WEEKLY MARKET UPDATE, OCTOBER 18, 2021

GENERAL MARKET NEWS

• The Treasury curve saw a modest flattening last week as investors searched for direction amid earnings releases and growing inflation fears. The 10-year yield picked up 1 basis point (bp) week-over-week to open Monday morning at 1.62 percent. The 30-year yield fell about 12 bps to 2.05 percent, while the 20-year lost 8 bps to around 2.03 percent. The 2-year yield was up 12 bps to 0.44 percent, and the 5-year yield climbed 11 bps to 1.18 percent.

• Global equity markets rallied last week as earnings season got off to a strong start from bank earnings. Bank of America, Goldman Sachs, and Morgan Stanley posted strong numbers supported by strong trade desk activity, loan growth, and low loan loss rates. The week also saw mixed data from inflation reports, with consumer prices rising more than expected due to higher energy and rent expenses but producer prices showing signs of easing. This latter result, alongside stronger-than-expected consumer spending, led markets to move higher at the end of the week. The top-performing sectors were materials, consumer discretionary, and REITs. Telecom, health care, and energy were the worst-performing sectors.

• Wednesday saw the release of the September Consumer Price Index report. The report showed consumer prices increased by 0.4 percent, which was slightly higher than economist estimates for a 0.3 percent increase that would have matched the August report. Consumer prices increased by 5.4 percent on a year-over-year basis, which was also slightly higher than the expected 5.3 percent year-over-year increase and matches the largest annual increase since 2008. Core consumer inflation, which strips out volatile food and energy prices, increased by 0.2 percent during the month and 4 percent year-over-year, which was in line with expectations. Supply chain constraints and limited business inventories have combined with high levels of pent-up consumer demand to increase inflationary pressure throughout the year. While some of these factors are expected to normalize in the months ahead, high levels of consumer inflation and rising inflation expectations may serve as a headwind for future spending growth for the time being.

• On Thursday, the September Producer Price Index report was released. Producer prices increased by 0.5 percent during the month and 8.6 percent on a year-over-year basis. These results were slightly below economist estimates of 0.6 percent monthly and 8.7 percent annual producer inflation. Core producer inflation, which strips out the impact of food and energy prices, increased by 0.2 percent for the month and 6.8 percent on a year-over-year basis, which was below forecasts for a 0.5 percent monthly and 7.1 percent annual increase. The lower-than-expected growth in both headline and core producer prices was partially due to declining airline and rental car prices negatively affected by the pandemic. Prices for goods continued to rise, with much of the increase due to rising energy costs. As was the case with consumer prices, producer prices have seen upward pressure this year due to high levels of demand and low levels of supply. The rising inflationary pressure on both consumer and producer prices throughout the year is one of the factors expected to lead the Federal Reserve to start tapering asset purchases by the end of the year.

• On Friday, the September retail sales report was released. Headline retail sales beat expectations, rising by 0.7 percent against calls for a 0.2 percent decline. August's report was also revised to show 0.9 percent sales growth. Core retail sales, which strip out the impact of volatile auto and gas sales, also impressed, increasing by 0.7 percent against forecasts for a more modest 0.4 percent increase. These better-than-expected results were an encouraging sign that consumer demand remained strong to end the third quarter despite rising medical and political risks and lowered consumer confidence levels compared to earlier in the year. Consumer spending growth was primarily in goods spending during the month; however, spending at restaurants and bars also showed signs of modest growth. Overall, the growth was widespread, as 11 out of the 13 categories in the report saw higher levels of spending in September. This was an encouraging report as it indicated consumers still remain willing and able to spend and drive the ongoing economic recovery.

• Finally, we finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for October. The report showed confidence declined modestly to start the month, falling from 72.8 in September to 71.4 in October against calls for an increase to 73.1. This result brought confidence to its second-lowest level since the start of the pandemic and left the index well below the 2021 high of 88.3 that we saw in April. The decline in confidence was due to worsening consumer views on both the current economic situation and future expectations. Consumers remain concerned about short-term inflation, as the average one-year inflation expectation increased from 4.6 percent in September to 4.8 percent to start October. Consumers also indicated that buying conditions for large household goods remain challenging due to lack of supply and rising prices. This was especially true for car sales, with a record 69 percent of consumers indicating they have negative outlooks on auto purchases at this time. Overall, this was a disappointing report as it highlighted the very real headwinds for consumer confidence and spending in the months ahead.

