

# MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group



## ECONOMIC REVIEW<sup>1</sup>

- The second reading for Q3 Gross Domestic Product (GDP) was revised up to 2.1% from the preliminary reading of 2.0%.
- Personal Income for the month of October rose by 0.5%, beating economists' expectations of an increase of 0.2%.
- The PCE Deflator for the month of October increased by 0.6% on a month-over-month basis and increased by 5.1% on a year-over-year basis.

**INSIGHT:** The Delta variant and supply constraints weighed on economic growth in the third quarter, however, there is a strong possibility that the lack of growth in the third quarter is not lost for good but has rather been pushed forward to the fourth quarter of 2021 and even into the beginning of 2022. Lack of consumer spending was the biggest detractor from third quarter GDP, however, a better than expected personal income reading supports the notion that the consumer is still strong and has the potential to continue to support the economy moving forward. We expect consumers to continue to spend despite rising prices. Personal consumption rose 1.3% in October, coming in higher than consensus expectations. Personal income is up 5.9% in the past year, while spending has increased 12.0%.



## A LOOK FORWARD<sup>1</sup>

- The ISM manufacturing index for the month of November will be announced on Wednesday, the expectation is an increase in the index from 60.8 to 61.0.
- Change in non-farm payrolls for the month of November will be released on Friday, the expectation is for the labor market to add 525,000 jobs compared to 531,000 for the previous month.
- The ISM services index for the month of November will be announced on Friday, the survey estimate among economists is for the index to decrease to 65.0 from 66.7.

**INSIGHT:** After coming off its highest reading since the ISM institute began recording the metric in 1997, it is no surprise to see the services index expected to retreat slightly for the month of November. However, any time the index yields over the number 50 this indicates an expansionary trend. An interesting point to look at over the next few weeks is the impact of the newly discovered COVID-19 variant in South Africa. The variant has already caused a few European countries and Asian countries to implement new restrictions. The effects remain to be seen for the United States manufacturing and services sectors. On a more positive note, the labor market looks to build upon a strong hiring pace in October. With initial jobless claims falling to a 52 year low and more open jobs than there are unemployed individuals, we would expect to see a drop in the unemployment rate in November.

# MARKET UPDATE

Market Index Returns as of 11/26/21 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-2.18%	6.89%	23.91%	28.42%	21.92%	17.90%
NASDAQ	-3.52%	7.33%	20.91%	28.93%	30.96%	24.67%
Dow Jones Industrial Average	-1.95%	3.40%	15.93%	19.01%	14.79%	15.31%
Russell Mid-Cap	-2.53%	4.33%	20.15%	25.37%	19.07%	14.72%
Russell 2000 (Small Cap)	-4.13%	2.02%	14.68%	22.93%	15.73%	12.21%
MSCI EAFE (International)	-3.72%	-0.86%	7.41%	11.72%	10.47%	9.45%
MSCI Emerging Markets	-3.62%	-2.28%	-3.50%	1.53%	10.27%	9.89%
Bloomberg Barclays US Agg Bond	0.13%	0.08%	-1.48%	-1.07%	5.51%	3.65%
Bloomberg Barclays High Yield Corp.	-1.17%	-1.36%	3.11%	5.18%	7.41%	6.30%
Bloomberg Barclays Global Agg	-0.03%	-0.52%	-4.56%	-3.05%	4.38%	3.31%

## OBSERVATIONS

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -2.18% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index decreased by -4.13% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -3.72%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -3.62%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.13%.

## BY THE NUMBERS

**CONTINUITY AT THE FED** - President Joe Biden nominated Jerome Powell on Monday 11/22/21 for a 2nd term as chair of the Federal Reserve. Powell, on the job since 2/05/18, has overseen the nation's central bank during the pandemic, coordinating a series of stimulus programs that kept money flowing throughout our economy. During his nearly 4-years as Fed chair, the S&P 500 has gone from 2649 to 4595, an annualized return of +16.4% (total return). The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

**MORE OF BBB** - Although described as containing \$1.75 trillion of proposed spending over the next 10 years (2022-2031), the "Build Back Better" (BBB) bill (HR # 5376) involves \$2.43 trillion of spending. The largest of BBB's social policies includes \$585 billion of "family benefits," e.g., childcare, paid family leave and universal pre-K, and \$570 billion for "climate and infrastructure" programs, e.g., electric vehicle tax credits and climate-related tax credits. The Senate will debate BBB and is expected to make changes to the bill (source: BBB).

**RISING DEMAND** - The USA had a housing shortage of 3.8 million homes as of 12/31/20, i.e., 3.8 million homes are needed to meet the national demand for single-family homes (source: Freddie Mac).

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## Economic Definitions

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**Personal Income:** Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals  
Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

**ISM Manufacturing Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

## Index Definitions

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

## Disclosures

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<sup>1</sup> Data obtained from Bloomberg as of 11/26/2021