WEEKLY MARKET UPDATE, OCTOBER 11, 2021

GENERAL MARKET NEWS

• Treasury yields rose last week as investors weighed a flurry of news from Capitol Hill and economic data releases. The 10-year picked up 13 basis points (bps) week-over-week to open Monday at 1.61 percent, the 30-year rose 12 bps to open at 2.16 percent, and the 20-year also gained 12 bps to open at 2.11 percent. The 2-year was up 4 bps to 0.31 percent while the 5-year climbed 11 bps to 1.06 percent. The front-end of the curve mostly normalized due to Congress reaching a deal to raise the debt ceiling, though 2-month bills moved relatively higher on a new December deadline.

• The three major U.S. indices increased last week, driven by a temporary solution to the debt ceiling issue. The Dow Jones Industrial Average led the way and was supported by moves in energy, financial, and industrial sectors. The Russell 2000 lagged as health care, consumer discretionary, and technology weighed on the index. REITs also struggled as investors now expect the Federal Reserve (Fed) to reduce its purchases of mortgage-backed securities, which should send mortgage rates higher. Despite a weaker-than-expected September employment report, the bar is expected to be low for the Fed to begin tapering these purchases. Meanwhile, the debt ceiling issue is set to come up again in December and leaves much to be determined surrounding the resolution method and implications for fiscal spending in the near term.

• On Tuesday, the ISM Services index for September was released. This widely followed measure of service sector confidence improved by more than expected during the month, rising from 61.7 in August to 61.9 in September against calls for a decline to 59.9. This is a diffusion index where values above 50 indicate expansion, so this result is a sign of faster growth for the service sector. High levels of pent-up consumer demand continue to support business confidence, and businesses have been scrambling to meet this demand through additional investment and hiring. Business confidence remains well above pre-pandemic levels and should help support continued business spending throughout the rest of the year. This strong result was especially impressive given the headwinds that businesses are facing due to rising input costs and labor shortages in some areas.

• On Friday, the September employment report was released. The report showed that 194,000 jobs were added during the month, down from the upwardly revised 366,000 jobs that were added in August and well below economist estimates for 500,000 additional jobs. This marks two

consecutive months with slowing job growth and represents the fewest jobs added in a month since last December. Part of the slowdown in September was due to a relative lack of local government education hiring, as the sector lost 144,000 jobs on a seasonally adjusted basis. We also saw upward revisions to the July and August reports that added an additional 169,000 jobs over those two months; however, the continued slowdown in hiring in September is concerning. The underlying data was a bit more encouraging, as the unemployment rate fell from 5.2 percent to 4.8 percent and average hourly earnings increased notably. The unemployment rate improvement was partially due to folks leaving the workforce as the labor force participation rate fell. Overall, this was a relatively disappointing result that signals labor market recovery continued to slow despite declining public health risks.

WHAT TO LOOK FORWARD TO

Wednesday will see the release of the September Consumer Price Index. This measure of consumer inflation is expected to show a 0.3 percent increase during the month and a 5.3 percent increase year-over-year. If estimates hold, the report would be in line with August's headline consumer inflation growth. It would also represent a slowdown in month-over-month price growth when compared with data from earlier in the summer. Core consumer prices, which strip out the impact of volatile food and energy prices, are set to increase by 0.2 percent in September and 4.1 percent year-over-year. Throughout the year, consumer prices have seen upward pressure, as tangled supply chains and limited business inventories—combined with pent-up consumer demand—drive up prices. Although the Fed contends that much of the recent inflationary pressure will prove transitory, this monthly release will continue to be closely monitored given rising concerns.

Wednesday will also see the release of Federal Open Market Committee (FOMC) minutes from the Fed's September meeting. Although no major changes to monetary policy were made at this meeting, the post-meeting press release and Fed Chairman Jerome Powell's post-meeting press conference indicated the Fed is considering tapering asset purchases this year. The minutes are expected to give economists a better idea of the timing and pace of potential tapering efforts, which may be announced as soon as the Fed's meeting in November. Currently, the Fed is purchasing $120 billion a month in Treasury and mortgage-backed securities to provide liquidity for the market. With the anticipated taper, however, these supportive measures are set to be reversed in the months ahead as the Fed moves to normalize monetary policy. Given the potential for a taper to cause market volatility, this release will be widely monitored.

On Thursday, the September Producer Price Index is set to be released. Producer prices are expected to increase by 0.6 percent during the month, down slightly from the 0.7 percent monthly increase recorded in August. On a year-over-year basis, producer prices are expected to increase by 8.8 percent in September, up from the 8.3 percent annual growth rate seen in August. Core producer prices, which strip out the impact of volatile food and energy prices, are expected to rise by 0.5 percent during the month and 7.1 percent year-over-year. As is the case with consumer prices, producer prices have seen upward pressure this year due to high levels of demand and problems with supply. Producers have also had to contend with increased labor costs over the past few months as the shortage of available workers has led to increased wage growth.

On Friday, the September retail sales report is set to be released. Forecasts are for headline retail sales to decline by 0.3 percent during the month, following a better-than-expected 0.7 percent increase in August. Much of the

anticipated slowdown is due to decreasing auto sales in September. Core retail sales, which strip out the impact of auto and gas sales, are expected to increase by 0.2 percent. If estimates hold, this report would mark two consecutive months with core retail sales growth, signaling that consumers continued to fuel the economic recovery despite lowered confidence in August and September. The total level of sales is well above pre-pandemic levels. Accordingly, any further growth in the months ahead would be a sign that consumers remain willing and able to spend and support ongoing economic recovery.

Finally, we'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for October. Confidence should increase modestly to start the month, as the index is expected to rise from 72.8 in September to 73.5 in October. If estimates hold, this survey would mark two consecutive months with improving confidence. Still, it would leave the index well below the post-lockdown high of 88.3 that we saw in April. Confidence fell sharply in August due to rising consumer concerns about the pandemic, higher inflation, and a slower economic recovery. While we've seen public health risks decline since August, inflation remains above normal levels and job growth continued to slow in September. Given these headwinds, it is unlikely we will see a swift boost in confidence until further progress is made in getting people back to work and reining in inflationary pressure.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.83%	1.99%	18.23%	28.16%
Nasdaq Composite	0.10%	0.92%	13.70%	26.75%
DJIA	1.27%	2.71%	15.17%	23.86%
MSCI EAFE	0.29%	–0.47%	7.84%	21.50%
MSCI Emerging Markets	0.85%	0.33%	–0.92%	14.27%
Russell 2000	–0.37%	1.32%	13.89%	37.73%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.50%	–2.05%	–1.17%
U.S. Treasury	–0.51%	–3.00%	–3.18%
U.S. Mortgages	–0.25%	–0.92%	–0.64%
Municipal Bond	–0.16%	0.63%	2.90%

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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