WEEKLY MARKET UPDATE, SEPTEMBER 20, 2021

GENERAL MARKET NEWS

• The Treasury yield curve flattened on a week-over-week basis as markets sought safety early Monday, following a sharp sell-off in Asia and in anticipation of this week's Federal Reserve (Fed) meeting. The 10-year yield was down about 1 basis point to 1.32 percent. The 30-year fell about 5 basis points (bps) to 1.86 percent, while the 5-year gained 2 bps to about 0.83 percent and the 2-year was unchanged from last week at 0.20 percent.

• Domestic indices were mostly lower last week as markets remained unsettled amid a noisy backdrop. Investors are hoping for clarity on a tapering timeline out of this week's Fed meeting. Many believe tapering will begin before year-end, but economic data has been volatile recently. August's Consumer Price Index (CPI) and retail sales reports were surprisingly positive, but sentiment remains dampened by a weak labor market. On the fiscal side, House Democrats will push to suspend the debt ceiling this week as an October deadline looms large. Materials, utilities, and industrials lagged last week while energy, consumer discretionary, and financials outperformed. Markets opened sharply lower this week as seasonal weakness and fears of broader contagion from China Evergrande's possible default gripped markets.

• On Tuesday, the CPI report for August was released. The report showed that the pace of consumer inflation slowed, with prices rising 0.3 percent against calls for a 0.4 percent increase. This is down from the 0.5 percent rise in consumer prices we saw in July. On a year-over-year basis, consumer prices increased 5.3 percent, which was in line with expectations and a modest decline from the 5.4 percent year-over-year consumer inflation rate from July. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.1 percent during the month and 4 percent year-over-year. As was the case with headline consumer inflation, core consumer prices increased less than expected in August. Airline fares, hotel rates, and used car prices all declined notably during the month. Although consumer price growth remains high on a year-over-year basis, the moderating inflationary pressure in August helps support the Fed's belief that much of the recent price increases will prove to be transitory.

• Wednesday saw the release of the August industrial production report. Production increased 0.4 percent, which was slightly below economist estimates for a 0.5 percent increase. This follows a solid 0.8 percent increase in production in July and marks six straight months with rising production. The increase in production was largely due to a rise in utilities output, as Hurricane Ida negatively affected manufacturing and mining output. Given the hurricane's timing at the end of August and start of September, the lingering effects from the storm are expected to serve as a similar headwind for mining in September. Manufacturing output increased 0.2 percent during the month, which was below economist estimates for a 0.4 percent increase. With that being said, July's manufacturing output growth was upwardly revised from 1.4 percent to 1.6 percent, so the miss against expectations in August is not as bad as it first seems. All in all, this report showed that the rebound in industrial production continued during the month.

• Thursday saw the release of the August retail sales report. Sales increased 0.7 percent, which was significantly better than the 0.7 percent drop economists expected. Core retail sales, which strip out the impact of volatile auto and gas sales, were even more impressive, increasing 2 percent against calls to remain flat. This represents the best month for core retail sales growth since March's stimulus-fueled surge. While the faster-than-expected sales growth during the month was a positive development, the details were less encouraging. Growth was largely driven by a surge in grocery sales and online shopping, which in turn likely reflects rising consumer concerns about the Delta variant. Spending at bars and restaurants was flat, which is another sign that rising health risks likely affected consumer spending decisions. Despite the rotation back toward stay-at-home spending, the better-than-expected increase in headline and core sales shows that consumers remain willing and able to spend.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for September. The report showed that confidence improved modestly to start the month, as the index increased from 70.3 to 71 against forecasts for an increase to 72. Consumer views on current economic conditions fell slightly to start September; however, future expectations saw some improvement. Consumers remain concerned about rising prices, as buying conditions for big-ticket items such as homes and cars worsened during the month due to high costs. Consumer one-year inflation expectations increased from 4.6 percent in August to 4.7 percent in September; however, five-year inflation expectations remained unchanged at 2.9 percent. Despite the modest improvement in confidence to start the month, the index remains well below its recent high of 88.3, set in April. Historically, improving consumer confidence has led to faster consumer spending growth, so the lackluster result in September may signal future weakness in consumer spending.

