

# EMERALD

## MARKET VIEW WEEKLY

October 1<sup>st</sup>, 2021



### ECONOMIC REVIEW<sup>1</sup>

- The final reading of gross domestic product (GDP) for the second quarter was revised up to 6.7% from 6.6%.
- Personal consumption expenditure (PCE) was slightly higher than expected. The consensus was +0.2% while the actual increase was +0.3%. The year-over-year increase is now at +3.6%.
- The University of Michigan Consumer Sentiment Index for the month of September exceeded economists' estimates of 71 as the index rose to 72.8.
- Personal Income came in in-line with economists' expectations at +0.2% while personal spending came in at 0.8%, better than the expected reading of 0.7%.

**INSIGHT:** While the final reading for Q2 GDP did show above average trend growth, it did not meet the initial economist expectations of 8.3%. For the remainder of the year GDP growth could show signs of slowing, however, it should remain above the long-term growth trend of about 2%-3%. Next, inflation measures while showing signs of moderating, are still above normal cycle averages. With the expectation that tapering will begin in November, the Federal Reserve is signaling that it collectively expects growth and inflation to be strong over the next year. Therefore, they can confidently start to withdraw some of the stimulus that has helped the economy get to this point. Tapering coupled with easing of supply chain issues may result in more subdued inflation readings in the months ahead. Lastly, personal spending for August came in better than expected. This is a welcome sign. Although consumer confidence remains far off the highs seen during the first half of the year, the risks of COVID-19 and higher prices do not seem to be deterring consumer spending, which accounts for 70% of the economy.



### A LOOK FORWARD<sup>1</sup>

- The ISM Services Index for September will be announced on Wednesday, expectations are calling for a decrease from the previous month of 61.7 to 59.9.
- Change in non-farm payrolls for the month of September will be announced on Friday, the expectation is an increase of 500,000 jobs compared to 235,000 that were added in the previous month.
- The unemployment rate will be released on Friday, the consensus among economists is a decrease from 5.2% to 5.1%.

**INSIGHT:** Economists remain optimistic on the ISM Services Index reading as last month's report had some promising trends. The ISM survey's measure of supplier deliveries fell to 69.6 from a reading of 72.0 in July, indicating faster delivery times. With deliveries improving, prices moderated. A measure of prices paid by services industries fell to 75.4 after surging to a near 16-year high of 82.3 in July. The reading of the index should also benefit from the shift in demand by consumers from goods to services. The services sector is where we will look to see jobs added when we receive the September payrolls report. With unemployment benefits being reduced in the first week of September and virus fears abating, we may see a strong increase in the numbers of jobs added to the economy. If stronger than expected job growth does occur, the milestone of a sub 5% unemployment rate may be reached. This would be a mark not reached since the pandemic took hold in March of 2020.

# MARKET UPDATE

Market Index Returns as of 10/01/21 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-2.19%	1.15%	17.26%	30.79%	16.29%	17.17%
NASDAQ	-3.19%	0.82%	13.58%	29.47%	23.04%	23.57%
Dow Jones Industrial Average	-1.36%	1.43%	13.72%	25.75%	11.25%	16.01%
Russell Mid-Cap	-1.89%	1.25%	16.62%	38.54%	14.81%	14.68%
Russell 2000 (Small Cap)	-0.24%	1.69%	14.31%	47.86%	11.68%	13.83%
MSCI EAFE (International)	-3.14%	-0.76%	7.52%	24.46%	7.41%	8.65%
MSCI Emerging Markets	-1.41%	-0.52%	-1.76%	17.29%	8.45%	9.12%
Bloomberg Barclays US Agg Bond	-0.12%	0.28%	-1.28%	-0.65%	5.49%	3.00%
Bloomberg Barclays High Yield Corp.	-0.31%	0.00%	4.54%	11.09%	6.84%	6.52%
Bloomberg Barclays Global Agg	-0.50%	0.30%	-3.78%	-0.64%	4.42%	2.05%



## OBSERVATIONS

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -2.19% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index decreased by -0.24% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -3.14%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -1.41%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.12%.



## BY THE NUMBERS

**STOCKS & WHITE HOUSE** - From 1936-2020, the S&P 500 has averaged +6.7% per year (total return) during the 1st year of a 4-year presidential term, +8.7% per year during the 2nd year, +18.5% per year during the 3rd year, and +9.8% per year during the 4th year. 2022 will be year # 2 of a 1st-term Biden administration. 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).

**JUST THREE MONTHS LEFT** - Through 9 months of 2021, i.e., YTD through Thursday 9/30/21, the S&P 500 is up +15.9% YTD (total return). The index was up +18.4% (total return) in 2020 (source: BTN Research).

**BONDS** - The worst year for the taxable bond market in the last 45 years (1976-2020) was a loss of 2.92% (total return) in 1994. The YTD performance (through 9/30/21) of the taxable bond market is a loss of 1.56% (total return). The Bloomberg Barclays US Aggregate Bond Index (created in 1986 with backdated history calculated to 1976), calculated using publicly traded investment grade government bonds, corporate bonds and mortgage-related bonds with at least 1 year until final maturity, was used as the bond measurement (source: Bloomberg Barclays).

**JOBS** - As of 8/31/21, the lowest unemployment rate of any US state was 2.2% in Nebraska, while the highest jobless rate was 7.7% in Nevada. The national unemployment rate was 5.2% (source: Department of Labor).

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**University of Michigan Consumer Sentiment Index:** Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

**Unemployment Rate:** The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

**Personal Income:** Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

**Personal Spending:** Consumer or Household Spending (also referred to as consumption) tracks consumer expenditures on goods and services. This concept is not adjusted for inflation.

## Index Definitions

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

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<sup>1</sup> Data obtained from Bloomberg as of 10/01/2021

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