

Braeburn Observations



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LOWRY'S 10/01/2021

With only a modest short-term pullback underway but ample evidence and the context of an unhealthy market condition, probabilities continue to favor further downside risk.

U.S. MARKETS

The Dow Jones Industrial Average declined -1.4% closing at 34,326. The technology-heavy NASDAQ declined -3.2% to 14,567. Large caps fell the most this week, with the S&P 500 falling -2.2%. The mid cap S&P 400 closed down -0.6%, while the small cap Russell 2000 declined -0.3%.

INTERNATIONAL MARKETS

International markets were a sea of red for the week. Canada's TSX declined -1.2%, while the United Kingdom's FTSE 100 ticked down -0.3%. On Europe's mainland, France's CAC 40 shed -1.8% and Germany's DAX declined -2.4%. In Asia, China's Shanghai Composite closed down -1.2% and Japan's Nikkei plunged 4.9%. As grouped by Morgan Stanley Capital International developed markets declined -2.6%, while emerging markets gave up -0.9%.

U.S. ECONOMIC NEWS

The number of Americans filing first-time claims for unemployment jumped last week, hitting a two-month high. The Labor Department reported new claims rose by 11,000 to 362,000 in the week ended September 25th. Economists had expected claims to total just 330,000. Claims jumped the most in California, up by almost 18,000 to 86,792. That state is still working through a large backlog of applications that had yet to be processed. Claims fell in 35 other states. Meanwhile, the number of people already collecting benefits, known as "continuing claims", dropped by 18,000 to 2.8 million. That number remains near a pandemic low.

After two months of declines, the number of Americans who signed contracts to purchase homes jumped last month, far exceeding economists' expectations. The National Association of Realtors (NAR) reported pending home sales rose 8.1% in August compared with July. Economists had expected just a 0.4% increase. Still, compared with the same time last year, pending sales were down -8.3% reflecting how much home-buying activity has fallen from late

last summer. Every region saw home sales increase on a monthly basis, led by a 10.4% gain in the Midwest. The pending home sales index measures real-estate transactions where a contract was signed but not yet closed.

Home prices rose at a record pace for a fourth consecutive month, rising in virtually every major metropolitan area across the nation. The latest edition of the S&P CoreLogic Case-Shiller Home Price Index showed home prices soared 19.7% from the same time last year. The separate 20-city index, which measures price appreciation among a group of major metropolitan areas across the country, saw a 19.9% year-over-year gain. The three cities to see the largest annual gains remained the same — Phoenix (32.4%), San Diego (27.8%) and Seattle (25.5%). "The last several months have been extraordinary not only in the level of price gains, but in the consistency of gains across the country," said Craig J. Lazzara, managing director and global head of index investment strategy at S&P DJI, in the report.

The rapid increase in prices isn't just confined to the real estate sector. The Bureau of Economic Analysis reported this week the cost of goods and services rose sharply again in August putting

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The *Braeburn Observations* is our means of sharing with clients and interested parties what it is we are reading in our research. These are research items, news and statistics that are being considered as we make investment decisions for our clients. Items noted do not necessarily drive an investment decision in and of itself. We are trying to make the best decisions we can given all that we are looking at. We also highlight key financial metrics that will provide a "point in time" glimpse of how the financial markets are behaving. Again, it is often the trend in these metrics and/or anticipated movements that drives our decision making in our clients' portfolios. All observations are taken at a point in time and should not be used to infer our opinion or to rely upon as a matter of fact that we are currently acting upon.

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the inflation rate in the U.S. at a 30-year high. The Personal Consumption Expenditures Index climbed 0.4% in August, its sixth consecutive increase. The rate of inflation over the past 12-months ticked up to 4.3%—the highest it has been since 1991. A separate measure of inflation that strips out volatile food and energy prices rose 0.3% in August. It's known as the core rate and is viewed by the Fed as a more reliable barometer of inflationary trends. The increase in the core rate over the past 12 months was unchanged at 3.6%, also at a 30-year peak.

Confidence among the nation's consumers fell for a second month hitting a 7-month low as media reports of a "delta-variant" of the coronavirus and inflation worries weighed on sentiment. The Conference Board reported its closely followed index of consumer confidence slid to 109.3 this month, down 5.9 points from August. Economists had expected a reading of 115.3. Worries about inflation remain high and analysts believe consumers are putting off big purchases because of the higher prices. Furthermore, consumers don't expect things to improve anytime soon. The part of the survey that

assesses how Americans view the next six months was weaker. The so-called "future expectations index" slid 6.2 points to 86.6—its lowest level since January.

Orders for goods expected to last at least three years, so-called "durable goods", jumped last month and the government revised July's report to show a significant increase in orders instead of a decline. The Census Department reported orders for durable goods jumped 1.8% last month. Economists had expected just a 0.6% increase. However, analysts noted the big increase was in large part due to a surge in orders for Boeing 737 Max jets and other aircraft. Orders for new commercial airplanes soared 78% in August and drove most of the increase in bookings for U.S.-made durable goods. If transportation is excluded, bookings were up just 0.2%. As has been the case, the biggest problem for manufacturers remains getting critical supplies and finding skilled workers willing to work. Business investment remained robust. Investment rose 0.5% in August and increased for the sixth month in a row. Analysts remain optimistic. Chief economist Rubeela

Farooqi of High Frequency Economics wrote in a note, "Momentum is still positive for now."

A measure of business conditions in the Chicago area slipped to its lowest level in seven months. The Chicago area Purchasing Managers' Index (or PMI) slowed to 64.7 in September, from 66.8 the prior month. Economists had forecast a reading of 64.3. Still, despite the decline analysts stated activity remains robust. Josh Shapiro, chief U.S. economist at MFR Inc wrote in a note, "Recent results from this survey are very strong and are indicative of solid ongoing growth in economic activity." Respondents to the survey reported that now freight/shipping difficulties in addition to shortages of supplies of raw materials hampered production.

The international trade deficit rose again as retailers continued to import more consumer goods for the holiday shopping season. The trade gap in goods widened 0.9% to \$87.6 billion in August, the government reported this week. Goods imports increased 0.8% to \$236.6 billion, just below the all-time high set in June. Meanwhile, U.S. exports moved up 0.7% to \$149 billion to set a new record.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perspectives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time professional money manager who developed an in-depth expertise in computerized analysis and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

