Market Commentary

For the week of October 4th, 2021

The Markets

Returns Through 10/01/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-1.36	13.72	25.75	11.25	16.01
NASDAQ Composite (PR)	-3.19	13.58	29.47	23.04	23.57
S&P 500 (TR)	-2.19	17.26	30.79	16.29	17.17
Barclays US Agg Bond (TR)	-0.12	-1.28	-0.65	5.49	3.00
MSCI EAFE (TR)	-3.14	7.52	24.46	7.41	8.65

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%.

Data Obtained from Bloomberg as of 9/24/2021

Economic Review

- 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

- 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.

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 mortgagerelated 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). Reprinted with permission from BTN. Copyright © 2021 Michael A. Higley.

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