THE CAPITAL MARKETS

NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished January at 29,983, down -2.04% for the month. The S&P 500 closed January at 3,714, down -1.11% for the month. The NASDAQ Composite gained +1.42% in January and small-company stocks as measured by the Russell 2000 ended January up +5.00% for the month. Energy (+4.94%) was the best and Consumer Staples (-4.09%) the worst performing sector in January.

"Growth should accelerate in the months ahead, thanks to the vaccines and to fiscal stimulus ... Bank of America economist Michelle Meyer expects the U.S. economy to grow at a 6% clip in 2021 and by 4.5% in 2022." (Barron's, *The Trader,* Ben Levisohn, February 1, 2021)

GameStop Saga Captures Popular Attention - Some Wary of Euphoria in Markets

Thousands of participants in an online message board captured the attention of Wall Street and of the popular media in late January when they rallied the price of struggling retailer GameStop, a physical retail store chain in an industry moving increasingly digital. The stock had been a popular short trade on Wall Street, a trade that benefits when the price of a stock goes down. As buyers on the internet message boards began bidding up the price of the stock, short sellers were forced to face either increasing losses as the stock rose, or to close out their short position by buying shares and moving the price even higher, a phenomenon known as a short squeeze. The stock, which closed below $4/share last summer, reached a high of $483 on January 28. News broke of hedge funds in risky concentrated short positions taking out emergency loans to remain liquid during the frenzy, and small retail investors on the message boards cheered as their positions went up at the expense of the hedge fund managers. However, the price could only increase for so long, and is back to around $49 at the time of this writing, less than 10 trading days since its high of $483.

Short squeezes are not new in markets, and concentrated buying pressure on short sellers goes back to at least the 1920's battle over Piggly Wiggly supermarkets. What is new are the smart phones, social media and free trading apps, which allow a new generation of day traders to speculate with no trading fees from their phone, many as part of communities on social media. It remains to be seen whether such activity poses foundational risks to financial markets, although many expect this to be unlikely in large and liquid markets, such as large cap U.S. stocks. The immediate danger, in our view, is a Fear of Missing Out among investors, and reaching for the outsize returns seen in headlines. Whether the question is on Tesla, Bitcoin, or GameStop — we encourage investors to maintain a long-term and evidence-based approach to investing, which does not include day trading. History suggests an appropriate asset allocation and time *in* the market has a much greater effect on returns than attempts at *timing* the market. Low cost and broadly diversified portfolios of high quality securities, held in a disciplined allocation over long periods of time gives investors the best chance of success in our view, and according to the data. This can be a helpful reminder both in times of excitement, as well as times of fear.

"The GameStop short squeeze has quickly become a morality tale of little guys taking on the man. I'd prefer to see it for what it really is - a bunch of small investors have discovered the joys, and potential profitability, of day trading in a way they haven't since the dot-com boom and bust." (Barron's, *The Trader*, Ben Levisohn, February 1, 2021)

Worrisome Trends in Labor Data

The U.S. jobs market returned to gains in January after shedding jobs in December during the latest COVID-19 surge. At just 49,000 jobs added, the labor market has a long way to go to replace the still 9.9 million jobs lost since the beginning of the pandemic. The decrease in the unemployment rate from 6.7% in December to 6.3% in January is a positive, although it reflects in part, fewer people looking for jobs. Most concerning to many was the fact that 80% (250,000) of those who dropped out of the labor force in January were women. That puts the total number of women that have left the labor force since COVID began, to 2.3 million, and the women's labor force participation rate at 57% — the lowest since 1988. As the pandemic drags on and schools, and day care centers remain closed, many expect this disproportionate impact could persist. Developments on the pandemic, vaccines, re-openings and economic impact continue to be closely watched.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 12/31/2020	CLOSE AS OF 01/31/2021	CHANGE PREVIOUS MONTH END	2021 YTD % CHANGE
Dow Jones Industrial Average	30,606.48	29,982.62	-623.86	-2.04%
S&P 500	3,756.07	3,714.24	-41.83	-1.11%
NASDAQ Composite	12,888.28	13,070.69	+182.41	+1.42%
RUSSELL 2000	1,974.86	2,073.64	+98.78	+5.00%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.13%	0.11%	-0.02%	
10-Year Treasury	0.93%	1.11%	+0.18%	
Crude Oil $ per Barrel	$48.52	$52.20	+$3.68	+7.58%
Gold $ per Troy oz.	$1,895.10	$1,850.30	-$44.80	-2.36%
UK Pound in U.S. $	$1.3670US = 1£	$1.3732US = 1£	$ WEAKER	+0.46%
Euro in U.S. $	$1.2236US = 1€	$1.2149US = 1€	$ STRONGER	-0.71%
Canada $ per U.S. $	$1.274C = $1.00US	$1.27745C = $1.00US	$ STRONGER	+0.27%
Japan Yen per U.S. $	103.245¥ = $1.00US	104.695¥ = $1.00US	$ STRONGER	+1.40%

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200 E 12th Street, Jeffersonville, IN 47130
800-858-6127 option 6 newcovenanttrust.com