

# THE ECONOMY AT A GLANCE

## ECONOMIC HIGHLIGHTS

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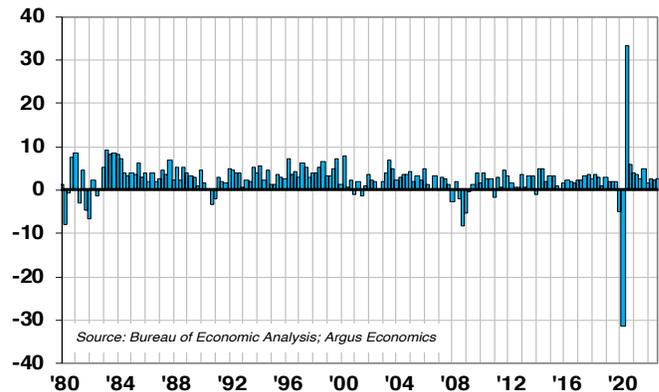
### A LOOK OUT TO 2022

On an annual basis, we look for growth to return in 2021 above pre-pandemic growth in 2019. Our preliminary estimate for 2022 is growth of 2.3% -- near the average during the five years prior to the pandemic. These forecasts are based on expectations for a continued recovery in the consumer sector; a stable-to-declining dollar; oil prices that average \$45-\$55 per barrel; and low interest rates as the Fed keeps its focus on jobs growth instead of inflation.

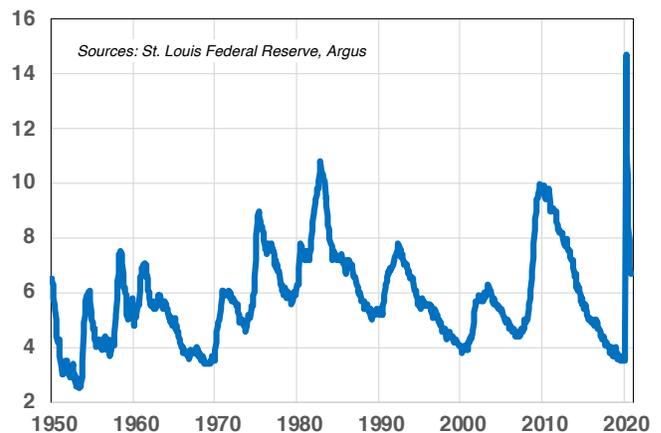
### DECEMBER PAYROLLS DECLINE

The U.S. economy lost 140,000 jobs in December. Notable job losses occurred during the month in leisure, education and government, while jobs increased in the temporary help and courier segments. In December, 23.7% of employed persons teleworked, up from 21.8% in November. The number of unemployed, at 10.7 million, was up 5 million from February. The Labor Department reported that another 787,000 people filed initial unemployment claims, and the total of continuing claims was 5.2 million, down from 6.2 million a month earlier but still showing a weak employment environment. We expect that the unemployment rate will remain high (and the Fed will keep interest rates low) in 2021 as the U.S. economy slowly recovers.

