WEEKLY MARKET UPDATE, OCTOBER 4, 2021

GENERAL MARKET NEWS

• The Treasury yield curve steepened last week as investors weighed the possibility of longer-term elevated inflation. The 10-year yield was unchanged week-over-week, opening on Monday morning at around 1.48 percent. The 30-year yield rose about 5 basis points (bps) to open at 2.05 percent, while the 20-year yield gained 4 bps to around 1.98 percent. The 2-year yield was unchanged at 0.27 percent, and the 5-year yield lost about 5 bps to 0.94 percent. The 4-week Treasury bills sold off on Friday as investors eye a late October deadline for Congress to raise the debt ceiling.

• Global equities were lower on the week with domestic growth and international among the hardest hit. A slew of factors led stocks downward, but the largest appeared to be the increase in bond yields, which hurt growth sectors such as health care and technology. The top-performing sectors were energy, financials, and materials. These sectors benefited from rising rates and potential longer-lasting inflation.

• Domestically, uncertainty came from Washington regarding the path for future fiscal policy and raising the debt ceiling. Elsewhere, logistical problems at ports and a lack of drivers in the U.K. have led to rising energy prices globally. Should these issues persist, investors may have to contend with threats to both future earnings and stagflation. In the wake of these rising prices, OPEC will meet this week to discuss potentially raising output.

• On Monday, the August durable goods orders report was released. Headline durable goods orders increased by more than expected during the month, with the report showing a 1.8 percent increase in orders against calls for a 0.7 percent increase. This result was largely driven by an increase 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 increase. Core durable goods orders are often viewed as a proxy for business investment, so the continued growth in August was welcome despite the miss against expectations. This follows a 0.8 percent increase in core durable goods orders in July and now marks six consecutive months with core orders growth. Overall, this was a relatively encouraging report as it showed businesses continue to spend and invest—which is a good sign for overall economic growth in the month and quarter.

• Friday saw the release of the August personal income and spending reports. Spending increased by more than expected during the month, with the report showing a 0.8 percent increase in spending against calls for a 0.7 percent increase. This echoed the better-than-expected result for retail sales growth that we saw earlier in the month and was encouraging as it indicated consumers remained willing and able to go out and spend despite lowered consumer confidence levels. Personal income increased by 0.2 percent in August, which was in line with expectations. Personal income has been very volatile on a month-to-month basis throughout the pandemic, as shifting federal stimulus and unemployment payments have led to large monthly swings in average income. Looking forward, labor shortages and high levels of job openings should help support continued wage growth in the months ahead, which may support faster spending growth as well.

• We finished the week with Friday's release of the ISM Manufacturing report for September. This widely monitored gauge of manufacturer confidence improved by more than expected during the month, with the index rising from 59.5 in August to 61.1 in September against calls for a decline to 59.5. This is a diffusion index where values above 50 indicate expansion, so this result indicates faster expansion for manufacturers than anticipated and left the index at a four-month high. Manufacturer confidence has remained well above pre-pandemic levels since the expiration of initial lockdowns last year and is a signal that manufacturing recovery continues in earnest (despite headwinds created by tangled supply chains and rising costs). High levels of consumer demand are expected to help support continued manufacturing growth in the months ahead, which would be a good sign for overall economic growth.

WHAT TO LOOK FORWARD TO

On Tuesday, the August international trade report is set to be released. Economists expect the trade deficit to widen slightly from $70.1 billion in July to $70.5 billion in August. The previously reported advanced trade deficit for goods increased from $86.9 billion in July to $87.6 billion in August, so the anticipated widening of the overall trade deficit is understandable. The 0.8 percent increase in imports of goods drove the deficit for the goods trade, which offset a 0.7 percent increase in exports of goods. If estimates hold, this report would mark the third-largest monthly trade deficit on record, highlighting strong demand from the American consumer and the uneven global economic recovery from the pandemic. In the second quarter, trade served as a headwind to overall growth. Even if we get the anticipated, modest widening of the deficit, trade is expected to have a small, positive impact on overall economic growth in the third quarter.

Tuesday will see the release of the ISM Services index for September. This gauge of service sector confidence is expected to decline slightly, from 61.7 in August to 59.8 in September. This is another diffusion index, where values above 50 indicate expansion. So, if estimates prove accurate, this report would indicate continued expansion for the service sector. The service sector accounts for a large majority of overall economic activity in the country. Accordingly, even if the index falls modestly in September, the result would be a good sign for overall economic growth during the month and quarter. As has been the case with manufacturer confidence, service sector confidence has remained well above pre-pandemic levels since the lifting of initial lockdowns last year. Looking ahead, service sector confidence is expected to remain at levels that support continued growth.

We'll finish the week with Friday's release of the September employment report. Economists expect to see 513,000 jobs added during the month. This result would be a notable increase from the 235,000 jobs added in August but below the recent high of 1,053,000 jobs gained in July. We saw a steady acceleration in job growth between April and July of this year, driven by easing restrictions at the state and local level. In August, however, rising medical risks led to a slowdown in hiring. We saw medical risks start to decline in September, so a return to more robust job growth would be a welcome sign that the August slowdown was transitory. The underlying data should also show improvements, as the unemployment rate is expected to drop from 5.2 percent in August to 5 percent in September. This figure would represent the lowest unemployment rate since the start of the pandemic, demonstrating that the labor market recovery picked up steam in September.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.19%	1.15%	17.24%	30.77%
Nasdaq Composite	–3.19%	0.82%	13.59%	29.54%
DJIA	–1.36%	1.43%	13.72%	25.75%
MSCI EAFE	–3.13%	–0.76%	8.02%	25.08%
MSCI Emerging Markets	–1.43%	–0.52%	–1.67%	17.60%
Russell 2000	–0.24%	1.69%	14.31%	47.83%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.28%	–1.28%	–0.57%
U.S. Treasury	0.29%	–2.22%	–2.89%
U.S. Mortgages	0.18%	–0.49%	–0.26%
Municipal Bond	–0.01%	0.78%	2.71%

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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