

WEEKLY UPDATE

JANUARY 11, 2021

CARY STREET
PARTNERS

MARKET UPDATE AND COMMENTS

Despite the obvious turmoil in Washington last week, equity markets moved higher. The S&P 500 Index gained 1.83% on the week.¹ Extended, overly bullish sentiment has moderated as markets consolidated over the last few weeks, an inverse positive. The short-term call is still a little tricky here, this is not easy-money territory, but any pullback within a strong long-term uptrend such as this is buyable given the backdrop of credit and liquidity. Credit spreads remain extremely tight, and liquidity is massive. Exposure to cyclicals – such as materials, industrials, consumer discretionary – is paramount for 2021. Mid- and small-capitalization stocks also fall into this thinking. Market leadership began to rotate toward these names in November, and that rotation is very likely to continue and pick up speed as the globe moves towards normalization. Leadership will alter day to day, but the advice is to be well diversified, as last year's large-capitalization technology stocks will look less attractive at some point with cyclical earnings exploding.

A big story last week was the 10-year Treasury yield decisively breaking out above the 1% resistance level. Yields closed the week at approximately 1.10%.² This is an affirmation of Federal Reserve policy and expectations of higher GDP growth. Short-term rates remain anchored by the Fed at zero, consequently the yield curve is becoming steep, as we discussed last summer. This will be a very challenging environment to make money in the bond market, particularly longer-duration bonds. Bond prices are inverse to yield, when yields increase prices decrease. The opposite of recent history. A steeper curve is generally a good sign for equities, particularly financials, unless long rates increase to a much higher level. The pace of any increase is even more important in that calculation. So far, so good.

ECONOMIC NEWS

GDP growth is likely to surprise to the upside in 2021. There will be a lot of timing issues around this given the clear connection between COVID vaccine distribution and the services side of the economy. In the short run, tailwinds from inventories, construction, and manufacturing remain present. The services side continues to struggle. Labor markets remain weak as they are very susceptible to the need for an end to the pandemic. But this is the most lagging of lagging economic information. Effective vaccines have been created by the pharmaceutical industry, that is the hard part. There is an end in sight with widespread distribution, that is a logistical challenge, but eminently doable. Vaccines unleash the services side of the economy, likely by mid-point 2021.

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WEEKLY BENCHMARKS

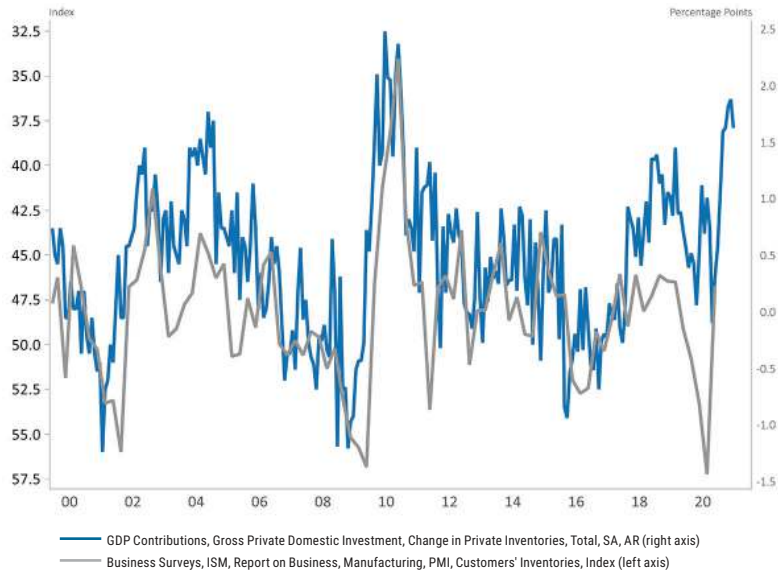
| GROUP/INVESTMENT | YTD Return (Cumulative) 1.8.2020 |
|--|--|
| US EQUITY RETURNS | |
| SPDR® S&P 500 ETF TRUST | 1.88 |
| ISHARES DOW JONES US ETF | 2.09 |
| ISHARES RUSSELL 1000 ETF | 2.06 |
| ISHARES RUSSELL 1000 VALUE ETF | 2.95 |
| ISHARES RUSSELL 1000 GROWTH ETF | 1.22 |
| ISHARES RUSSELL 2000 ETF | 5.91 |
| GLOBAL EQUITY RETURNS | |
| ISHARES MSCI ACWI EX US ETF | 3.76 |
| ISHARES MSCI ACWI ETF | 2.71 |
| US FIXED INCOME RETURNS | |
| ISHARES SHORT TREASURY BOND ETF | 0.00 |
| ISHARES CORE US AGGREGATE BOND ETF | -0.93 |
| ISHARES TIPS BOND ETF | -0.82 |
| ISHARES IBOX \$ INVT GRADE CORP BD ETF | -1.81 |
| ISHARES IBOX \$ HIGH YIELD CORP BD ETF | 0.24 |
| ISHARES MBS ETF | -0.05 |
| GLOBAL FIXED INCOME BENCHMARKS | |
| ISHARES CORE GLOBAL AGGT BD ETF USD DIST | -0.47 |
| US FIXED INCOME MUNI RETURNS | |
| ISHARES NATIONAL MUNI BOND ETF | -0.04 |
| REAL ASSETS | |
| ISHARES GOLD TRUST | -1.50 |
| SPDR® DOW JONES GLOBAL REAL ESTATE ETF | -1.82 |

Source: Morningstar

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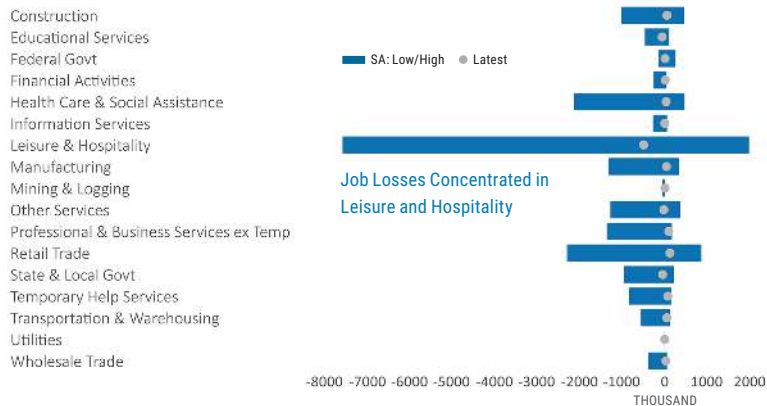
Inventories are way too low



Source: Renaissance Macro Research, Macrobond

Where did jobs growth come from?

Changes in Payrolls Relative to Range of M/M SA Changes Last Year (as of December 2020)



Source: Renaissance Macro Research, Macrobond, BLS

¹ MarketWatch

² Bloomberg

Past performance is no guarantee of future results.

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