WEEKLY MARKET UPDATE, NOVEMBER 1, 2021

GENERAL MARKET NEWS

• The Treasury curve flattened slightly last week as investors geared up for this week's Federal Reserve (Fed) meeting. The 10-year Treasury yield fell 5 basis points (bps) week-over-week, opening Monday morning at 1.57 percent. The 30-year dropped 12 bps to 1.95 percent, the 20-year fell 7 bps to 1.93 percent, the 2-year rose 6 bps to 0.43 percent, and the 5-year climbed 4 bps to 1.21 percent.

• Markets saw mixed performance, highlighted by a busy earnings week for tech names, with Facebook (renamed Meta on October 28), Microsoft, Google, Apple, and Amazon all reporting. Google and Microsoft beat expectations by 21 percent and 10 percent, respectively. Apple and Amazon were affected by supply chain constraints, with the former experiencing a $6 billion sales drop because of chip shortages and manufacturing disruptions. Amazon's growth waned from pandemic highs as customers began to return to physical stores. That said, earnings reports continued to reflect strong demand, with consumer discretionary, communication services, and tech the week's top performers. Financials, energy, and utilities underperformed.

• On Tuesday, the Conference Board Consumer Confidence Index for October was released. The report showed that confidence increased from an upwardly revised 109.8 in September to 113.8 against calls for a decline to 108. This was the first increase for the index since June, and it left confidence well above pre-pandemic levels. The improvement was likely driven in part by declining medical risks during the month, as the rise of the Delta variant weighed on confidence levels throughout much of the summer and start of the fall. Both the present situation and future expectation subindices improved, and consumers indicated they were more likely to buy big-ticket items, such as cars and houses, in October. Historically, improving consumer confidence has helped support faster consumer spending growth, so the modest improvement in October is a welcome development that may signal continued consumer spending growth.

• Wednesday saw the release of the preliminary estimate of the September durable goods orders report. Durable goods orders declined by less than expected, falling 0.4 percent against calls for a 1.1 percent decline. The drop in headline orders was primarily driven by a decline in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, increased 0.4 percent in September, which was in line with economist estimates. Core durable goods orders are often viewed as a proxy for business investment, so the steady increase is an encouraging signal that businesses continued to spend in September. This now marks seven consecutive months with increasing core durable goods orders, as businesses have scrambled to meet a surge in pent-up consumer demand throughout much of the year.

• On Thursday, the advance estimate of third-quarter gross domestic product (GDP) growth was released. It showed that the economy grew at an annualized rate of 2 percent during the quarter, down from the 6.7 percent annualized growth rate in the second quarter and below economist estimates for a 2.6 percent annualized increase. Personal consumption slowed notably, declining from an annualized growth rate of 12 percent in the second quarter to 1.6 percent in the third quarter. Shortages, rising prices, and rising medical risks contributed to the slowdown, but it's worth noting that slower growth is still growth. Looking forward, economists anticipate a pickup in growth in the fourth quarter and a strong 5.7 percent increase in GDP growth for the year.

• We finished the week with Friday's release of the September personal income and personal spending reports. Personal income fell 1 percent, which was below economist estimates for a 0.3 percent decline. Personal income growth has been volatile throughout the course of the pandemic, as shifting federal stimulus and unemployment benefits have had an outsized impact on monthly income levels. The larger-than-expected decline in personal income in September was largely driven by the expiration of enhanced unemployment benefits at the start of the month. Personal spending, on the other hand, increased for the seventh consecutive month, rising 0.6 percent. This was down from the upwardly revised 1 percent spending growth we saw in August but in line with economist estimates. Personal spending has been supported throughout the year by improving public health data and pent-up consumer demand after a year of pandemic-related restrictions.

