

August 30, 2021

# Weekly Viewpoint

## Powell's Measured Approach Soothes the Markets

### Performance for Week Ending 8.27.2021

The Dow Jones Industrial Average (Dow) finished up 0.96%, the Wilshire 5000 Total Market Index<sup>SM</sup> (Wilshire 5000<sup>SM</sup>) added 2.11%, the Standard & Poor's 500 Index (S&P 500) gained 1.52% and the Nasdaq Composite Index (NASDAQ) tacked on 2.82%. Sector breadth was positive with 7 of the 11 S&P sector groups closing higher. The Energy sector (+7.34%) led the gains followed by the Financials (+3.47%) sector. On the downside, the Utilities (-2.11%) sector was the biggest loser.

Index*	Closing Price 8/27/2021	Percentage Change for Week Ending 8/27/2021	Year-to-Date Percentage Change Through 8/27/2021
Dow	35455.80	+0.96%	+15.84%
Wilshire 5000	46877.91	+2.11%	+18.81%
S&P 500	4509.37	+1.52%	+20.06%
Nasdaq	15129.50	+2.82%	+17.39%

### Market Observations: 8/23/21–8/27/21

The major market indices finished the week higher with the S&P 500, Wilshire 5000, and Nasdaq Composite all closing at new all-time highs. The gains had a cyclical bias with the Energy, Financials, Materials, and Industrials sectors outperforming the broader market performance while the more defensive Utilities, Consumer Staples and Healthcare sectors broadly lagged. On Friday, Fed Chairman Powell delivered his long-awaited speech at the Jackson Hole symposium. The speech contained no real surprises with Powell highlighting both the strong employment gains in recent months and the downside risks posed by the Delta variant. Powell's speech suggested that the FOMC could provide advance notice at the September FOMC meeting followed by a formal tapering announcement in November. Powell however did emphasize that tapering will be contingent on economic outcomes and that tapering does not carry a direct rate hike timing signal.

In some ways Powell's appearance was an "audition" to keep his job. Powell's term as Fed Chair ends early next year and there has been some speculation that he could be replaced. While still not a done deal, the odds increased last week that Powell's term as Chairman would be extended after Treasury Secretary (and former Fed Chair) Janet Yellen endorsed Powell. While this may have been a trial balloon to gauge the market's reaction, it seems Yellen would not have gone down this path without the White House's blessing. On Friday, Bloomberg News reported that President Biden's advisers are considering supporting him for a second term as Fed Chair. President Biden is expected to make a decision in the weeks ahead.

**Delta Peaking?** While Covid cases and hospitalization have been spiking, there has been little noticeable impact on the economic data, so far. The current lack of headwinds is likely a direct result of the cushion provided by government stimulus checks, the extension of generous unemployment benefits, and the Fed's commitment to holding interest rates at very low levels. In addition, we may be starting to see some light at the end of the tunnel. Last week, the FDA gave full approval to Pfizer's vaccine, which could be a catalyst for an uptick in vaccinations. Moderna also applied for full approval. Booster shot applications have also been submitted to the FDA by both Pfizer and Johnson & Johnson. In addition, former FDA commissioner Scott Gottlieb recently opined that the delta-surge in the southern part of the country (a hot bed for new Covid cases) has peaked.

**Bullish Narrative Intact:** As we look out over the remainder of the year, our favorable view on the equity market remains intact. While second half gains are unlikely to be as robust as what we saw during the first six months of the year, we feel the supportive macro environment should continue to provide a sturdy backbone for additional upside. The US economy continues to recover, and growth is expected to remain solid over the remainder of the year. The US consumer is in good shape and savings rates have become very elevated, 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 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 data calendar will be the focus during the coming week with the ever-important payroll report due out on Friday. According to Bloomberg, August nonfarm payrolls are expected to expand by 750K while the unemployment rate is forecast to decline to 5.2% from 5.4% in July. Other data reports of interest include; July pending home sales, the CaseShiller home price data, the Conference Board's consumer confidence reading for August, the August ISM manufacturing index, July construction spending, initial jobless claims, July factory orders, and the August ISM services Index. The Fed speaking calendar will be very light with only Atlanta Fed President Bostic scheduled to speak twice during the week. On the geopolitical front, events in Afghanistan will remain in focus, even if the direct market implications for the developed world have been limited for the time being. Tuesday will mark President Biden's deadline to

withdraw US troops, which he has stuck to despite recent calls from US allies to push back that date.

## 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 Index<sup>SM</sup>** 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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