



Weekly Market Review

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The Week Ending January 22, 2021

Coming off the first negative week of 2021, stocks quickly brushed off the decline and resumed growth last week, with the S&P 500 Index up over 1% and the technology-heavy Nasdaq Composite up 4%. We are currently 14 trading days into the new year, and indexes have already set five new record highs. This is all despite expected volatility from politics, President Biden's inauguration, the continued rise in COVID-19, and quarterly earnings season in full effect.

Quarterly earnings and the expectation of what is to come drove much of the stock market's advance last week. A familiar story led much of the gain; mega-cap, growth, technology stocks producing market-leading numbers. Netflix's impressive quarterly earnings were last week's catalyst to spread throughout most of the technology sector. Netflix peers like Microsoft and Facebook rallied on the hopes of equally impressive results and traders wanting to get ahead of the announcements coming later this week. It is not just Netflix leading traders to optimism surrounding this week's earnings; so far, 88% of companies have beat analysts' expectations. While expectations were lowered throughout 2020 due to the pandemic, making it easier for companies to outperform, future outlooks have impressed and been one of the vital drivers of the stock market's rally.

Earnings were not the only factor for stock performance last week, as President Biden's inauguration also provided a tailwind. One of the new administration's first moves was announcing a market-friendly \$1.9 trillion stimulus plan to provide additional COVID-19 relief. While this announcement was expected, and many details were made known before the official announcement, the stock market viewed this as a step in the right direction for additional cash to enter the system. However, it is now in Congress's hand to ultimately pass, which may lead to a much different bill than the stock market initially expected; therefore, some volatility could be on the horizon for stocks.

Whether it is politics, corporate earnings, or any other number of factors, volatility will always be present in the stock market. Last year ended with a rally for the more value, cyclical stocks, but now as we move into a new year, we are back to technology leading stocks higher. It is challenging to determine why this switch is occurring, but it is just the first of 2021 and most likely will not be the last. No matter the environment, continuing to have a diversified allocation will provide some exposure to outperforming areas of the market while providing protection when the next shift in market leadership occurs.



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