

Optimism Reigns Despite Surging Virus

This morning, the Institute for Supply Management (ISM) non-manufacturing index for December climbed from 55.9 to 57.2, beating forecasts. (Any number above 50 in this diffusion index indicates expansion.) The forward-looking new orders index rose from 57.2 to 58.5, signaling future strength in the service sector. Of interest...and somewhat inconsistent with the rest of the report, was a decline in the employment index, which slipped below 50 to 48.2, thereby indicating a likely contraction in future service sector hiring. This probably makes sense in light of the virus's oversized impact on service-oriented businesses.

The Georgia runoff elections and yesterday's storming of the U.S. Capitol have overshadowed the recent covid acceleration, but the virus is the dominant story. Over just the past two days, there were between 7,200 and 7,800 coronavirus deaths reported, and yesterday there were more than 250,000 new cases. Politics aside, this is a problem that's expected to intensify in the coming weeks. Bloomberg News reported this morning that less than 5.5 million vaccine doses have been administered so far, less than a third of the amount distributed in December. The initial rollout has been *disjointed*, lacking a coordinated national plan. Obviously, widespread vaccinations are essential to eventual normalization, but the slow start in the midst of the rapid rise in new cases signals challenges ahead.

Stocks are surging again today. The latest equity market fuel source appears to be the blue sweep in Georgia giving Democrats control of the Senate. This Senate majority implies additional stimulus in the months ahead as well as significant infrastructure spending. More dollars pouring into the economy should translate into stronger growth once the virus is tapped down. Equity investors are looking beyond the next couple of months, *...so are purchasing managers*.

Earlier this week, the ISM manufacturing index for December rose by 3.2 points to 60.7, *the strongest factory outlook since August 2018*. Any number above 50 indicates expansion, while numbers above 60 are consistent with exceptionally strong growth. The current production index increased by 4 points to 64.8, while the forward-looking new orders index climbed 2.8 to 67.9, matching a 17-year high. The prices paid index jumped 12.2 to 77.6, the highest ISM inflation reading since May 2018, with all 18 manufacturing industries reporting increases in raw materials prices, *in particular commodities*.

The ISM report, which showed three positive comments from purchasing managers for every cautious comment, indicated future factory growth for the eighth straight month. Nine of 10 categories were expanding, with only customer inventories contracting. The fact that inventories are so lean relative to new orders signals future health. Of the 18 manufacturing industries, 16 were consistent with growth. In contrast to the service sector survey, the employment index in the factory sector climbed back into expansion territory at 51.5. Comments by factory managers centered on labor *shortages*.

In other employment related news, U.S. job cuts rose by +134.5% in December according to the Challenger, Gray & Christmas survey of large company layoffs. Last week's initial claims data for last week showed first-time filings for unemployment benefits slipped a bit, but remain extremely elevated. And, yesterday's ADP employment data showed a -123k drop in private payrolls for December.

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Tomorrow, the December BLS employment report will be released. Expectations are for very weak nonfarm payrolls given the recent rash of deteriorating labor numbers. The median forecast is for just +50k jobs to be (re)added, although the whisper number is negative. A negative print would be a potential market mover.

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Market Indications as of 11:20 A.M. Central Time

DOW	Up 216 to 31,045 (NEW HIGH)
NASDAQ	Up 272 to 13,013 (NEW HIGH)
S&P 500	Up 52 to 3,800 (NEW HIGH)
1-Yr T-bill	current yield 0.10%; opening yield 0.08%
2-Yr T-note	current yield 0.14%; opening yield 0.14%
5-Yr T-note	current yield 0.46%; opening yield 0.43%
10-Yr T-note	current yield 1.08%; opening yield 1.03%
30-Yr T-bond	current yield 1.86%; opening yield 1.81%

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