WHAT TO LOOK FORWARD TO

On Monday, the National Association of Home Builders Housing Market Index for September was released. This gauge of home builder confidence increased modestly—from 75 in August to 76 in September—against calls for a decline to 74. This is a diffusion index, where values above 50 indicate expansion, so this better-than-expected result signals continued growth of home builder confidence. Last year, this index rebounded swiftly once initial lockdowns were lifted as record-low mortgage rates, high levels of home buyer demand, and limited existing homes for sale supported a surge in home construction. Home builder confidence has declined since then, largely due to rising material and labor costs. Although lumber prices have started to normalize, input costs for home builders remain high due to supply chain disruptions and labor shortages. Looking forward, continued high levels of demand should keep home builder confidence in expansionary territory. In the short-term, however, high costs are expected to remain as a headwind for home builders.

On Tuesday, the August building permits and housing starts reports are set to be released. Permits are expected to decline by 2.2 percent, following a 2.6 percent increase in July. Starts are set to rise by 1 percent, after declining by 7 percent in July. Both measures of new home construction can be volatile on a month-to-month basis. Single-family housing starts have been a particular highlight as shifting home buyer preferences for more space caused a surge in new single-family construction over the past year. Looking forward, rising rents and a return to more normal economic conditions may support an increase in multifamily construction. Throughout the pandemic, this sector has generally lagged compared with single-family housing growth.

On Wednesday, the August existing home sales report is set to be released. Sales of existing homes are expected to fall by 2.3 percent, following a 2 percent increase in July. At the end of last year and start of this year, existing home sales surged. Throughout much of this year, however, the limited supply of existing homes for sale and rising prices have negatively affected sales growth. That said, the pace of existing home sales is expected to remain well above pre-pandemic levels, highlighting the continued strength of the housing market. We saw the supply of homes for sale increase in July, which could signal the housing market's stabilization following last year's surge in sales. Still, the number of homes for sale remains relatively low on a historical basis. This factor is expected to dampen the pace of overall sales growth until more homes become available for sale.

Wednesday will also see the Federal Open Market Committee rate decision from the Fed's September meeting. The Fed cut interest rates to virtually zero at the start of the pandemic, and economists do not expect to see any hikes until 2023 at the earliest. The meeting's focus will be on the asset purchase program, which currently sees the Fed buying a combined $120 billion in Treasury and mortgage-backed securities a month. These purchases have been used to support the markets throughout the course of the pandemic. Currently, however, there is speculation that the Fed may be ready to start tapering purchases. Some Fed members have come out publicly in favor of tapering asset purchases by the end of the year, but no timeline for tapering has been announced yet. The September meeting will be important in terms of guiding market expectations for the Fed's tapering plans. Although the timing of these efforts is unknown, the Fed is widely expected to slow the pace of asset purchases gradually to minimize market impact.

We'll finish the week with Thursday's release of the initial jobless claims report for the week ending September 18. Economists expect to see the number of initial unemployment claims decline modestly from 332,000 to 320,000. If estimates prove accurate, this report would represent the second-fewest initial claims in a week since the start of the pandemic. While claims can be volatile on a weekly basis, the four-week moving average for initial claims would be set to hit a new pandemic-era low if estimates hold. This would highlight the continued labor market recovery in September. Declining medical risks and loosened restrictions on consumers and businesses supported a reduction in weekly layoffs throughout the spring. Recently, however, labor shortages have also helped drive the number of weekly layoffs down. Given the shortage of potential replacements, businesses remain reluctant to lay off workers.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.54%	–1.91%	19.24%	34.01%
Nasdaq Composite	–0.46%	–1.38%	17.30%	38.90%
DJIA	–0.05%	–2.10%	14.58%	26.32%
MSCI EAFE	–1.38%	–0.20%	11.80%	26.32%
MSCI Emerging Markets	–0.96%	–2.08%	0.78%	18.23%
Russell 2000	0.45%	–1.57%	14.00%	46.45%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.01%	–0.77%	–0.32%
U.S. Treasury	–0.16%	–1.59%	–2.45%
U.S. Mortgages	0.04%	–0.38%	–0.06%
Municipal Bond	0.11%	1.50%	3.33%

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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