WEEKLY MARKET UPDATE, SEPTEMBER 27, 2021

GENERAL MARKET NEWS

• The Treasury yield curve climbed following last week's Federal Reserve (Fed) meeting, during which the central bank indicated tapering asset purchases may be warranted before year-end. The 10-year yield was up 17 basis points (bps), opening at 1.48 percent on Monday morning. The 30-year rose 15 bps to 2 percent, the 5-year gained 15 bps to 0.97 percent, and the 2-year was 6 bps higher at 0.28 percent.

• Domestic equities were slightly higher last week as the market shook off concerns surrounding the impact of Chinese real estate developer Evergrande and potential surprises from the Fed surrounding tapering. Equities began the week sharply lower as investors were concerned Evergrande's default on its loans would yield a contagion effect across global financial markets for institutions with exposure to Chinese real estate. As the week progressed, equities rebounded as investors waited to see whether the company would find a way to make an $84 million interest payment within the allotted 30-day grace period. The current consensus is that the Chinese government will not bail out the firm but would prefer to limit surprises or a disorderly collapse. The Fed offered little surprise in its midweek meeting, stating only that tapering of the $120 billion per month in asset purchases may be necessary soon (though it did not specify how soon that might be). Energy, financials, and technology were among the top performers with REITs, utilities, and communications services among the laggards.

• 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 against calls for a decline to 74. This is a diffusion index, where values above 50 indicate expansion, so this better-than-expected result indicates home builder confidence remained at levels that signal continued growth. Home builder confidence rebounded swiftly last year once initial lockdowns were lifted, as record-low mortgage rates, high levels of home buyer demand, and limited existing homes for sale helped support a surge in new home construction. Since then, home builder confidence has declined from the record highs at the end of 2020, due in large part to rising costs for materials and labor. Although lumber prices have started to normalize, input costs for home builders remain high due to supply chain disruptions and labor shortages. Looking forward, still-high levels of home buyer demand should keep home builder confidence in expansionary territory; however, high costs are expected to remain a headwind for home builders in the short term.

• On Tuesday, the August building permits and housing starts reports were released. These measures of new home construction increased by more than expected. Permits increased 6 percent against calls for a 1.8 percent decline, while starts increased 3.9 percent against calls for a 1 percent increase. Although permits and starts can be volatile on a month-to-month basis, they remained at levels that signal a healthy pace of construction. The increase in starts was largely driven by a 20.6 percent increase in multifamily homes, as the pace of single-family starts declined during the month. The increase in permits was also due to increased builder interest in getting multifamily units permitted. Rising housing costs and a return to more normal economic conditions are expected to support continued new home construction in the months ahead.

• On Wednesday, the August existing home sales report was released. Sales of existing homes fell 2 percent, slightly more than the expected 1.7 percent decline. Existing home sales increased notably at the end of 2020; however, so far this year, we've seen the pace of home sales pull back. With that being said, sales remain above pre-pandemic levels, as low mortgage rates and high levels of prospective home buyer demand continue to support the housing sector. The major headwind for the housing market is a lack of available homes for sale; the supply of homes for sale in August was 13.4 percent lower than one year ago. The lack of homes for sale and high levels of demand have also caused housing prices to rise throughout the year, which is another headwind for faster sales growth. Looking forward, we'll likely need to see a noted increase in the number of homes for sale to see notably faster levels of sales growth.

• Wednesday also saw the release of 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 there were no changes to interest rates at this meeting, as expected. Instead, the major focus was on the Fed's asset purchase program, which currently consists of $120 billion per month in purchases of Treasury and mortgage-backed securities. While these quantitative easing measures helped support markets throughout the worst of the pandemic, some board members have recently started to discuss tapering asset purchases in the future. The news release from the meeting indicated that the Fed may be prepared to announce tapering plans as soon as its November meeting, provided the economic recovery continues. Although the full timing of the tapering plan remains unknown, this strong hint from the Fed that we may see asset purchases decline by the end of the year was a sign that its members believe the economy continues to recover and a gradual return to more normal monetary policy may be appropriate.

