



# WEEKLY MARKET UPDATE, NOVEMBER 8, 2021

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## GENERAL MARKET NEWS

• Yields fell across the Treasury curve last week as the Federal Reserve (Fed) announced plans to begin tapering the pace of asset purchases this month. The central bank will cut back on Treasury buying by \$10 billion per month. The 10-year fell 8 basis points (bps) week-over-week to open Monday morning at 1.48 percent. The 30-year dropped 5 bps to 1.90 percent, the 20-year fell 7 bps to 1.91 percent, the 2-year was down 6 bps to 0.42 percent, and the 5-year shed 9 bps to 1.08 percent.

• Markets continued their recent rally as the Fed, as expected, announced it would begin tapering total asset purchases by \$15 billion per month. Overall, the meeting signaled cautious confidence in the U.S. economy. Continued strong earnings pushed markets higher, with consumer discretionary, technology, and materials among the top-performing sectors. Amazon, Ford, and General Motors were strong standouts in the consumer discretionary space. Technology was supported by solid earnings from Qualcomm, which experienced strong demand for phone chips. Materials were boosted by Chemours and Kronos Worldwide. The worst performers were health care, financials, and utilities. Health care was hindered by Moderna, which

recently lowered its forecast for COVID-19 vaccinations. In addition, it was announced that Medicare would negotiate prices for high-cost prescription drugs under the Build Back Better Plan.

• Monday saw the release of the Institute for Supply Management (ISM) Manufacturing index for October. This widely followed measure of manufacturer confidence declined by less than expected, falling from 61.1 in September to 60.8 against forecasts for a decline to 60.5. This is a diffusion index, where values above 50 indicate expansion, so this better-than-expected result still signals continued manufacturer growth despite the modest decline. Manufacturer confidence increased notably following the expiration of initial lockdowns last year, and the index has stayed in expansionary territory since June 2020. While manufacturers have had to contend with rising headwinds throughout the year—most notably tangled global supply chains, labor shortages, and rising costs—the still-high level of manufacturer confidence in October is an encouraging signal that producers continue to view these obstacles as challenges that can be overcome.

• On Wednesday, the ISM Services index for October was released. Service sector confidence increased more than expected, rising from 61.9 in September to 66.7 against

calls for an increase to 62. This better-than-expected result brought the index to its highest recorded level since 1997. This is another diffusion index, where values above 50 indicate expansion, so this strong result indicates service sector activity picked up notably. Service sector businesses have been supported throughout the year by improving public health data, allowing consumers to go out and spend freely. High levels of business confidence tend to support higher levels of business investment, so this was an encouraging report that bodes well for business spending and hiring.

- Wednesday also saw the release of the Federal Open Market Committee (FOMC) rate decision from the Fed's November meeting. The Fed cut interest rates to virtually zero at the start of the pandemic, and there were no changes to interest rates at this meeting; instead, the focus was on the Fed's tapering announcement. Provided the economic recovery continues as expected, the Fed's current quantitative easing program could end by next summer. Once the Fed completes winding down purchases, many economists believe interest rate hikes are possible next year.

- We finished the week with Friday's release of the October employment report. The report showed that 531,000 jobs were added during the month, higher than estimates for an additional 450,000 jobs. September's results were also revised up from an initial report of 194,000 jobs to 312,000 jobs. This better-than-expected result was very encouraging because the recent slowdown in new job creation was a potential sign of a slowing recovery. Although the high number of job openings indicates we still face a labor shortage, the accelerated hiring is a positive sign that businesses are finding ways to get people back to work. Underlying data was encouraging, too, as the unemployment rate fell from 4.8 percent to 4.6 percent against forecasts for a decline to 4.7 percent.

The labor force participation rate remained unchanged; however, the rate for workers ages 25–54 increased.

## WHAT TO LOOK FORWARD TO

On Tuesday, the October Producer Price Index is set to be released. Producer prices are expected to increase 0.6 percent after rising 0.5 percent in September. Year-over-year, producer inflation should remain unchanged at 8.6 percent. 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 6.8 percent year-over-year. This year, producer prices have seen upward pressure due to tangled global supply chains and rising material costs. Labor shortages have also played a part in driving up prices. The pace of monthly price increases has declined this year, but producers must contend with high inflationary pressure compared with pre-pandemic levels.

Wednesday will see the release of the October Consumer Price Index. Consumer prices are expected to increase 0.6 percent during the month, up from their 0.4 percent rise in September. On a year-over-year basis, consumer prices are expected to show 5.8 percent growth, up from a 5.4 percent gain in September. Core consumer prices, which strip out volatile food and energy prices, are expected to show a 0.4 percent and 4.3 percent increase on a monthly and year-over-year basis, respectively. As with producer prices, consumer prices have seen upward pressure this year due to supply chain constraints and high demand. The anticipated increase in headline and core consumer prices is due in part to declining medical risks, which allowed consumers to go out and spend freely. The Fed continues to view much of the rising inflationary pressure as a consequence of the reopening and economic recovery efforts this year. Notably, the recent tapering announcement is the first step in tightening monetary policy.

Finally, on Friday, the preliminary estimate for the University of Michigan consumer sentiment survey will be released. Economists expect to see consumer sentiment improve during the month. Estimates call for a modest increase from 71.7 at the end of October to 72.3 to start November. If estimates hold, the result would represent a partial rebound for the index, which was at 72.8 in September. Over the past few months, confidence has been muted, largely due to rising concerns about inflation and the Delta variant; however, with medical risks declining over the past two months, we may see a larger increase in sentiment than expected. Such a result would echo the improvements recorded in the Conference Board Consumer Confidence Index. Historically, improving consumer sentiment has supported consumer spending growth. Accordingly, any improvement for the index in November would be welcome, even if the path back to pre-pandemic levels is long.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.03%	2.03%	26.56%	35.81%
Nasdaq Composite	3.08%	3.08%	24.59%	35.16%
DJIA	1.43%	1.43%	20.47%	30.70%
MSCI EAFE	1.64%	1.64%	12.83%	26.15%
MSCI Emerging Markets	-0.04%	-0.04%	-0.31%	9.66%
Russell 2000	6.11%	6.11%	24.35%	49.70%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.64%	-0.95%	-0.32%
U.S. Treasury	0.67%	-1.91%	-2.03%
U.S. Mortgages	0.40%	-0.47%	-0.18%
Municipal Bond	0.47%	0.97%	2.47%

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.

Authored by the Investment Research team at Commonwealth Financial Network.

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