

# MARKET VIEW WEEKLY

September 24<sup>th</sup>, 2021



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

- Housing starts for the month of August increased 3.9% to an annual rate of 1.615 million, above the expectation of 1.55 million.
- Existing home sales in August fell -2.0% to an annual rate of 5.88 million, which was slightly below the expectation of 5.89 million.
- Initial jobless claims increased from the previous week, exceeding expectations. Claims increased to 351,000, compared to the previous mark of 335,000.

**INSIGHT:** Single home starts fell -2.8% which is the second straight month of decline, while multi-family construction saw the bulk of the surprise to the upside increasing +20.6%. The multi-family housing segment is being boosted by demand for rentals. This demand is twofold: first, companies are ending their work from home mandates which is forcing individuals to move back to more populated cities. Second, the increased demand in homes due to low interest rates has led to a sharp rise in home prices over the past 18 months. While the median home price did decrease to \$356,700 for the month of August, homes prices are still up +14.9% compared to last year. With home prices accelerating, first time buyers are being pushed out of the new home market and into the rental market. This is also why we saw existing home sales fall for the month of August. Lastly, while the labor market has made tremendous strides over the year, we are still far from pre-pandemic levels. With extended unemployment benefits being taken away or reduced at the beginning of the month, we will be monitoring the jobs report next week to see if this has had an impact on people returning to work.



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

- The final reading of gross domestic product (GDP) for the second quarter will be announced on Thursday, with economists' expecting an unchanged reading of 6.6%.
- Personal consumption expenditures (PCE) will be released on Friday, the month-over-month change is expected to be an increase of +0.2%. The year-over-year increase is expected to be +3.5%.
- The University of Michigan Consumer Sentiment Index for the month of September will also be released on Friday, with economists' expecting the index to remain unchanged at 71.

**INSIGHT:** While the final reading for Q2 GDP growth will show that the economy did not meet economists' expectations of 8.3%, it still is a sizeable data point to show how far the economy has come since the pandemic induced lockdowns nationwide. In the years prior to the pandemic, the Q2 gain would have been the strongest since the third quarter of 2003. Even with GDP growth projected to slow in the second half of the year, it should still remain above long-term trend growth of 2-3%. Next, while inflation measures are showing signs of slowing, they are still above normal cycle averages and as a result, in their September meeting, the Fed remained steadfast that tapering will begin shortly. The expectation is that tapering will begin in November of 2021. Lastly, consumers are still weighing the risks of the Delta variant and higher inflation and therefore, sentiment is expected to remain unchanged for the month of September.

# MARKET UPDATE

Market Index Returns as of 9/24/21 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	0.52%	4.01%	19.87%	39.28%	17.23%	17.73%
NASDAQ	0.03%	3.90%	17.32%	41.96%	24.61%	24.41%
Dow Jones Industrial Average	0.62%	1.32%	15.28%	32.25%	11.88%	16.39%
Russell Mid-Cap	0.70%	2.25%	18.86%	47.57%	15.27%	15.19%
Russell 2000 (Small Cap)	0.51%	-2.50%	14.59%	56.41%	11.08%	13.85%
MSCI EAFE (International)	-0.30%	2.00%	11.01%	30.80%	8.28%	9.19%
MSCI Emerging Markets	-1.02%	-7.26%	-0.35%	22.06%	9.13%	9.10%
Bloomberg Barclays US Agg Bond	-0.40%	0.45%	-1.16%	-0.60%	5.56%	3.04%
Bloomberg Barclays High Yield Corp.	-0.13%	1.21%	4.87%	12.36%	7.09%	6.67%
Bloomberg Barclays Global Agg	-0.50%	-0.09%	-3.29%	0.17%	4.35%	2.18%



## OBSERVATIONS

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +0.52% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index increased by +0.51% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.30%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -1.02%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.40%.



## BY THE NUMBERS

**FOURTH QUARTER** - Over the last 30 years (1991-2020), the S&P 500 index has gained an average of +4.78% (total return) over the final 3 months of the year (October-November-December), the best gain of the 4 quarters. 24 of the last 30 fourth quarters (80%) have produced a positive total return gain. 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).

**IN THE MIDDLE** - After adjusting numerical data from the past for the impact of inflation, the US median household income reached an all-time high for 4 consecutive years (2016-2019), peaking at \$69,560 in 2019. That streak ended in 2020 when median household income dropped to \$67,521. Before 2016, the peak for median household income was \$63,423 from 1999 (source: Federal Reserve Bank of St. Louis).

**ANOTHER ONE THIS WEEK?** - There have been 21 government shutdowns in history when our nation's lawmakers failed to agree on spending bills to fund government outlays for a fiscal year that begins annually on October 1. The most recent shutdown, a 35-day stoppage that ended on 1/25/19, was the longest closure in history. 11 of the 21 shutdowns lasted 3 days or less (source: Congressional Research Service).

**DEALS EVERYWHERE** - Merger and acquisition (M&A) deals globally are worth \$3.9 trillion YTD through 8/31/21, on pace to exceed the all-time global M&A record of \$4.3 trillion from 2007 (source: Refinitiv).

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## Economic Definitions

**University of Michigan Consumer Sentiment Index:** Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

**Housing Starts:** Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

**Existing Home Sales:** This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums, and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

**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.

**Initial Jobless Claims:** Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

**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.

## 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

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg as of 09/24/2021



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