A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, set against a clear blue sky. The buildings are arranged in a way that creates a sense of height and depth. The lighting suggests it might be late afternoon or early morning, with some windows reflecting the sky and others showing interior lights.

City National Rochdale®



AN RBC/CITY NATIONAL COMPANY

The **BOTTOM LINE**

Relevant Insights for the Savvy Investor

JANUARY 2021

IT IS ALWAYS DARKEST BEFORE THE DAWN

Economically speaking, it has been a very bumpy start to the new year. On the good news front, the economy will start receiving a positive jolt from the \$900 billion financial stimulus bill recently approved, including \$166 billion in direct checks to individuals. Also, President-elect Biden is recommending a \$1.9 trillion economic rescue plan and is hoping it can get approved by Congress in Q1. On the negative side, the number of COVID cases is rising rapidly, reflecting the long-feared Christmas-related spike.

The resurgence of COVID cases and the slower rollout of vaccinations have caused economic growth to slow in recent weeks. Weakness remains concentrated in consumer services, especially those with face-to-face contact - due to state and local restrictions and self-preservation.

In December's labor report, it showed up as a sharp decline of nearly 500,000 jobs lost in the leisure and hospitality sector (chart 1). Hiring picked up in other sectors like construction and manufacturing.

Forecasts for Q1 growth are the weakest of the year due to COVID-induced business restrictions (chart 2). Growth in the subsequent quarters is expected to be quite strong as the economy starts to put the virus behind it due to mass distribution of vaccines. Driving that growth is the massive amount of household savings acquired this past year due to increased income and reduced spending (chart 3). Household income leapt due to federal relief programs (stimulus checks, payroll protection plan, enhanced unemployment insurance, etc.), while spending on services (air travel, hotels, restaurants, etc.) fell significantly.

In addition to strong consumer spending, economic growth is expected to be supported by a robust housing market that benefits from record-low mortgage rates, strong household balance sheets of home buyers, and increased demand. Additional strength will be from the manufacturing sector, which is enjoying a resurgence due to low inventory levels (chart 4) and the weakening dollar.

CHART 1: December Labor Report: Leisure & Hospitality Sector
'000, monthly change, seasonally adjusted annual rate



CHART 2: GDP Forecast: Bloomberg Median

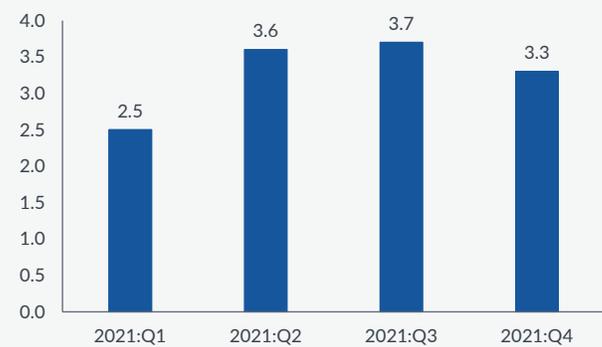
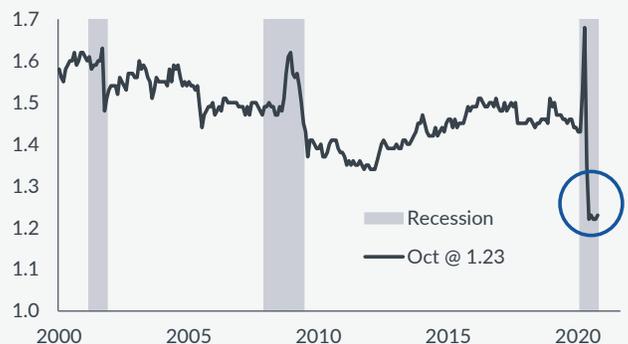


CHART 3: Household Savings, Earnings, Spending

Change from 2019 to 2020 (Mar-Nov), \$, billion



CHART 4: Inventory-to Sales Ratio: Retailers (%)



Sources: Bureau of Labor Statistics, Bloomberg, US Census Bureau.

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COVID-19

COVID-19 hospitalizations have continued to rise, leading to renewed economic restrictions and reduced economic activity. Vaccine distribution has begun at a slow pace, but as the virus spread declines and vaccination speed gradually increases, economic activity should normalize in mid-2021.



LABOR

As the impact of the virus fades and the warmer spring weather sets in, a strong rebound is expected in the hard-hit leisure and hospitality sector, which accounts for about 40% of the 10 million unemployed since February.¹



INFLATION

We expect a slight increase in some prices in the first half of the year as the economy strengthens, and prices to recover for items and services that plummeted last year at the onset of the pandemic.



THE FED

The Fed has reiterated its commitment to buying longer-term securities to help keep downward pressure on bond yields. This helps keep mortgage rates low.²



CONFIDENCE

Consumer confidence, which has deteriorated in the past few months to levels not seen since the summer, is expected to rebound in the next few months in response to additional federal financial relief and increased vaccine distribution.³



GREENHOUSE GAS EMISSIONS

There are very few silver linings from COVID, but greenhouse gas emissions from energy and industry plummeted more than 10% last year due mainly to the slower economic pace.⁴



STOCK MARKET

U.S. stock markets continue to build on optimism of a vaccine-driven return to normalcy and corporate profit recovery, with expectations for more significant fiscal stimulus. Still, even the best markets need a breather now and then, and a consolidation period is possible over the coming months.

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Important Disclosures

¹Bureau of Labor Statistics

²The Federal Reserve Bank

³The Conference Board

⁴The Rhodium Group

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