September 13, 2021

Weekly Viewpoint

Growth Fears Weigh on the Markets

Performance for Week Ending 9.10.2021

The Dow Jones Industrial Average (Dow) finished off 2.36%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) lost 1.81%, the Standard & Poor's 500 Index (S&P 500) fell 1.73% and the Nasdaq Composite Index (NASDAQ) dipped 1.41%. Sector breadth was negative with all 11 of the S&P sector groups closing lower. The Real Estate sector (-3.85%) led the losses followed by Communication Services (-3.13%) and Healthcare (-2.62%).

Index*	Closing Price 9/10/2021	Percentage Change for Week Ending 9/10/2021	Year-to-Date Percentage Change Through 9/10/2021
Dow	34607.72	-2.36%	+13.07%
Wilshire 5000	46344.48	-1.81%	+17.46%
S&P 500	4458.58	-1.73%	+18.70%
Nasdaq	15115.49	-1.41%	+17.28%

Market Observations: 9/6/21–9/10/21

The major market indices finished the holiday shortened week lower amid concerns the U.S. economy is losing steam. According to the release of the Fed's Beige Book report, U.S. economic activity "downshifted" in July and August due to growing worries about COVID's delta variant, as well as supply chain problems and labor shortages. The report said the slowdown was largely attributable to a pullback in dining out, travel and tourism in most parts of the country due to the spread of the delta variant. The survey also said some sectors of the economy had been constrained by supply chain disruptions and labor shortages. It noted particular weakness in auto sales attributed to low inventories caused by a shortage of computer chips.

Despite the current economic assessment, some central bankers continue to call for a tapering of the Fed's bond buying activity. Fed Governor Michelle Bowman said the labor market was "very close" to the hurdle needed for the central bank to start slowing its bond purchases, a process that should be able to start this year. Meanwhile, New York Fed President John Williams said the U.S. central bank is likely still on track to slow the pace of its bond-buying stimulus effort this year, although he declined to say when that process might kick off. "Assuming the economy continues to improve as I anticipate, it could be appropriate to start reducing the pace of asset purchases this year," Mr. Williams said in a virtual appearance. Lastly, Atlanta Fed President Raphael Bostic believes the Fed will be able to pull back on its asset buying campaign this year, though he doesn't expect a decision to do so will come at the U.S. central bank's meeting this month. While it is becoming increasingly clear that the Fed will begin tapering in the months ahead, the likelihood of a September tapering announcement has faded as Fed officials probably want to see the September Payroll report following the much weaker than forecast jobs data from August. Logistically, the September FOMC meeting is scheduled for September 21 & 22, whereas the September Payroll data will not be released until October 8.

Bullish Narrative Intact: As we look out over the remainder of the year, our favorable view on the equity market remains intact. While the pace of gains is likely to slow through the end of the year, we feel the supportive macro environment should continue to provide a sturdy backbone for additional upside. Although the US economy has recently shown some signs of slowing, growth in the quarters ahead is still expected to remain elevated. The US consumer is in good shape and savings rates are well above pre-pandemic levels, suggesting that as consumers become more comfortable with the economic recovery, pent up demand will be unleashed. Earnings expectations also continue to trend higher. Based on consensus expectations from Bloomberg, earnings are forecast to grow by over 44 percent this year followed by over 9 percent growth in 2022 and just under 10% in 2023. As we maneuver through the seasonally difficult period for the markets, a near-term period of consolidation cannot be ruled out. If a pullback were to occur in the weeks/months ahead, we would view it as a healthy correction and not the start of a broader move lower. Hence, periods of weakness would be viewed as buying opportunities.

The Week Ahead: The focal point of the data calendar will be the August CPI reading on Tuesday, which will be a very important statistic ahead of the Federal Reserve's policy decision the following week. At his Jackson Hole speech, Fed Chair Powell said that he thought that the test of "substantial further progress" towards their inflation goals had been met, and this comes in light of CPI running at +5.4% year on year in June and July, which are the highest rates of price growth since the financial crisis. In addition to the CPI release, there'll be an increasing amount of hard data for August coming out, which will be in focus in light of the much weaker than expected jobs report earlier in the month, where growth in nonfarm payrolls of +235k was the weakest since January. Over the coming week, we will see retail sales and industrial production, while the weekly initial jobless claims will be in focus amidst the expiry of federal unemployment benefits. The Fed speaking calendar is nonexistent as Fed officials will begin their blackout period ahead of the September 21 & 22 FOMC meeting.

Definitions

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

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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.

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