**GDP TRENDS & OUTLOOK (% CHANGE)**



**U.S. UNEMPLOYMENT RATE (%)**

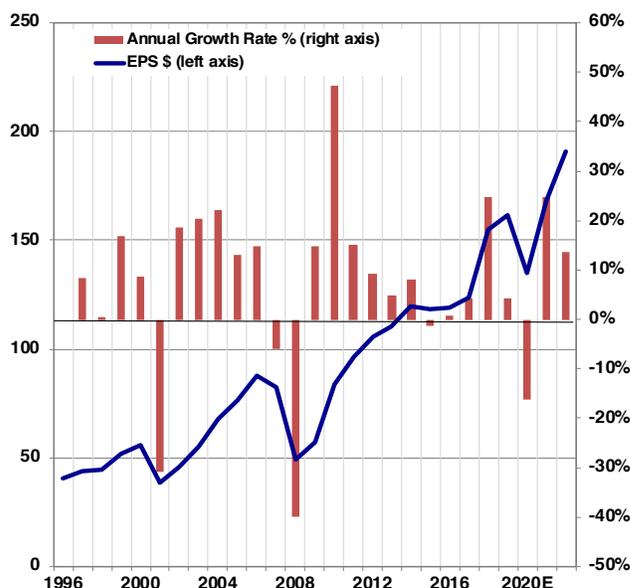


# ECONOMIC HIGHLIGHTS (CONTINUED)

## 4Q EPS SEASON GETS UNDERWAY

The second- and third-quarter earnings seasons were historically bad, while coming in slightly better than abysmal expectations. We note that 3Q EPS represented sequential improvement from 2Q, which was the trough of the earnings recession. By our calculations, S&P 500 earnings declined 16% in 3Q after plummeting 36% in 2Q. Our model assumes further improvement in 4Q20, with a decline of 3%. Taking all this into account, our 2020 estimate for S&P 500 earnings from continuing operations is \$135. We expect further improvement (and outright growth) in 2021, with EPS from continuing operations of \$168. Our estimates imply a high-teens percentage decline in 2020, followed by 25% EPS growth in 2021. Finally, our preliminary EPS forecast for 2022 is \$191, which assumes 15% growth.

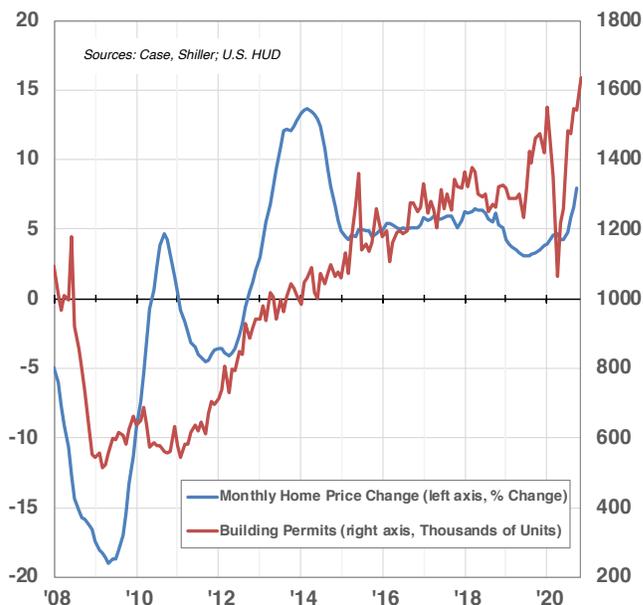
S&P 500 EPS TRENDS & ESTIMATES



## HOUSE PRICES SURGING

The housing market -- a major pillar of U.S. economic growth pre-pandemic -- is rebounding. Existing home sales, which were down 32% in May from January, have been rising consistently since late spring and are closing in on a 100% increase from their May lows. Building permits, a leading indicator for the industry, peaked in January at 1.55 million units and are now back above that level (based on data through November). They too have risen more than 50% from April's lows. Prices have held up as well. The S&P/Case-Shiller National Home Price Index is one of the most closely watched barometers of the housing market. Data for October 2020 showed that home prices rose 7.9% year-over-year -- the highest rate in six years. Meanwhile, inventory levels are tight: currently there is a low 4.1-month supply of existing homes for sale (the average range is 4.5-7.5 months), according to the U.S. Census Bureau. On the other side of the pandemic, we expect demand for homes -- with yards between neighbors and no elevator buttons to press -- to remain strong.