WHAT TO LOOK FORWARD TO

On Monday, the September industrial production report was released. During the month, production declined by 1.3 percent, a result well below economist estimates for a 0.1 percent increase. The surprisingly weak result was caused by a weather-driven slowdown in utilities and mining production, as well as a drop in manufacturing output. Manufacturing output declined by 0.7 percent in September, against calls for a 0.1 percent increase. In addition, August's industrial production and manufacturing output reports were revised downward from modest gains to declines of 0.1 percent and 0.4 percent, respectively. These disappointing results highlight the very real challenges that manufacturers are currently facing. Tangled supply chains, labor shortages, and rising costs have all served as headwinds for faster output growth over the past few months. Motor vehicle manufacturing has been a major drag on overall manufacturing growth, as the global semiconductor chip shortage and a shutdown of large parts of the auto industry led to a sharp drop in motor vehicle production in September. High levels of demand are expected to support additional manufacturing growth in the medium to long term. Still, this report indicates that manufacturers were not immune to the recent economic slowdown. In the months ahead, we may see more turbulence.

Monday also saw the release of the National Association of Home Builders Housing Market Index for October. Home builder confidence improved by more than expected during the month, with the index rising from 76 in September to 80 in October. The forecasts were for a modest decline to 75. This result brought home builder confidence to its highest level in three months, signaling faster expansion for new home building activity. The improvement was widespread, as each of the four geographic regions saw improvements. The strong result was also supported by an increase in prospective home buyer foot traffic in September. The housing sector has been one of the bright spots in the post-lockdown economic recovery, as shifting home buyer preference for more space and low mortgage rates continues to support high levels of home construction and sales. Although home builders have had to contend with tangled supply chains and rising costs throughout the year, high demand and low inventory of existing homes for sale have supported a surge in new home construction since initial lockdowns expired last year.

Speaking of new home construction, Tuesday will see the release of the September builder permits and housing starts reports. Both measures of new home construction are expected to decline in September, following larger-than-anticipated gains in August.

Permits are set to decline by 2.7 percent, following a 5.6 percent increase in August. The forecast for starts is a more modest 0.3 percent drop, following a 3.9 percent rise in August. Despite the anticipated declines, both permits and starts should remain well above pre-pandemic levels, highlighting the positive impact from high home builder confidence. The pace of new home construction has increased notably since the end of initial lockdowns last spring, with much of the growth focused on single-family housing. Looking forward, rising rents and a gradual return to work in offices may support more multifamily apartment construction.

On Thursday, the September existing home sales report is set to be released. The pace of sales is expected to increase by 2 percent, supported by low mortgage rates and high levels of home buyer demand. Existing home sales surged late last year. Throughout 2021, we've since seen a moderate slowdown in these sales, but they remain well above pre-pandemic levels, signaling high home buyer demand. The slowdown in sales has been primarily due to a lack of homes for sale, which has led to rising prices and bidding wars in supply-constrained markets. In August, the number of homes for sale was down 13.4 percent on a year-over-year basis, and the vast majority of homes spent less than a month on the market before being sold. Looking forward, sales growth near current levels would be a sign of high demand and a relatively healthy housing market. For the pace of existing home sales to rise notably, however, a meaningful increase in the number of homes for sale would likely be needed.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.84%	3.86%	20.40%	30.25%
Nasdaq Composite	2.18%	3.12%	16.18%	28.50%
DJIA	1.58%	4.34%	16.98%	25.73%
MSCI EAFE	2.42%	1.93%	10.44%	26.27%
MSCI Emerging Markets	2.13%	2.47%	1.19%	16.53%
Russell 2000	1.47%	2.81%	15.57%	40.05%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.17%	–1.72%	–1.08%
U.S. Treasury	–0.22%	–2.71%	–3.14%
U.S. Mortgages	–0.18%	–0.85%	–0.57%
Municipal Bond	–0.10%	0.69%	2.84%

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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