WEEKLY MARKET UPDATE, DECEMBER 6, 2021

GENERAL MARKET NEWS

- The yield curve continued to rise on the front end and flatten beyond the 5-year Treasury note last week. Near-term inflationary concerns drove the short end of the curve higher and flattened the back end of the curve due to lower future growth expectations amid concerns from the Omicron variant as well as slower global growth. The 10-year Treasury yield opened last week at 1.482 percent and closed the week at 1.341 percent, a drop of 14.1 basis points (bps). The 30-year opened last week at 1.827 percent and closed at 1.676 percent, falling 15.1 bps. The front end of the curve moved higher following Federal Reserve (Fed) Chair Jerome Powell's suggestion that the central bank may accelerate its taper. The 2-year rose 8.3 bps over the course of the week, closing at 0.591 percent.

- Global equity markets fell this week as the Omicron variant took the wind out of high-flying technology names. An additional factor in underperformance for sectors such as financials, real estate, and consumer staples was the news of a potentially faster cut in Fed purchases of mortgage-backed securities and treasuries. This news saw the short end of the Treasury yield curve move higher because it illustrated that the Fed has become more concerned about broadening inflation. This bodes well for financials as it widens spread on short-term loans and leads to expanding margins for the industry. The only market in positive territory was emerging markets, which rebounded following its strong sell-off. The week did end on a volatile note, however, with the announcement that Chinese rideshare company DiDi would go through a planned delisting once its shares were listed on the Hong Kong exchange.

- The Conference Board Consumer Confidence Index for November was released on Tuesday. Confidence declined by more than expected, as the index fell from a downwardly revised 111.6 in October to 109.5 against calls for a more modest drop to 110.9. This decline, which brought the index back in line with September's 109.8 result, signals continued consumer unease. Although confidence remains well above the lockdown-induced lows we saw last year, rising medical risks and concerns about inflation have challenged consumer sentiment over the past few months. The discovery of the Omicron variant of the coronavirus in November likely contributed to the slightly larger-than-expected decline in confidence. Historically, improving confidence has helped support faster consumer spending growth, so the recent declines are worth monitoring. Nonetheless, consumer spending growth has remained strong despite declining confidence levels,

as pent-up demand continues to power spending growth.

• Wednesday saw the release of the Institute for Supply Management (ISM) Manufacturing index for November. This widely followed measure of manufacturer confidence improved, rising from 60.8 in October to 61.1 against forecasts for 61.2. This is a diffusion index, where values above 50 indicate expansion, so the improvement was an encouraging sign that the manufacturing industry recovery continued to gain momentum. This strong result marks a seven-month high for the index, which has remained in expansionary territory since June 2020. Manufacturing confidence has been supported by high levels of buyer demand throughout the year, but tangled supply chains and high prices remain a headwind. The index improvement was driven in part by increased hiring growth, as manufacturers continue to spend and invest in their businesses to meet high levels of buyer demand.

• On Friday, the November employment report was released. The report showed that headline job growth slowed notably, with only 210,000 jobs added against forecasts for 550,000. While the September and October job reports were revised upward by 82,000 jobs, the headline job number for November was disappointing after a hiring surge in October. With that being said, the underlying data showed more encouraging results, as the unemployment rate fell from 4.6 percent in October to 4.2 percent against calls for a more modest decline to 4.5 percent. The monthly job report consists of two surveys, one of employers and the other of households. The headline job number comes from the employer report, while the unemployment rate comes from the household survey. The household survey in November showed a notable increase in hiring, which helps calm concerns about the slowdown in headline job growth.

• We finished the week with Friday's release of the ISM Services index for November. This measure of service sector confidence improved by more than expected, increasing from 66.7 in October to a record-high 69.1 against calls for a decline to 65. This signals continued high levels of service sector confidence. As was the case with the ISM Manufacturing index, this is a diffusion index, where values above 50 indicate growth. The better-than-expected result was driven by high levels of consumer demand, as current activity and new orders showed improvement. The strong results were widespread, with all 18 service industry sectors reporting growth. Historically, high levels of business confidence have supported additional business spending, so this result bodes well for business spending during the month.

WHAT TO LOOK FORWARD TO

On Tuesday, the international trade report for October is set to be released. Economists expect to see the trade deficit decline sharply, forecasting for it to narrow from $80.9 billion in September to $66.8 billion. If estimates prove accurate, this report would mark the smallest monthly deficit since April. The advanced report on the trade of goods in October, which was previously released, showed a notable decline in the deficit for this segment. Exports of goods surged 10.7 percent in October, while imports saw a 0.5 percent rise. Throughout 2021, the uneven pace of the global economic recovery and high levels of domestic consumer demand caused the monthly trade deficit to increase notably, so the anticipated narrowing in October is a good sign. We may be starting to see a normalization of international trade, which could support faster overall economic growth to finish out the year.

Friday will see the release of the Consumer Price Index for November. The forecasts call for consumer prices to increase 0.6 percent during the month, in a step down from

October's 0.9 percent gain. On a year-over-year basis, consumer inflation is expected to rise from 6.2 percent in October to 6.7 percent in November. If estimates hold, this report would mark the highest level of year-over-year headline consumer inflation since 1982. Economists expect core consumer prices, which exclude volatile food and energy prices, to go up 0.5 percent for the month and 4.9 percent year-over-year. Throughout the year, consumer prices have been pressured by pent-up consumer demand as well as low supplies due to tangled global supply chains and depleted business inventories. Looking forward, relatively high levels of consumer inflation are likely to continue. In the short term, however, falling energy prices may mitigate consumer price pressure in December.

Friday will also see the release of the preliminary estimate for the University of Michigan consumer sentiment survey for December. Sentiment is expected to improve modestly, with the index set to increase from 67.4 in November to 68. November's sentiment report marked the lowest level for the index since 2011, so any improvement would be welcome. Still, challenges to consumer sentiment have grown this year and sentiment is expected to remain well below the 2021 high of 88.3 recorded in April. Consumer concerns over rising prices have caused the index to plummet to well below levels seen in April 2020, when initial lockdowns were implemented. Over the past few months, there has been a divergence between the University of Michigan consumer sentiment survey and the Conference Board Consumer Confidence Index. The former report is more highly affected by consumer views on inflation, while the latter report focuses on the health of the labor market. Both reports do point to continued consumer unease, which should be monitored in the months ahead.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.22%	5.63%	22.45%	25.55%
Nasdaq Composite	–2.62%	4.53%	17.77%	22.67%
DJIA	–0.91%	2.61%	15.05%	17.59%
MSCI EAFE	–0.97%	–1.76%	6.88%	9.58%
MSCI Emerging Markets	0.13%	–2.06%	–3.04%	1.24%
Russell 2000	–3.86%	–1.88%	10.30%	17.96%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.33%	–0.97%	–0.34%
U.S. Treasury	0.40%	–1.42%	–0.85%
U.S. Mortgages	–0.03%	–0.98%	–0.66%
Municipal Bond	0.07%	1.43%	1.98%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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