

November 15, 2021

Weekly Viewpoint

Hot Inflation Cools the Recent Market Rally

Performance for Week Ending 11.12.2021

The Dow Jones Industrial Average (Dow) finished off 0.63%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) lost 0.32%, the Standard & Poor's 500 Index (S&P 500) fell 0.31% and the Nasdaq Composite Index (NASDAQ) dipped 0.69%. Sector breadth was mixed with 5 of the S&P sector groups closing higher and 6 closing lower. The Materials sector (+2.51%) was the biggest gainer while Consumer Discretionary (-3.19%) was the biggest loser.

Index*	Closing Price 11/12/2021	Percentage Change for Week Ending 11/12/2021	Year-to-Date Percentage Change Through 11/12/2021
Dow	36100.31	-0.63%	+17.95%
Wilshire 5000	48712.27	-0.32%	+23.46%
S&P 500	4682.85	-0.31%	+24.67%
Nasdaq	15860.96	0.69%	+23.06%

Market Observations: 11/8/21–11/12/21

The major market indices finished the week lower with the S&P 500 breaking a five-week winning streak. The pullback in the equity markets reflected a hotter than expected reading on consumer inflation, which in turn, ignited worries that the Federal Reserve may have to raise rates sooner than expected. The CPI report offset gains early in the week following the passage of the \$1.2 trillion U.S. infrastructure spending bill by the U.S. House of Representatives. The package includes new funding for transportation, utilities and broadband, among other infrastructure projects.

CPI Report: The Labor Department reported that consumer prices rose last month at the fastest annual pace since 1990, with the headline consumer price index (CPI) rising 6.2%. Higher prices for energy, shelter, food and vehicles fueled the supercharged reading, suggesting that inflation is broadening out beyond categories associated with the reopening of the economy. The core rate—which excludes food and energy—rose 4.6% on a year-over-year basis. The report will likely put additional pressure on Fed officials to end near-zero interest rates sooner than expected and potentially to quicken the pace of the bond-buying taper announced last week. According to Bloomberg's World Interest Rate Probability function, the market is now discounting two quarter point rate hikes next year, up from a single hike the day before the release of the CPI data.

Earnings Roundup: With over 90% of the S&P 500 having released results, third quarter earnings season has solidly exceeded expectations and has been a key driver of the market's recent performance. Through Friday, 460 members of the S&P 500 have released results with just over 81 percent surprising to the upside. Aggregate earnings are up over 42% 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, the highest growth is coming from the Materials sector (+91.3%) followed by Industrials (+70.5%) and Technology (+40.3%). According to Bloomberg, full year 2021 earnings are now forecast to grow by nearly 47% 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 47 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: It will be a busy week on the data front with Tuesday's retail sales data expected to show an acceleration in October as consumer demand has remained resilient. Other economic reports of interest include: the November Empire Manufacturing Index, October industrial production, October housing starts, the Philadelphia Fed Index for November and the October leading economic indicators report. Third quarter earnings season continues to wind down with just 15 members of the S&P 500 scheduled to release results. The Fed speaking calendar will be busy with over a dozen appearances scattered throughout the week. Another focus for investors will be speculation about who might be the next Fed Chair, particularly in light of the news out last week that both incumbent Fed Chair Powell and Governor Brainard had been interviewed

for the position. On the geopolitical front, according to media reports President Biden and Chinese President Xi are set to hold a virtual summit on Monday.

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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