WHAT TO LOOK FORWARD TO

Monday saw the release of the Institute for Supply Management (ISM) Manufacturing index for October. This widely followed measure of manufacturer confidence declined less than expected, falling from 61.1 in September to 60.8. (Forecasts were for a decline to 60.5.) This is a diffusion index, where values above 50 indicate expansion, so this result signals continued manufacturer growth despite the modest decline. Last year, manufacturer confidence increased notably after initial lockdowns ended, and the index has stayed in expansionary territory since June 2020. Despite healthy confidence levels, manufacturers have had to contend with rising headwinds throughout the year, most notably tangled global supply chains, labor shortages, and rising costs. Nonetheless, the continued strength of manufacturer confidence is an encouraging signal that producers view these obstacles as surmountable.

On Wednesday, the ISM Services index for October will be released. Service sector confidence is expected to remain unchanged at 61.9. This is another diffusion index, where values above 50 indicate expansion, so the projected result would be a sign of steady growth for the service sector. As this sector accounts for the lion's share of economic activity in the country, continued growth would also be a positive indicator of overall economic growth. As was the case with manufacturing confidence, service sector confidence rebounded swiftly following the expiration of initial lockdowns last year and has remained in healthy expansionary territory since. Earlier in the year, service sector confidence was boosted by declining medical risks and the easing of state and local restrictions, allowing consumers to go out and spend heavily, especially in the first half of the year.

Wednesday will also see the release of the Federal Open Market Committee rate decision from the Fed's scheduled November meeting. The Fed cut interest rates to virtually zero at the start of the pandemic, and economists don't anticipate interest rate changes this year. Instead, economists are focused on the Fed's asset purchase program, with an announcement regarding tapering purchases expected at the meeting. The Fed has been purchasing $120 billion per month in Treasury and mortgage-backed securities throughout the pandemic, but a tapering program is widely expected. Most economists anticipate a reduction of $15 billion in purchases per month, which could lead to the end of the current quantitative easing program by next summer. This announcement will be widely monitored, as the removal of this supportive policy could cause market volatility. Still, given widespread expectation of this action, the market impact should be relatively muted unless there are surprises in the size and speed of the tapering efforts.

On Thursday, the September international trade report will be released. The trade deficit is expected to increase from $73.3 billion in August to $74.8 billion. If estimates hold, this report would mark the largest monthly trade deficit on record, breaking the record set in August. Because of a 4.7 percent drop in exports, the advance report showed that the goods trade deficit expanded from $88.2 billion to $96.3 billion. The fall in exports was largely due to the impact from Hurricane Ida early in the month, but September also saw a 0.5 percent increase in goods imports. The trade deficit has expanded throughout much of the year due to high domestic consumer demand and the uneven pace of the global economic recovery. International trade has been a drag on the pace of overall economic growth throughout the year. So, until we see a meaningful increase in exports, this dynamic is expected to continue.

We'll finish the week with Friday's release of the October employment report. Economists expect to see 400,000 jobs added during the month, in a notable step up from the relatively disappointing 194,000 jobs gained in September. If estimates hold, this report would mark the 10th consecutive month with job growth. Nonetheless, the expected pace of job growth is slated to come in below the recent highs recorded during the summer. The underlying data is expected to show improvements in October. The unemployment rate is set to fall from 4.8 percent to 4.7 percent, while average hourly earnings are expected to show solid growth. We've made notable progress throughout the year in getting people back to work, but the recent hiring slowdown highlights headwinds for the labor market recovery. A lack of available workers has led to labor shortages in some markets. This, in turn, has slowed the overall pace of hiring, despite job openings being at or near all-time highs.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.35%	7.01%	24.04%	42.91%
Nasdaq Composite	2.72%	7.29%	20.88%	42.99%
DJIA	0.40%	5.93%	18.77%	37.73%
MSCI EAFE	–0.11%	2.46%	11.01%	34.18%
MSCI Emerging Markets	–2.18%	0.99%	–0.27%	16.96%
Russell 2000	0.27%	4.25%	17.19%	50.80%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.03%	–1.58%	–0.48%
U.S. Treasury	–0.07%	–2.56%	–2.45%
U.S. Mortgages	–0.19%	–0.86%	–0.58%
Municipal Bond	–0.29%	0.50%	2.64%

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.v

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