued weakness in the consumer sector. However, with politicians determined to pass a COVID-19 relief bill, which was agreed upon over the weekend, and the Federal Reserve reassuring their easy money policy objectives, the market is looking past short-term worries to a post-COVID-19 world.

The Federal Reserve wrapped up their final meeting of an active 2020 last week, ensuring that they will continue to support an economic recovery. Most committee members do not expect to increase interest rates until at least 2023. While setting short-term interest rates is a large part of the Fed's objectives, their bond-buying and 2020 emergency lending programs arguably had a more considerable impact on the subsequent recovery. Fed Chairman Jerome Powell stated the Fed would continue to purchase treasury and mortgage bonds "until substantial further progress has been made" in the employment situation and inflation. As we see weekly in unemployment claims, that part of the equation is not expected to improve substantially anytime soon. Inflation could rear its head earlier than expected given all the inflationary policies; however, we have been saying that for years and have yet to see meaningful inflation. While inflation is always possible, it is unlikely to cause the Fed to change from its objectives in the near to medium term.

Like the Fed continuing to support the economy, the stock market expects a stimulus bill from Congress to do the same. With easy monetary and fiscal policies, the stock market knows it has the support to continue to trade higher, despite risks of another COVID-19-induced slowdown. The latest retail sales and consumer confidence releases showed both data points falling from previous months, but this did not have much of an impact on stocks. In prior years, weakness in consumer spending would have a negative impact on the stock market due to the consumer being the largest portion of the U.S. economy. If 2020 has taught us anything, it is that timing the market is impossible and expect the unexpected. The best way to achieve your goals is to have a long-term outlook and trust your financial plan to achieve it.

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