OBSERVATIONS

- Covid-19: New cases fell below 100k for the first time this year, hospitalizations declined for the 26th straight day, and patients requiring intensive care dropped to the lowest level since mid-November.[1]
    - As of 14-Feb, 160.7 million doses have been administered across 88 countries. The U.S. has administered 52 million doses and is averaging nearly 1.64 million doses per day.[2]
- Nearly 40% of the unemployed now fall into the long-term unemployed category (those without work for at least 27 weeks) and is likely to climb higher– this figure approached 46% after the 2008-2009 financial crisis.[3]
- Jobless claims fell by 19k to 793k while the number of Americans filing continuing claims - across both state and federal programs - rose by 2.6 million people to 20.4 million.[3]
- Tesla joins the short list of companies investing in Bitcoin as it has now acquired $1.5 billion worth of Bitcoin. The company also expects to accept Bitcoin as a form of payment.[3]
- The energy required to mine Bitcoin on an annual basis now exceeds the yearly electricity consumption of Argentina, the Netherlands, and the UAE.[4]
- Participants in mortgage forbearance plans face a rough spring, with more than half of active forbearance plans set to end between March and June.[5]
- The average yield on junk bonds fell below 4% for the first time ever (dating back to 1987) on 8-Feb.[3]
- Inflation cooled in January, as CPI (excluding food and energy) was unchanged from December and was up +1.4% (vs expectations of +1.5%) on a year over year basis.[3]
- SPAC (Special Purpose Acquisition Companies) frenzy: retail traders represented 46% of trading volumes in SPACs on Bank of America's trading platform in January as compared to only 20% of trading in the S&P 500.[6]
    - SPACs in aggregate (IPOX SPAC Index) are up +17.9% YTD, thru 12-Feb.[3]
    - The average SPAC is up 6.5% on their IPO debut – compared to the avg. from 2003-2020 of +1.1%.[5]
    - There are now more than 300 SPACs outstanding on the hunt for deals.[5]
    - YTD, SPAC IPOs have raised twice the money as traditional IPO companies ($38.3bn vs $19.8bn).[7]
- Chinese markets will be closed for the next several days in celebration of the Chinese New Year.

EXPECTATIONS

- The New York Federal Reserve Bank's 'Survey of Consumer Expectations' showed a significant increase in expected household spending for the one-year ahead. Expectations rose by +0.8% in January to 4.2% - the second largest month-over-month increase in the survey's history. The +4.2% increase in expected spending for the year ahead is the highest since mid-2015.[8]

