November 1, 2021

Weekly Viewpoint

Tapering Announcement Likely This Week

Performance for Week Ending 10.29.2021

The Dow Jones Industrial Average (Dow) finished off 1.36%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) lost 2.15%, the Standard & Poor's 500 Index (S&P 500) fell 2.21% and the Nasdaq Composite Index (NASDAQ) dropped 3.20%. Sector breadth was negative with 10 of the 11 S&P sector groups closing lower. The Healthcare sector (-3.54%) led the losses followed by Technology (-3.34%) and Consumer Staples (-2.64%).

Index*	Closing Price 10/29/2021	Percentage Change for Week Ending 10/29/2021	Year-to-Date Percentage Change Through 10/29/2021
Dow	35819.56	+0.40%	+17.03%
Wilshire 5000	47795.09	+1.09%	+21.13%
S&P 500	4605.38	+1.33%	+22.61%
Nasdaq	15498.39	+2.71%	+20.25%

Market Observations: 10/25/21–10/29/21

The S&P 500 finished higher for a fourth straight week, closing at a fresh record high. For the month of October, the S&P gained 6.91 percent, it's best monthly showing since November 2020. Better than forecast third quarter earnings remained the primary driver behind the weekly gain, although falling Covid cases and signs that fourth quarter economic growth is off to a solid start, added to the positive tone. Investors shrugged off the third quarter GDP report that showed the economy expanding by only 2.0 percent during the July through September period, down from 6.7 percent during Q2. The slowdown was widely expected as growth was impacted by supply chain issues and the Delta-variant during the summer months. The GDP data is considering backward looking, as it measures growth that has already occurred, whereas equity markets tend to be more forward looking. To wit, the initial release of the Atlanta Fed's GDP Now model is forecasting that GDP growth will expand 6.61 percent in the fourth quarter.

Tapering on Tap: As pointed out in last week's *Viewpoint*, Fed Chairman Powell recently opened the door to tapering at the November 2 & 3 FOMC meeting by stating; "We are on track to begin a taper of our asset purchases that, if the economy evolves broadly as expected, will be completed by the middle of next year." While markets are likely to view the official tapering announcement as the first step towards higher interest rates, Powell has been very clear that tapering should not be viewed a timing tool for rate hikes. Ultimately it will be how the economic data shakes out in the coming months/quarters that will determine the timing of interest rate hikes. While there will likely be a kneejerk reaction lower on the tapering announcement, the Fed's action should be viewed as confirmation that they believe the economic recovery is durable and it also shows they are cognizant of the risk of inflation and are ready to tackle it. Ultimately, these efforts should prove reassuring for investors.

Earnings Roundup: Midway through earnings season, third quarter results have been trending at a solid pace which has helped ease concern that persistent Covid cases and rising input costs would derail the profit recovery. Through Friday, 279 members of the S&P 500 have released results with just over 82 percent surprising to the upside. Aggregate earnings are up nearly 39 percent 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 (+111%) followed by Industrials (+95%) and Technology (+40%).

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 over 46 percent this year followed by about 8 percent growth in 2022 and just under 10% in 2023. While 'seasonals' are likely to become more favorable 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 coming week will be the FOMC meeting on Tuesday and Wednesday, when the Fed is expected to announce their very well telegraphed tapering of asset purchases. The tapering program is expected to begin in mid-November and conclude by mid-2022. The earnings calendar will remain front and center with upwards of 160 members of the S&P 500 scheduled to release results. The main event on the data calendar will be the October payroll report on Friday. According to Bloomberg, nonfarm payrolls are expected to expand by 450K, and the unemployment rate is forecast to dip to 4.7 percent from 4.8 percent in the prior month. Other economic reports of interest include; the ISM Manufacturing report of October, September construction spending, monthly vehicle sales, the ADP employment change data for October, the October ISM services index, September factory orders, and weekly jobless claims. Another event to keep an eye on will be the 26th UN Climate Change Conference in Scotland where representatives from nearly 200 countries are expected to participate.

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.