Weekly Market Update

General Market News

- The yield curve flattened again last week, with the 10-year Treasury yield opening at 1.57 percent and closing the week down 3.4 basis points (bps). The 30-year opened at 1.938 percent and finished the week down 3.2 bps. The 2-year, which had marched higher recently, fell 1.3 bps to 0.505 percent.
- Global markets were mixed amid a rise in COVID-19 cases in Europe and the U.S. The largest beneficiary of this development was the technology-oriented Nasdaq Composite, which was a 2020 darling because lockdowns and remote work affected the sector less than others. Small-caps fell, as smaller businesses and energy were hurt by news of new lockdowns in countries such as Austria. Lockdown-style trading returned at the sector level, with technology and consumer discretionary leading the way, paced by companies such as Apple, Tesla, Amazon, Nvidia, and Microsoft. Energy and financials were the worst performers; West Texas Intermediate crude oil prices fell 5.8 percent, and financials eased on the pullback in short-term yields.
- Tuesday saw the release of the October retail sales report. Sales increased more than expected, with the report showing a 1.7 percent increase against calls for a 1.4 percent rise. This followed a revised 0.8 percent increase in sales in September and marked three consecutive months of strong sales growth. Core retail sales, which strip out the impact of volatile auto and gas sales, also increased 1.4 percent against calls for a more modest 0.7 percent increase. The strong sales growth in October was supported by a 4 percent increase in nonstore online sales; however, sales growth was widespread across most sectors. This encouraging report showed that, despite headwinds created by rising prices and lower confidence levels, consumers remain willing to spend as we head into the holiday season.
- The October industrial production report was released Tuesday. Industrial production increased 1.6 percent, which was a healthy rebound after September's weather-related 1.3 percent drop in production. This better-than-expected result was supported by a rebound in manufacturing production, which increased 1.2 percent in October following a 0.7 percent decline in September. Auto production rose an impressive 11 percent in seasonally adjusted terms, which helped support manufacturing output. Industrial production was also supported by gains in energy and materials production, two areas that saw notable declines in September due to Hurricane Ida. Looking forward, high levels of demand are expected to support industrial production and manufacturing output growth; however, producers still face headwinds from tangled supply chains and rising prices.
- The third major data release on Tuesday was the release of the National Association of Home Builders Housing Market Index for November. Home builder confidence improved by more than expected, as the index increased from 80 to 83 against calls for no change. This is a diffusion index, where values above 50 indicate growth, so this better-than-expected result is a positive sign for the pace of new home construction. Home builder confidence sits at a six-month high and remains well above pre-pandemic levels. Home builder confidence has been supported by low mortgage rates throughout the pandemic and, most recently, by a surge in prospective buyer foot traffic. In a positive signal for the strength of the overall market, the number of prospective home buyers hit a five-month high in November. Overall, this was an encouraging report that signaled continued healthy growth for the housing sector as we head toward the end of the year.
- Wednesday saw the release of the October building permits and housing starts reports. These measures of new home construction were mixed: permits increased 4 percent while starts declined 0.7 percent. Economists forecasted a 2.8 percent increase in permits and a 1.5 percent increase in starts. Despite the mixed results, the overall pace of new home construction remains healthy, as high levels of home buyer demand and low levels of supply of existing homes for sale continue to support construction growth. Looking ahead, continued healthy levels of new home construction are expected because home builders have a large backlog of homes that have been permitted for construction but not yet started.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.36	2.12	26.67	33.97
Nasdaq Composite	1.27	3.68	25.32	36.34
DJIA	–1.29	–0.44	18.25	23.94
MSCI EAFE	–0.78	0.50	11.56	17.85
MSCI Emerging Markets	–1.25	0.40	0.12	7.12
Russell 2000	–2.83	2.08	19.63	32.53

Source: Bloomberg, as of November 19, 2021

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.02	–1.60	–1.43
U.S. Treasury	0.13	–2.44	–2.76
U.S. Mortgages	–0.13	–0.99	–0.84
Municipal Bond	0.62	1.12	1.89

Source: Morningstar Direct, as of November 19, 2021

What to Look Forward To

On Monday, the October existing home sales report was released. Sales of existing homes increased 0.8 percent against an expected 1.4 percent drop. The pace of existing home sales hit a nine-month high, signaling the continued strength of demand. Existing home sales, which sit well above pre-pandemic levels, are on track to eclipse 6 million for the year, which would represent the most annual sales in 15 years. Housing sales have been strong throughout 2021, as low mortgage rates and shifting buyer preferences for more space due to the pandemic have supported a surge despite low inventory and rising prices. This encouraging report showed that prospective home buyer demand remains robust and that the housing sector continues to show healthy growth and recovery.

Wednesday will see the release of the preliminary estimate for October's durable goods orders. Expectations are for orders to increase 0.2 percent after a 0.3 percent drop in September. (That modest decline in headline orders was largely due to a slowdown in aircraft orders.) Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to increase 0.4 percent in October, building on a 0.5 percent increase in September. Core durable goods orders are often viewed as a proxy for business investment, so continued growth in October would be a positive sign for business spending. If estimates hold, this report would mark eight consecutive months with growth in core durable goods orders, signaling continued business investment and spending to meet high consumer demand.

Wednesday will also see the release of the October personal income and personal spending reports. Personal income is expected to increase 0.2 percent after a 1 percent drop in September. Throughout the pandemic, personal income has been volatile on a month-to-month basis due to shifting federal stimulus and unemployment payments. September

What to Look Forward To (continued)

saw a decline in personal income, for example, that was largely due to the expiration of enhanced unemployment benefits. In October, personal spending is expected to increase 1 percent following a 0.6 percent increase in September. If estimates hold, this report would mark eight consecutive months with increased personal spending. Consumer spending has been solid throughout the year, as improving public health statistics and lowered restrictions have allowed consumers to go out and spend freely. Consumer spending is the primary driver of economic growth in the country, so further improvement in October would demonstrate that the economic recovery is continuing.

We'll finish the holiday-shortened week with Wednesday's release of Federal Open Market Committee (FOMC) minutes from the Federal Reserve's (Fed's) November meeting, at which the Fed announced plans to begin tapering its secondary-market asset purchases. Although the announcement was widely expected and the tapering should be gradual, the plans mark the first major step by the Fed to tighten monetary policy since the pandemic began. Economists and investors will look to the meeting minutes for insights on how Fed officials view the economic recovery and hints about future policy decisions. Given the Fed's dual mandate to support stable prices and maximum employment, we should also see interesting commentary on the risk presented by rising inflationary pressure. Although no major surprises are expected, this release will be widely monitored given the importance of the Fed to markets and the economy.

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. 11/21.

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