WEEKLY MARKET UPDATE, SEPTEMBER 13, 2021

GENERAL MARKET NEWS

• Treasury yields saw little movement last week as markets look for direction amid growth concerns and the coming September Federal Reserve (Fed) meeting. The 10-year yield was unchanged from last week, opening at 1.33 percent on Monday morning. The 30-year fell 2 basis points (bps) to 1.91 percent, while the 5-year gained about 2 bps to 0.78 percent and the 2-year was unchanged at 0.20 percent.

• Global markets were down as concerns about tighter monetary policies from central banks lead to re-evaluations of future global growth. We saw Fed officials talking about tapering later this year despite a significant miss on the August employment report (235,000 jobs added vs. 733,000 expected). We also saw the European Central Bank signal that it may moderate its Pandemic Emergency Purchase Programme pace (starting in the fourth quarter). Finally, China's Producer Price Index increased 9.5 percent from last year on the back of higher commodity prices. All three events led to questions over whether global central banks may begin to slow their purchase programs and raise rates faster than expected to curb inflation. The result was a decline in real estate and global recovery sectors such as industrials and energy. Consumer discretionary, communication services, consumer staples, and financials sectors held up well.

• Tuesday saw the release of the Conference Board Consumer Confidence Index for August. This widely followed measure of consumer sentiment fell more than expected, dropping from a downwardly revised 125.1 in July to 113.8 against forecasts for a more modest decline to 123. This result echoes a similar decline in the University of Michigan consumer sentiment survey during the month and brought the index to a six-month low. Increasing consumer concern about rising public health risks due to the Delta variant weighed heavily on sentiment, as the present situation subindex fell to its lowest point since April. Historically, higher levels of consumer confidence have supported faster consumer spending growth, so the sharp drop in confidence is a warning that we may see lower levels of spending during the month, especially for the hard-hit service sector. Consumer spending accounts for the majority of economic activity in the country, so this will be an important area to monitor in the months ahead.

• On Wednesday, the ISM Manufacturing index for August was released. This measure of manufacturer confidence increased by more than expected, rising from 59.5 in July to 59.9 against calls for a decline to 58.5.

This is a diffusion index, where values above 50 indicate expansion, so this report shows that manufacturing growth accelerated despite headwinds for the industry. Survey respondents noted that tangled global supply chains and material shortages held the industry back from even faster growth. The measure of order backlogs for manufacturers rose to its second highest recorded level, highlighting the challenges manufacturers face due to the uneven nature of the global economic recovery. Despite the headwinds for the industry, this marks the 14th consecutive month in expansionary territory, as high levels of demand and low business inventories have helped support a steady rebound for manufacturers following the expiration of initial lockdowns last year.

• On Friday, the August employment report was released. The report showed that 235,000 jobs were added during the month, down from the upwardly revised 1.05 million jobs that were added in July and below economist expectations for an additional 733,000 jobs during the month. This disappointing result marks the fewest number of jobs added in a month since January and highlights the negative economic impact from rising medical risks. Reopening efforts throughout much of the country in the spring and early summer helped support a surge in hiring as businesses scrambled to meet excess demand; however, the report indicates this tailwind may be fading as rising case counts have led to increased state and local restrictions. Leisure and hospitality hiring was flat during the month after seeing steady gains earlier in the summer that were driven by reopening efforts. Despite the miss against expectations for headline jobs growth, there were a few silver linings. The unemployment rate fell from 5.4 percent to 5.2 percent, which is a pandemic-era low. In addition, wage growth increased more than expected, with average hourly earnings increasing 4.3 percent year-over-year against forecasts for a 3.9 percent increase.

• We finished the week with Friday's release of the ISM Services index for August. This gauge of service sector confidence declined from 64.1 in July to 61.7 against forecasts for a drop to 61.6. This is another diffusion index, where values above 50 indicate growth, so this result still signals continued expansion for the service sector during the month. July's result marked a record high for the index, so the pullback in August is understandable, especially when rising medical risks are taken into account. Service sector confidence remains well above pre-pandemic levels and should support continued spending growth during the month. Service sector businesses continue to face many of the same headwinds as manufacturers (i.e., rising prices and labor shortages); however, there were signs in the report that these headwinds are starting to fade. The measure of prices paid by service sector businesses fell to its lowest point since March as supplier delivery times and order backlogs also declined. Ultimately, this was an encouraging report that indicates service sector confidence remained robust despite rising medical risks.

