October 4, 2021

Weekly Viewpoint

Will Jobs Report Lead to Tapering

Performance for Week Ending 10.01.2021

The Dow Jones Industrial Average (Dow) finished off 1.36%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) 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 10/1/2021	Percentage Change for Week Ending 10/1/2021	Year-to-Date Percentage Change Through 10/1/2021
Dow	34326.46	-1.36%	+12.15%
Wilshire 5000	45363.80	-2.15%	+14.97%
S&P 500	4357.04	-2.21%	+16.00%
Nasdaq	14566.70	-3.20%	+13.02%

Market Observations: 9/27/21–10/1/21

The major market indices finished the week lower on concerns over the pace of economic growth, a rise in interest rates, signs that inflation remains sticky, the hawkish turn from the Fed Reserve and political disfunction in Washington. The month of September lived up to its reputation as the weakest month of the year with the S&P 500 declining by 4.76%, its worst monthly performance since March 2020. Ten of the 11 S&P 500 sectors suffered losses in September, led on the downside by a 7.43% drop in Materials stocks. Energy was the best performer on the month, gaining more than 9%.   For the third quarter, the S&P 500 managed to producing a modest gain (+0.23%), marking the sixth consecutive quarterly gain.

Late in the week, Congress passed stopgap spending legislation to avert a U.S. government shutdown, which was also signed by President Biden. The bill will keep federal agencies running through Dec. 3, giving Congress about two more months to pass a full budget plan. However, a plan to raise or suspend the debt ceiling remained in limbo even after Treasury Secretary Janet Yellen warned lawmakers that the U.S. will run out of funds to pay its bills by October 18. A default would "likely precipitate a historic financial crisis that would compound the damage of the continuing public health emergency," according to Yellen. It could also "trigger a spike in interest rates, a steep drop in stock prices and other financial turmoil. Our current economic recovery would reverse into recession, with billions of dollars of growth and millions of jobs lost."

Known Unknown’s: The recent volatility suggests the markets may have entered into a period of “Price Discovery” – where investors are trying to gauge what has already been discounted in stock prices and what is likely to come to fruition in the months ahead. Things investors are struggling with include: the outlook for corporate taxes, when will the Fed begin tapering its QE program (although better clarity is likely following this Friday’s Payroll report), when will the Fed begin to lift interest rates, will inflation ultimately prove transitory, will Covid cases flare up during the winter months, etc. The good news is that these things are all known unknown’s and may at least be already partially reflected in the market.

Q3 Earnings: Third quarter earnings season is set to kick off in coming weeks and could become a positive catalyst for the markets. According to Bloomberg, overall earnings are expected to grow by over 28% on a year-over-year basis. While it is still very early, the quarter is off to a favorable start. Through Friday, we’ve had 17 companies report results and 13 of the 17 have beaten analyst expectations. Aggregate growth for the group of companies is up by over 25% from a year ago.

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 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 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 about 9 percent growth in 2022 and just under 10% in 2023. The markets have recently hit a soft patch and additional downside cannot be ruled out. However, if we were to see a larger drawdown 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: As we enter the first full week of Q4, markets will have plenty to keep them occupied over the course of the week. The focal point of the data calendar will be the September payroll report on Friday. This report will be watched very closely, since it will be the last payroll report ahead of the November 2 & 3 FOMC meeting. The prior months report underwhelmed, so a strong report could lead to the central bank announcing a tapering of its bond buying activity. According to the consensus forecast from Bloomberg, nonfarm payrolls are expected to rise by 450K while the unemployment rate expected to dip to 5.1% from 5.2% during August. Other economic reports of interest include; August factory orders, the September ISM Services report, and weekly jobless claims. The earnings calendar will remain muted with only 5 members of the S&P 500 scheduled to report results. The Fed speaking calendar will be relatively light with just a handful of Fed heads scheduled to speak.

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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