HOUSING MARKET TRENDS

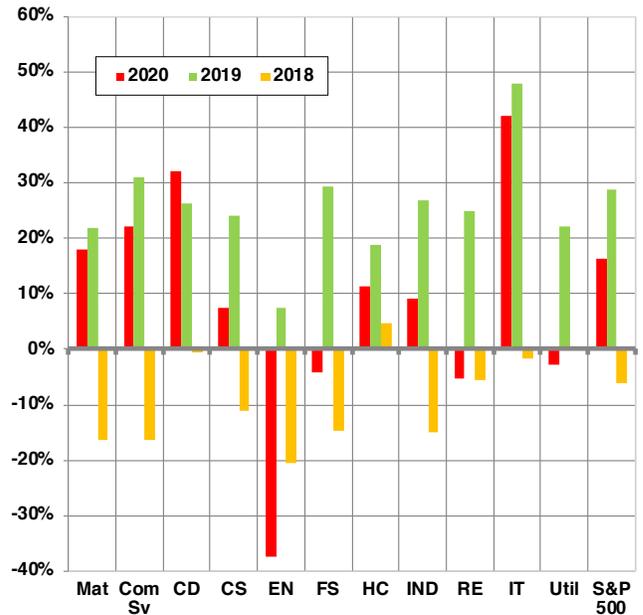


# FINANCIAL MARKET HIGHLIGHTS

## LEADERS AND LAGGARDS IN 2020

A handful of sectors shined through the pandemic in 2020, while others struggled. For the year, seven of 11 GICS sectors posted gains, as the S&P 500 rose 16%. The leading sectors included Information Technology (up 42%), Consumer Discretionary (+32%) and Communication Services (+22%). The badly lagging sectors include Real Estate (-5%), Financials (-4%) and Energy (-37%). On a three-year basis, two clear trends emerge: the IT sector has outperformed three years in a row, while the Energy sector has lagged badly three years in a row. Will the trends reverse in 2021? We think that is doubtful. Investors are increasingly eager to allocate capital to innovative IT companies that are connecting people (amid ongoing social distancing) and making corporations more efficient. Meanwhile, the Energy sector is facing “peak demand” forecasts at some point in the next 2-3 decades, suggesting the long-term growth outlook is severely capped. In addition to IT, the other sectors we favor for “secular” long-term EPS growth include Healthcare (which is on the front lines fighting COVID-19), Consumer Discretionary and Financial Services.

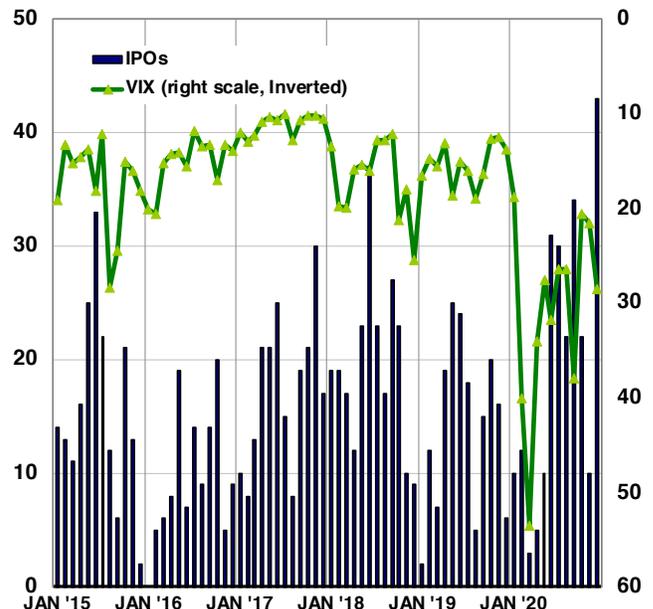
SECTOR PERFORMANCE (CHANGE PER PERIOD)



## IPO ACTIVITY REMAINS HOT

The IPO market extended momentum that had been building in 2Q and 3Q and grew sharply again year-over-year in 4Q. The quarter was bumpy, with a flood of issuance in October as corporate earnings improved, then a pause in early November related to the presidential election. Once the votes were cast -- and even before they were fully counted -- IPO activity picked back up and was heavy into the holiday season. IPO activity jumped 55% year-over-year in 4Q20, though the volume of offerings was down 24% from 3Q20. By the numbers, 65 operating companies raised funds through IPOs in 4Q20, up from 42 in 4Q19 but down from 86 in 3Q20. IPO investors favored industries that appear well positioned to thrive on the other side of the pandemic, such as drug discovery and oncology in Healthcare, and digital and cloud in the Technology sector. The ratio of positive issue-opens to negative issue-opens was 3:1 in 4Q20, up from 2.5:1 in 3Q20. We think the market for IPOs will remain strong in 2021 given a deep pipeline of companies that have filed with the SEC and a long list of Unicorns that are ready to fly.

IPO ISSUANCE



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jan	Housing Starts	December	1547 K	1550 K	1560 K	NA
22-Jan	Existing Home Sales	December	6.69 Mln.	6.50 Mln.	6.53 Mln.	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Feb	ISM Manufacturing	January	60.7	NA	NA	NA
	Construction Spending	December	0.9%	NA	NA	NA
3-Feb	ISM Non-Manufacturing	January	57.2	NA	NA	NA
4-Feb	Factory Orders	December	1.0%	NA	NA	NA
	Non-farm Productivity	4Q	4.6%	NA	NA	NA
	Unit Labor Costs	4Q	-6.6%	NA	NA	NA
5-Feb	Trade Balance	December	-\$68.1 Bln.	NA	NA	NA
	Non-farm Payrolls	January	-140 K	NA	NA	NA
	Average Weekly Hours	January	34.7	NA	NA	NA
	Average Hourly Earnings	January	0.8%	NA	NA	NA
	Unemployment Rate	January	6.7%	NA	NA	NA

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