Weekly Market Update

General Market News

- Treasury yields moved higher across the curve last week as equity markets rallied, and Federal Reserve (Fed) Chairman Jerome Powell reiterated that the central bank still plans on tapering asset purchases sooner rather than later. The 10-year yield picked up 6 basis points (bps) week-over-week to open Monday morning at 1.66 percent. The 30- and 20-year yields each climbed about 7 bps to 2.11 percent and 2.01 percent, respectively. The 2-year yield was up 3 bps to 0.42 percent, and the 5-year yield climbed 4 bps to 1.17 percent.
- Global equity markets were up again last week as earnings drove the moves in stocks. Financials continued to rally following last week's bank earnings and were further supported by the Fed's ongoing discussion regarding potential upside inflation risks. Despite this, the Fed has continued to attempt to separate the difference between starting to taper asset purchases, which are expected to begin at the next meeting, and potential future rate hikes. Additionally, earnings calls and reports continue to highlight supply chain constraints, higher input costs on manufacturers, and strong demand from the consumer. As a result, REITs, health care, and financials were among the top performers on the week. The underperforming sectors were communication services, consumer staples, materials, and energy.
- On Monday, the September industrial production report was released. Production declined by 1.3 percent, which was well below economist estimates for a 0.1 percent increase. The surprisingly weak result was caused by a weather-driven slowdown in utilities and mining production as well as a drop in manufacturing output. Manufacturing output declined by 0.7 percent against calls for a 0.1 percent increase. August's industrial production and manufacturing output reports were also revised from modest gains to declines of 0.1 percent and 0.4 percent, respectively. These disappointing results highlight the very real challenges that manufacturers are currently facing, with tangled supply chains, labor shortages, and rising costs serving as headwinds for faster output growth over the past few months. Motor vehicle manufacturing has been a major drag on overall manufacturing growth as the global semiconductor chip shortage and a shutdown of large parts of the auto industry during the month led to a sharp drop in motor vehicle production in September. While high levels of demand are expected to support additional manufacturing growth in the medium to long term, this report indicates manufacturers were not immune to the recent economic slowdown and that there may be more turbulence in the months ahead.
- Monday also saw the release of the National Association of Home Builders Housing Market Index for October. The report showed that home builder confidence improved during the month, with the index rising from 76 in September to 80 in October against calls for a modest decline to 75. The better-than-expected result brought home builder confidence to its highest level in three months and signaled faster expansion for new home building activity. The improvement was widespread as each of the four geographic regions saw improvements and was also supported by an increase in prospective home buyer foot traffic. The housing sector has been one of the bright spots in the post-lockdown economic recovery, as shifting home buyer preference for more space and low mortgage rates continue to support high levels of home construction and sales. While home builders have had to contend with supply chain issues and rising costs throughout the year, high levels of home buyer demand and low inventory of existing homes for sale have helped support a surge in new home construction since initial lockdowns expired last year.

General Market News (continued)

- Speaking of new home construction, on Tuesday, the September builder permits and housing starts reports were released. Starts declined by 1.6 percent against calls to remain unchanged while permits dropped 7.7 percent against forecasts for a 2.4 percent decline. Despite the declines during the month, both permits and starts remain well above the pandemic-era lows and signal healthy levels of new home construction. The slowdown in new home construction was driven by a decline in multi-family construction, as the pace of single-family starts remained unchanged. New home construction rebounded swiftly following the expiration of initial lockdowns last year, driven in large part by a surge in single-family construction. Large home builder backlogs, continued high levels of prospective home buyer demand, and a lack of existing homes for sales are all expected to support further new home construction in the months ahead.
- On Thursday, the September existing home sales report was released. The pace of existing home sales surged by 7 percent during the month, which was notably higher than economist estimates for a 3.7 percent increase following a 2 percent decline in August. This result marked the largest monthly increase for existing home sales in over a year and brought the pace of existing home sales to its highest level since January. The pace of existing home sales increased notably late last year; however, sales growth had largely declined throughout most of 2021 due to a lack of supply of homes for sale and rising prices. We've started to see the pace of year-over-year price growth moderate in the past few months, which has helped support additional sales growth. With that said, the supply of existing homes available for sale remains very low on a historical basis, which could constrain further sales growth in the months ahead.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.66	5.58	22.39	33.09
Nasdaq Composite	1.30	4.46	17.68	31.55
DJIA	1.12	5.50	18.30	28.30
MSCI EAFE	0.62	2.57	11.13	26.92
MSCI Emerging Markets	0.75	3.24	1.95	16.11
Russell 2000	1.14	3.97	16.88	41.06

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.54	–2.09	–1.03
U.S. Treasury	–0.60	–3.08	–2.92
U.S. Mortgages	–0.47	–1.14	–0.80
Municipal Bond	–0.39	0.40	2.62

Source: Morningstar Direct

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for October will be released. Economists expect to see confidence decline modestly, from 109.3 in September to 108 in October. If estimates hold, this report would bring the index to its lowest level since February, signaling rising consumer concern about the economic recovery. The previously released University of Michigan consumer sentiment survey showed a drop in sentiment during the month, driven by rising fears of inflation and a souring view on the economy. Historically, improving consumer confidence has supported consumer spending growth, so the recent weakness in the two major confidence reports is concerning. That said, consumer spending growth remained solid in September, even for big-ticket items such as houses, so the recent declines in confidence have not been enough to derail the recovery. Given the importance of consumer spending to the economy, this monthly report will continue to be widely monitored.

Wednesday will see the release of the preliminary estimate of the September durable goods orders report. Durable goods orders are set to decline by 1 percent, following a 1.8 percent increase in August. This anticipated drop in headline orders is primarily due to a slowdown in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, are set to increase by 0.4 percent, following a 0.3 percent gain in August. If estimates hold, this report would mark five straight months with core durable goods orders growth. Core durable goods orders are often viewed as a proxy for business investment, so growth would be a positive sign that businesses have continued to spend. Throughout the year, improving public health statistics and high consumer demand for goods and services have supported business spending.

On Thursday, the advance estimate of third-quarter gross domestic product (GDP) growth will be released. The report is expected to show that the economy grew at an annualized rate of 2.4 percent during the quarter, down from the 6.7 percent annualized growth in the second quarter. The anticipated slowdown is due in large part to an expected drop in the personal consumption growth. That indicator is slated to fall from a 12 percent annualized growth rate in the second quarter to a 1.2 percent growth rate in the third quarter. The Delta variant and rising inflationary pressure caused a slowdown in real consumer spending growth, following a surge in spending in the second quarter as public health restrictions were lifted. Still, despite the anticipated slowdown, the economy is expected to grow by a strong 5.7 percent during the year due to the spending surge in the first two quarters.

We'll finish the week with Friday's release of the September personal income and personal spending reports. Personal income is expected to decline by 0.1 percent, while personal spending is expected to increase by 0.5 percent. Throughout the course of the pandemic, incomes have been volatile. The anticipated drop is primarily due to the expiration of enhanced unemployment benefits in September. Looking forward, labor shortages should support continued wage growth, helping personal incomes to remain at a healthy level despite the expiring federal stimulus payments. Throughout the year, personal spending growth has been boosted by improving public health and pent-up consumer demand. If spending growth comes in as expected, this report would echo a similar improvement in retail sales during the month, signaling that consumers remain willing and able to spend despite lower confidence.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 10/21.

Authored by the Investment Research team at Commonwealth Financial Network.®