WEEKLY MARKET UPDATE, SEPTEMBER 7, 2021

GENERAL MARKET NEWS

- Treasury yields moved higher across the curve last week as markets came to grips with a weaker-than-expected August jobs report. The 10-year yield rose about 9 basis points (bps) over the past week to open at 1.37 percent on Monday morning. The 30-year picked up 8 bps to 1.98 percent, the 5-year gained about 5 bps to 0.81 percent, and the 2-year rose a single basis point to 0.20 percent.

- Domestic indices were divided as the reflationary trade that supported cyclical sectors such as financials, energy, materials, and industrials struggled. The Dow Jones Industrial Average, which carries a higher weighting to those sectors, was the lone major U.S. index that declined. The Nasdaq, boosted by elevated weights in firms such as Amazon and Tesla, performed well despite weakness in recent consumer confidence surveys. The main story was the move toward safety and inflation-protected sectors, with top performers including REITs, health care, consumer staples, and utilities.

- 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 of the coronavirus 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 Institute for Supply Management (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 after the expiration of initial lockdowns last year.

• On Friday, the August employment report was released. It 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 considered. 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 Thursday, the initial jobless claims report for the week ending September 4 is set to be released. Economists expect to see 343,000 initial unemployment claims filed during the week, which would be a modest increase from the 340,000 initial claims filed the previous week. If estimates prove accurate, this report would bring the four-week moving average for initial claims to 346,000, marking the first drop below 350,000 claims since the start of the pandemic. Although August's employment report showed a slowdown in hiring, we have continued to make steady progress in decreasing the number of layoffs. This is an encouraging signal that employers have not responded to recent rising medical risks with mass layoffs, as was the case at the start of the pandemic last year.

Friday will see the release of the August Producer Price Index. Economists expect to see consumer inflation moderate during the month but increase year-over-year. Prices are expected to increase 0.6 percent in August after a 1 percent increase in July. Year-over-year, producer price growth is expected to increase from 7.8 percent in July to 8.3 percent in August. If estimates prove accurate, this report would mark the highest level of year-over-year producer inflation since records began being kept in 2010, breaking the record just set in July 2021. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to increase 0.5 percent during the month and 6.6 percent year-over-year. Producers have contended with tangled global supply chains, material shortages, and labor shortages that have driven up costs throughout the course of the year. Given the uneven nature of the global economic recovery and the rising medical risks, these headwinds are expected to remain in the short term.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.62%	0.31%	21.95%	34.34%
Nasdaq Composite	1.57%	0.70%	19.75%	36.74%
DJIA	–0.14%	0.05%	17.10%	28.14%
MSCI EAFE	1.80%	2.16%	13.24%	30.67%
MSCI Emerging Markets	3.42%	1.22%	3.42%	22.01%
Russell 2000	0.68%	0.81%	16.77%	50.82%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.19%	–0.76%	–0.07%
U.S. Treasury	–0.25%	–1.53%	–2.05%
U.S. Mortgages	–0.04%	–0.31%	–0.14%
Municipal Bond	–0.04%	1.49%	3.43%

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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