

# Market Commentary

*For the week of September 20th, 2021*

## The Markets

Returns Through 9/17/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-0.05	14.58	26.32	12.36	16.42
NASDAQ Composite (PR)	-0.46	17.28	38.83	25.11	24.69
S&P 500 (TR)	-0.54	19.26	34.04	17.45	17.89
Barclays US Agg Bond (TR)	-0.03	-0.77	-0.32	5.61	3.23
MSCI EAFE (TR)	-1.38	11.34	25.68	9.24	9.94

## Observations

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -0.54% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index increased by 0.45% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -1.38%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -2.20%.
- U.S. investment grade bonds were slightly negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.03%.

Data Obtained from Bloomberg as of 9/17/2021



## Economic Review

- The Consumer Price Index (CPI) came in at a month-over-month increase of +0.3% for the month of August, lower than the expectation of +0.4%. The year-over-year increase is now at +5.3%.
- Retail sales came in above expectations with an increase of +0.7% for the month of August, while the expectation was a decrease of -0.7%.
- The University of Michigan Consumer Sentiment Survey increased to 71 from 70.3 for the prior month, however this was below the expected increase to 73.

**INSIGHT:** Inflation readings over the last month have shown signs of moderating, however, these increases are still well above normal cycle numbers. Most of the major slowdowns came in areas which had been rising the most. For example, used car and truck prices declined -1.9% for the month of August, however this category is still up +31.9% for the year. While increasing COVID cases could have resulted in a decrease in retail sales, the opposite was shown for the month of August as consumers continued to spend. With schools continuing to open, back-to-school spending proved strong, and the consumer has once again shown an ability to adapt their spending habits in the face of COVID related pressures. The previous months reading for the University of Michigan Consumer Sentiment Survey saw a huge drop, approaching record lows; however, the month of August did not see a continuation of the downward trend. This month's increase can be positive as these surveys can be self-fulfilling as investors tailor their consumption and spending based off the sentiment of the broader economy.

## A Look Forward

- Housing starts will be announced on Tuesday, with the expectation of an increase to 1.55 million, up from the prior month's estimate of 1.534 million.
- Existing home sales for the month of August will be released on Wednesday, and the estimate is 5.87 million sales.
- Manufacturing Purchases Manager Index (PMI) will be announced on Thursday, and the expectation is a decrease to 60.5 from 61.1.

**INSIGHT:** Over the recent year, the housing market has seen an explosion in both demand and property values. With interest rates at record lows, first time buyers proved eager to move out of apartments and lock in low mortgage rates. However, first time buyers are being pushed out by larger more experienced buyers who can afford to pay the premiums most homes are selling for. According to FRED data for Q2 2021, the median sale price of homes was \$374,9001, the highest it has ever been. The Fed is expected to make an announcement on tapering its asset purchases in their September meeting, which includes \$40 billion in mortgage-backed securities. If the Fed continues to stand pat on its purchasing programs, the housing market may still experience rising prices, however the demand for mortgage-backed securities may shrink.



## BY THE NUMBERS

**WE ARE WAY BEHIND** – The US may have the 3rd largest population of any country in the world, but # 1 China and # 2 India each have more than 4 times the number of people the US has (source: Census.gov).

**RECORD DEFICIT** – The largest budget deficit in US history was the \$3.13 trillion deficit from fiscal year 2020, i.e., the 12 months ending 9/30/20 (source: Treasury Department).

**BUYERS ARE LOOKING FOR A PERFECT HOME** – Real estate investors were involved in 17% of the home purchases (1 out of every 6 sales) during the 2nd quarter of 2021. The investors have taken advantage of historically low interest rates to finance upgrades on their purchases, and then realize a profit by reselling to a pandemic-weary buyer who is looking for specific features in his/her new home (source: Redfin).

**PRICES** – Inflation, as measured by the Consumer Price Index, was up +5.3% over the 1-year ending 8/31/21. The last year when inflation was up at least +5% was 1990 or 31 years ago (source: Department of Labor) Reprinted with permission from BTN. Copyright © 2021 Michael A. Higley.

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