WHAT TO LOOK FORWARD TO

On Tuesday, the Consumer Price Index for August will be released. Economists expect to see consumer inflation moderate, with prices set to increase by 0.4 percent in August and 5.3 percent year-over-year. If estimates prove accurate, this report would show a modest decline in both monthly and annual consumer inflation. In July, consumer prices increased by 0.5 percent for the month and 5.4 percent year-over-year. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to increase by 0.3 percent during the month and 4.3 percent year-over-year. This year, consumer prices have faced upward pressure due to high consumer demand following state and local restrictions being lifted in the spring. Tangled global supply chains and labor shortages have also contributed to the increase in inflationary pressure. Notably, the Fed remains committed to supporting labor market recovery despite higher-than-normal inflation figures.

Wednesday will see the release of the August industrial production report. Production is expected to increase by 0.4 percent following a 0.9 percent increase in July. The better-than-expected July result was driven in large part by an 11.2 percent spike in auto production, caused by factories canceling their typical July plant shutdowns to retool. Manufacturing output is expected to increase by 0.4 percent in August, following a 1.4 percent increase in July. If estimates hold, August would represent a solid month for industrial production and manufacturing output growth despite the slowdown from July's pace. The manufacturing industry has been slower than the consumer side of the economy to recover given headwinds created by material and labor shortages. High consumer demand should support additional production in the months ahead, especially if improvements are seen on the public health front.

On Thursday, the initial jobless claims report for the week ending September 11 is set to be released. Economists expect initial claims to increase modestly during the week, from 310,000 to 320,000. Even with the anticipated increase, this report would represent the second-fewest initial unemployment claims in a week since the start of the pandemic—an encouraging signal. Claims can be volatile on a week-to-week basis, but the four-week moving average for initial claims would set a new pandemic-era low if estimates hold. The recent decline in initial claims is likely driven by labor shortages across the country, causing businesses to hesitate in laying off employees that could be difficult to replace. This weekly report has been widely monitored since the start of the pandemic, when initial lockdowns led to a surge in layoffs. As we've seen, there's been a notable improvement over the course of the year. Given the continued resilience of the labor market in August and September, we are nearly back to historically normal levels for weekly initial claims.

Thursday will also see the release of the August retail sales report. Sales are expected to decline by 0.8 percent during the month, following a 1.1 percent decline in July. If estimates hold, this report would mark the first two consecutive months of sales declines since November and December of last year, when rising medical risks and restrictions negatively affected spending. Core retail sales—which strip out volatile auto and gas sales—are expected to decline by 0.3 percent in August following a 0.7 percent decline in July. Rising medical risks negatively affected consumer confidence in July and August, and the anticipated decline in spending reflects the lower confidence levels. Overall retail sales are expected to remain well above pre-pandemic levels, however. Looking forward, we'll likely need to see improvements on the public health front and a rebound in consumer confidence before high levels of monthly sales growth return. Still, if sales remain near current levels, this would indicate consumer spending is more resilient now compared with spending during earlier waves of the pandemic.

We'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for September. Economists expect to see consumer confidence increase modestly during the month, with the index set to rise from 70.3 in August to 72 to start September. Despite the anticipated rebound, however, the anticipated result would represent the third-lowest reading for the index since the start of the pandemic. It would trail only last month's disappointing result and the 71.8

reading recorded in April 2020 at the height of lockdowns. Earlier this year, the index rebounded to 88.3 (in April). Throughout the summer, rising medical risks and inflationary pressure dampened consumer enthusiasm. Higher levels of consumer confidence have historically supported faster consumer spending growth, and consumer spending accounts for the majority of economic activity in the country. Accordingly, this report will continue to be closely monitored.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.68%	–1.37%	19.91%	35.47%
Nasdaq Composite	–1.61%	–0.92%	17.82%	40.23%
DJIA	–2.11%	–2.06%	14.63%	27.49%
MSCI EAFE	–0.31%	1.18%	12.90%	28.41%
MSCI Emerging Markets	–0.47%	0.09%	2.94%	22.25%
Russell 2000	–2.80%	–2.01%	13.50%	50.29%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.02%	–0.74%	–0.29%
U.S. Treasury	–0.02%	–1.55%	–2.46%
U.S. Mortgages	0.01%	–0.30%	–0.12%
Municipal Bond	0.00%	1.49%	3.38%

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 Barclays 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 Barclays 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 Barclays 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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