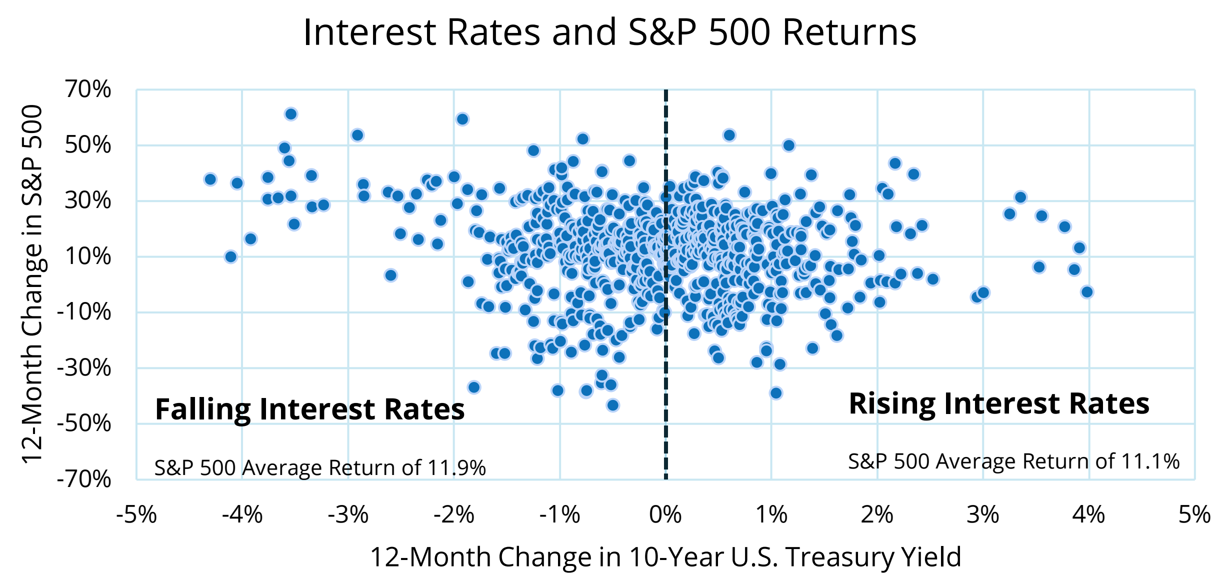
ONE MORE THOUGHT

Longer-term (10-yr and 30-yr) interest rates have generally been climbing in the U.S. as the economy continues to recover and as inflation expectations drift higher. In the short-term we would expect those longer-term interest rates to continue to climb as financial markets contend with two forces: (1) the ongoing economic recovery and (2) proposed stimulus package – as it relates to inflation expectations. The 30-yr U.S. Treasury yield reached 2.0% last week - the highest level since 19-Feb, while the 10-yr U.S. Treasury yield has more than doubled to 1.21% (as of 12-

[1] *https://www.wsj.com/livecoverage/covid-2021-02-08*
[2] *Bloomberg Vaccine Tracker, Financial Times Vaccine Tracker, Johns Hopkins Coronavirus Center*
[3] *Bloomberg LP*
[4] *BBC, https://www.bbc.com/news/technology-56012952*
[5] *WSJ, Black Knight*
[6] *https://www.cnbc.com/2021/02/10/unusual-first-day-rallies-in-spacs-raise-bubble-concern-every-single-one-of-them-has-gone-up.html*
[7] *WSJ, https://www.wsj.com/articles/the-spac-boom-visualized-in-one-chart-11612962000?mod=markets_lead_pos5*
[8] *https://www.newyorkfed.org/microeconomics/sce#indicators/household-finance/g12*

Feb) after reaching 0.5% mid-year last year. There is an evolving narrative developing within markets as it relates to rising interest rates *(from here on interest rates are in reference to the U.S. 10-yr treasury yield)* negatively impacting risk markets (e.g., equity markets). Clearly, equity markets are influenced by more than any single variable, such as interest rates, and interest rates may rise for different reasons (e.g., economic growth, inflation etc.) over time. In any case, there are a few ways to evaluate the effect of rising interest rates on equity markets, one simple example is to look at returns for the S&P 500 during periods of rising interest rates. Interest rates were generally rising from 1962-1981, with the 10-yr yield rising from near 4% in 1962 to the 1981 peak of near 16%[9]. From that peak in 1981 the 10-yr yield would steadily decline for the next 40 to today's measly 1.21% yield. Given these two distinct secular periods of both rising then falling interest rates, it might be a surprise to hear that on a rolling 12-month basis (1962-2020) interest rates rose 51% of the time while they fell 49% of the time – see **Chart of the Week**. Over that time the S&P 500 averaged +11.9% when interest rates were falling, while averaging 11.1% when interest rates were rising – over rolling 12-month periods. The lack of any discerning relationship between rising (or falling) interest rates and equity returns - at least in this context which doesn't account for why interest may be changing - reinforces that multiple factors impact equity returns over such short-term corridors.

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, S&P 500 Rolling 12-Month Total Returns, 10-Year U.S. Treasury Rate 12-month Change, Monthly data 1962-2020

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[9] *Bloomberg LP, Daily yield of 10-year U.S. Treasury 1962-2021*