

November 22, 2021

Weekly Viewpoint

Markets Await Decision on Next Fed Head

Performance for Week Ending 11.19.2021

The Dow Jones Industrial Average (Dow) finished off 1.38%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) lost 0.24%, the Standard & Poor's 500 Index (S&P 500) gained 0.32% and the Nasdaq Composite Index (NASDAQ) tacked on 1.24%. Sector breadth was negative with 8 of the 11 S&P sector groups closing lower. The Energy sector (-5.22%) was the biggest loser while Consumer Discretionary (+3.81%) led on the upside.

Index*	Closing Price 11/19/2021	Percentage Change for Week Ending 11/19/2021	Year-to-Date Percentage Change Through 11/19/2021
Dow	35601.98	-1.38%	+16.32%
Wilshire 5000	48593.60	-0.24%	+23.16%
S&P 500	4697.96	+0.32%	+25.08%
Nasdaq	16057.44	+1.24%	+24.59%

Market Observations: 11/15/21– 11/19/21

The major market indices finished the week mixed although the tech-heavy Nasdaq Composite closed the week at a fresh all-time high. Trading over the course of the week was very choppy as seasonal Covid worries and ongoing inflation concerns were pitted against a batch of strong earnings and economic reports. During the week, the Commerce Department reported that retail sales rose for the third straight month in October highlighting the resilience of the U.S. economy despite the pandemic disruptions. The uptick in spending likely reflects an early start to holiday shopping, with retailers pushing promotions and consumers worried about shortages. On the pandemic front, investors were focused on headlines out of Europe, where Austria imposed a national lockdown, effective this Monday, after recording more than 14,000 new Covid infections on Thursday. Austria will also make vaccination for all its citizens mandatory, becoming the first country in the world to issue such an edict. That move followed a dire warning from outgoing German Chancellor Angela Merkel, who called the Covid situation "dramatic" as infections surge and fatalities rise.

In political developments, the House of Representatives voted to pass President Biden's \$1.7 trillion social safety net bill, though its future remains uncertain in the Senate.

Watch What They Do, Not What They say: Despite the uptick in retail activity, recent consumer sentiment readings suggest that shoppers aren't necessarily in a good mood. A survey by the University of Michigan, measuring consumer optimism about the economy, slumped to a pandemic-era low in November, with inflation and supply issues weighing on their confidence. In addition to rising prices, the ongoing pandemic is also likely a factor in consumers' dour sentiment. Despite this the National Retail Federation (NRF) is still expecting record levels for the holiday shopping season. According to a recent press release, the NRF is forecasting that retail sales for the November through December period will grow between 8.5% – 10.5%, a pace that would exceed the record growth of 8.2 percent posted last year.

Earnings Roundup: In what will likely be close to the final tally, third quarter earnings season was exceptionally strong and well ahead of expectations. Through Friday, 475 members of the S&P 500 have released results with just over 81 percent surprising to the upside. Aggregate earnings are up over 41% on a year-over-year basis, solidly ahead of the 28% growth rate that analysts were forecasting at the start of October. On the sector front, all 11 S&P sector groups posted solid growth, with the highest results coming from the Materials sector (+91%), Industrials (+70%) and Communication Services (+40%). According to Bloomberg, full year 2021 earnings are now forecast to grow by nearly 48% on a year over year basis, more than double the forecasted rate at the start of the year.

Bullish Narrative Intact: As we look out over the remainder of the year, our positive view on the equity market remains intact. While volatility is likely to remain elevated and the pace of gains will probably slow through the end of the year, we feel the macro environment will remain supportive and 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 remain above pre-pandemic levels, suggesting that as consumers become more comfortable with the economic recovery, pent up demand will be unleashed. Earnings expectations also suggest solid forward growth. Based on consensus expectations from Bloomberg, earnings are forecast to grow by almost 48 percent this year followed by about 8 percent growth in 2022 and just under 10% in 2023. While seasonality could act as a tailwind in the months ahead, a period of consolidation cannot be ruled out. However, if we were to see a drawdown in prices, we would view it as an opportunity to increase equity exposure.

The Week Ahead: The focal point for the week ahead is likely to be the announcement on the future leadership of the Federal Reserve. It has been widely reported that President Biden is expected to announce his choice for the next Fed Chair by Thanksgiving. The two people being considered to become Fed Chair are incumbent Chair Jay Powell and Governor Lael Brainard. Highlights of the data calendar include; October existing home sales, initial jobless claims, October wholesale inventories, October durable goods orders, personal income and spending during October, and October new home sales. Also of interest will be the

release of the meeting minutes from the November Federal Open Market Committee meeting. Third quarter earnings season continues to wind down with just 11 members of the S&P 500 scheduled to release results. Lastly, the markets will be closed on Thursday in observance of the Thanksgiving holiday.

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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