

Market Commentary

For the week of September 27th, 2021

The Markets

| Returns Through 9/24/21 | WTD | YTD | 1 Year | 3 Year | 5 Year |
|----------------------------|-------|-------|--------|--------|--------|
| Dow Jones Industrials (TR) | 0.62 | 15.28 | 32.25 | 11.88 | 16.39 |
| NASDAQ Composite (PR) | 0.03 | 17.32 | 41.96 | 24.61 | 24.41 |
| S&P 500 (TR) | 0.52 | 19.87 | 39.28 | 17.23 | 17.73 |
| Barclays US Agg Bond (TR) | -0.40 | -1.16 | -0.60 | 5.56 | 3.04 |
| MSCI EAFE (TR) | -0.30 | 11.01 | 30.80 | 8.28 | 9.19 |

Observations

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +0.52% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index increased by +0.51% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.30%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -1.02%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.40%.

Data Obtained from Bloomberg as of 9/24/2021



Economic Review

- Housing starts for the month of August increased 3.9% to an annual rate of 1.615 million, above the expectation of 1.55 million.
- Existing home sales in August fell -2.0% to an annual rate of 5.88 million, which was slightly below the expectation of 5.89 million.
- Initial jobless claims increased from the previous week, exceeding expectations. Claims increased to 351,000, compared to the previous mark of 335,000.

INSIGHT: Single home starts fell -2.8% which is the second straight month of decline, while multi-family construction saw the bulk of the surprise to the upside increasing +20.6%. The multi-family housing segment is being boosted by demand for rentals. This demand is twofold: first, companies are ending their work from home mandates which is forcing individuals to move back to more populated cities. Second, the increased demand in homes due to low interest rates has led to a sharp rise in home prices over the past 18 months. While the median home price did decrease to \$356,700 for the month of August, homes prices are still up +14.9% compared to last year. With home prices accelerating, first time buyers are being pushed out of the new home market and into the rental market. This is also why we saw existing home sales fall for the month of August. Lastly, while the labor market has made tremendous strides over the year, we are still far from pre-pandemic levels. With extended unemployment benefits being taken away or reduced at the beginning of the month, we will be monitoring the jobs report next week to see if this has had an impact on people returning to work.

A Look Forward

- The final reading of gross domestic product (GDP) for the second quarter will be announced on Thursday, with economists' expecting an unchanged reading of 6.6%.
- Personal consumption expenditures (PCE) will be released on Friday, the month-over-month change is expected to be an increase of +0.2%. The year-over-year increase is expected to be +3.5%.
- The University of Michigan Consumer Sentiment Index for the month of September will also be released on Friday, with economists' expecting the index to remain unchanged at 71.

INSIGHT: While the final reading for Q2 GDP growth will show that the economy did not meet economists' expectations of 8.3%, it still is a sizeable data point to show how far the economy has come since the pandemic induced lockdowns nationwide. In the years prior to the pandemic, the Q2 gain would have been the strongest since the third quarter of 2003. Even with GDP growth projected to slow in the second half of the year, it should still remain above long-term trend growth of 2-3%. Next, while inflation measures are showing signs of slowing, they are still above normal cycle averages and as a result, in their September meeting, the Fed remained steadfast that tapering will begin shortly. The expectation is that tapering will begin in November of 2021. Lastly, consumers are still weighing the risks of the Delta variant and higher inflation and therefore, sentiment is expected to remain unchanged for the month of September.



BY THE NUMBERS

FOURTH QUARTER – Over the last 30 years (1991–2020), the S&P 500 index has gained an average of +4.78% (total return) over the final 3 months of the year (October–November–December), the best gain of the 4 quarters. 24 of the last 30 fourth quarters (80%) have produced a positive total return gain. The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

IN THE MIDDLE – After adjusting numerical data from the past for the impact of inflation, the US median household income reached an all-time high for 4 consecutive years (2016–2019), peaking at \$69,560 in 2019. That streak ended in 2020 when median household income dropped to \$67,521. Before 2016, the peak for median household income was \$63,423 from 1999 (source: Federal Reserve Bank of St. Louis).

ANOTHER ONE THIS WEEK? – There have been 21 government shutdowns in history when our nation's lawmakers failed to agree on spending bills to fund government outlays for a fiscal year that begins annually on October 1. The most recent shutdown, a 35-day stoppage that ended on 1/25/19, was the longest closure in history. 11 of the 21 shutdowns lasted 3 days or less (source: Congressional Research Service).

DEALS EVERYWHERE – Merger and acquisition (M&A) deals globally are worth \$3.9 trillion YTD through 8/31/21, on pace to exceed the all-time global M&A record of \$4.3 trillion from 2007 (source: Refinitiv).

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