September 20, 2021

Weekly Viewpoint

The Battle Between Greed and Gravity Continues

Performance for Week Ending 9.17.2021

The Dow Jones Industrial Average (Dow) finished off 0.07%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 0.43%, the Standard & Poor's 500 Index (S&P 500) fell 0.57% and the Nasdaq Composite Index (NASDAQ) dipped 0.47%. Sector breadth was negative with 9 of the 11 S&P sector groups closing lower. The Materials sector (-3.22%) led the losses followed by Utilities (-3.11%) and Industrials (-1.56%).

Index*	Closing Price 9/17/2021	Percentage Change for Week Ending 9/17/2021	Year-to-Date Percentage Change Through 9/17/2021
Dow	34584.88	-0.07%	+13.00%
Wilshire 5000	46143.72	-0.43%	+16.95%
S&P 500	4432.99	-0.57%	+18.02%
Nasdaq	15043.97	-0.47%	+16.73%

Market Observations: 9/13/21–9/17/21

The major market indices finished lower for a second straight week. Investors have turned more cautious in recent weeks reflecting uneven economic data, the growing likelihood of higher corporate taxes, a slowdown in the global economic recovery and worries that the Fed will begin to taper its accommodative monetary policies in the coming months. Despite the weakness, the S&P 500 is down only 2.3 percent from the all-time high reached earlier this month.

Contrarians Take Note: Investor sentiment has also been dented. According to the American Association of Individual Investors (AAII) bullish sentiment has plunged to the lowest level since July 2020. In its latest weekly poll, the percent of investors who consider themselves bullish on the markets outlook plunged to 22.4% from 38.9% while bearish sentiment jumped to 39.3% from 27.2%. In its simplest form, investing is all about emotions–fear and greed–and these emotions also tend to be contrarian in nature, meaning investors tend to be the Greediest (Bullish) at or near market tops and most Fearful (Bearish) at or near market bottoms. While the plunge in bullish sentiment alone will not likely be enough to prevent the market from going lower, it should be viewed as a sign that the latest pullback may be near to running its course.

"Good News is Bad News" The markets are currently operating in a period where "good news is bad news" as signs the economic recovery is (re)gaining steam, lifts the odds that the Fed will begin to cut back on its bond buying efforts. Last week, the Commerce Department reported that retail sales rebounded 0.7% in August, well ahead of the 0.8% decline forecast by economists. The positive surprise suggests that consumer demand is holding up better than expected in the face of adversities like the Delta variant, higher consumer prices, and early unemployment benefit cuts in half the states. Spending is also likely being supported by the excess savings accumulated during the pandemic. Meanwhile, the Philly Fed General Business Activity Index rebounded 11.3 points in September, its first gain in five months, to 30.7, well above the consensus forecast of 18.9, as factory activity in the region accelerated. Shipments rose at the quickest rate since October 2020, while new order growth moderated, but remained at a robust pace. Separately, the NY Empire State Manufacturing Index, a gauge for business conditions for New York manufacturers, massively beat expectations in September, jumping to 34.3 from 18.3 in August. Analysts were forecasting a reading of 18. Lastly, the Labor Department reported that the Consumer Price Index (CPI) increased 0.3% in August, the least since January, and was up 5.3% on a year-over-year basis. Core CPI, which excludes energy and food, edged up 0.1%, the least since February, and gained 4.0% year-over-year. Both the headline and core reading were slightly below economists' expectations. The data should support the Federal Reserve's narrative that inflation pressures will begin to ease in the months ahead.

Bullish Narrative Intact: As we look out over the remainder of the year, our positive view on the equity market remains intact. While the pace of gains is likely to 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 over 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: The focal point during the coming week will be the two-day FOMC meeting that kicks off on Tuesday. While no changes to policy are expected to be announced, investors will parse the after-meeting statements for clues on when the Fed will begin to taper their bond buying efforts. The Fed will also release their latest economic projections and an updated dot plot. Housing data will dominate this week's economic calendar with August housing starts, August building permits, existing home sales during August and August new homes sales all slated to be reported. Other data points of interest include; the Markit manufacturing and services PMIs, initial jobless claims and the August leading economic indicators index. Outside of the FOMC meeting there are a handful of Fed speeches later in the week including updates from Cleveland Fed President Mester, Fed Governor Bowman, Fed Vice Chair Clarida and Kansas City Fed President George.

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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