WHAT TO LOOK FORWARD TO

On Monday, the August durable goods orders report was released. Headline durable goods orders increased by more than expected, going up by 1.8 percent against calls for a 0.7 percent increase. This result was largely driven by a rise in volatile commercial aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, increased by 0.2 percent against forecasts for a 0.5 percent gain. Core durable goods orders are often viewed as a proxy for business investment, so August's continued growth was welcome despite the miss against expectations. Following the 0.8 percent increase in core durable goods orders seen in July, this report marks six consecutive months with core orders growth. Overall, the August report was relatively encouraging; it showed that businesses continue to spend and invest, which is a good sign for overall economic growth in the month and quarter.

On Tuesday, the Conference Board Consumer Confidence Index for September is scheduled for release. Consumer confidence is expected to increase modestly, with the index set to rise from 113.8 to 114.2. If estimates hold, the index would remain well above last year's lockdown-induced lows, signaling healthy levels of consumer confidence. That said, we saw confidence decline in August due to rising medical risks, a slowdown in hiring, and rising inflationary pressure. Still, there is some evidence that consumer inflation started to cool in August, including the Consumer Price Index slowdown. Historically, higher levels of consumer confidence have supported faster spending growth. Any improvement for the index would be welcome, even if it's only the modest uptick expected by economists.

Thursday will see the release of the initial jobless claims report for the week ending September 25. Economists expect to see 330,000 initial claims filed during the week, which would be an improvement from the 351,000 initial claims filed the week before (but slightly higher than the low of 310,000 initial claims recorded earlier in the month). Although we've made solid progress in getting initial claims down this year, the labor market recovery may be tested soon by less-supportive Fed policy. With many economists expecting the Fed to start tapering its asset purchases by year-end, the tailwinds from supportive Fed policies are set to diminish over the months ahead. Given the large number of folks still out of the labor force and the relatively high unemployment rate compared with pre-pandemic levels, employment and initial claims reports will continue to be closely monitored.

Friday will see the release of August personal income and spending reports. Spending is expected to increase by 0.7 percent, following a surprise 0.3 percent increase in July. The previously released August retail sales report showed spending on goods beat expectations, which helps explain the anticipated acceleration in spending growth. Personal income is expected to have increased by 0.2 percent in August following a 1.1 percent rise in July. Personal income growth has been highly volatile throughout the pandemic as shifting federal government payments have caused large monthly income swings. Strong wage growth is expected to offset the impact of more states pulling out from federal unemployment programs in August. Looking forward, labor shortages and high levels of job openings should support continued wage growth and increased spending.

We'll finish the week with Friday's release of the ISM Manufacturing index for September. This widely monitored gauge of manufacturer confidence is expected to decline from 59.9 in August to 59.5 in September. This is a diffusion index, where values above 50 indicate expansion, so this result would signal continued growth for the manufacturing industry. Last year, manufacturer confidence rebounded swiftly once initial lockdowns were lifted; even with a modest decline in September, the index should remain well above pre-pandemic levels. High levels of buyer demand supported manufacturing confidence throughout the year despite headwinds raised by supply shortages and higher prices. If estimates hold, this release will represent an encouraging signal that manufacturers remain confident despite industry headwinds. As is the case with consumer confidence, higher levels of business confidence have historically supported spending growth. If we get the high level of manufacturer confidence expected in September, this result will signal that manufacturing recovery remains on track.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.52%	–1.40%	19.86%	39.26%
Nasdaq Composite	0.03%	–1.35%	17.34%	42.03%
DJIA	0.62%	–1.50%	15.28%	32.25%
MSCI EAFE	–0.26%	–0.45%	11.51%	31.51%
MSCI Emerging Markets	–1.01%	–3.08%	–0.25%	22.41%
Russell 2000	0.51%	–1.06%	14.59%	56.38%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.40%	–1.16%	–0.60%
U.S. Treasury	–0.67%	–2.11%	–3.09%
U.S. Mortgages	–0.28%	–0.64%	–0.31%
Municipal Bond	–0.33%	1.30%	3.07%

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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