NOVEMBER 29, 2021

Weekly Market Update

General Market News

- The yield curve, particularly the back end, flattened again last week. The 10-year Treasury yield opened the week at 1.548 percent and closed the week at 1.482 percent, a drop of 6.6 basis points (bps). The 30-year opened at 1.911 percent and fell 8.4 bps to close at 1.827 percent. The front end of the curve saw its recent march higher ease, as the 2-year fell 0.5 bps from last Monday's open to 0.513 percent.

- Global equity markets fell in the holiday-shortened week after the emergence of Omicron, a new COVID-19 variant discovered in South Africa. The Dow Jones Industrial Average outperformed the more tech-oriented Nasdaq Composite for the first three days of Thanksgiving week by 1.90 percent, but the Nasdaq regained 30 bps after Friday's sell-off as energy and financial sectors struggled. Oil fell by more than $10 per barrel as demand concerns rippled through the market, while financials were hurt by the drop in short-term yields. Despite the drop on Friday, energy remained the top performer of the week as OPEC dug in its heels over production increases after the release of U.S. reserves. Other top-performing sectors included consumer staples and utilities. The largest detractors included information technology, consumer discretionary, and industrials.

- On Monday, the October existing home sales report was released. Sales of existing homes increased 0.8 percent during the month, which was better than economist forecasts for a 1.4 percent decline. This better-than-expected result brought the pace of existing home sales to a nine-month high, signaling continued strong levels of home buyer demand. The pace of existing home sales sits well above pre-pandemic levels. Sales are on track to break the 6 million mark for the year, which would be the highest number of sales in one year since 2006. Housing sales have been strong throughout the year, as low mortgage rates and shifting buyer preference for more space due to the pandemic have helped support a surge in sales 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 saw the release of the preliminary estimate for October's durable goods orders report. Orders of durable goods fell 0.5 percent, which was well below economist estimates for a 0.2 percent increase. This surprise decline was primarily due to a slowdown in volatile aircraft orders during the month. Core durable goods orders, which strip out the impact of transportation orders, increased 0.5 percent in October, which was in line with estimates. September's core durable goods orders growth was also revised upward. Core durable goods orders are often used as a proxy for business investment, so this solid result is an encouraging sign for business spending in the fourth quarter. This marks eight consecutive months with core durable goods orders growth, which highlights continued efforts by businesses to invest in order to meet high levels of pent-up demand throughout much of the year.

General Market News (continued)

- Wednesday also saw the release of the October personal income and personal spending reports. Both income and spending grew by more than expected during the month, as personal income increased 0.5 percent against calls for a 0.2 percent increase while spending rose 1.3 percent against forecasts for a 1 percent rise. Personal income growth has been volatile throughout the course of the pandemic; this positive result in October, however, represents a solid rebound in income growth following a drop in September that was caused by the expiration of enhanced federal unemployment benefits. Personal spending growth has been steadier throughout the year compared with income growth, as this result marks eight consecutive months with spending growth. Personal spending has been supported by improvements on the public health front that have led to reduced state and local restrictions. Given the importance of consumer spending for the overall economy, this result is a good sign for the pace of economic growth.
- We finished the holiday-shortened week with Wednesday's release of the Federal Open Market Committee (FOMC) minutes from the Federal Reserve's (Fed's) November meeting. The Fed announced it would begin tapering secondary market asset purchases by $15 billion in November, with plans for further reductions in the months ahead. Although the tapering announcement was expected by economists and investors, the meeting minutes showed there was discussion about potentially increasing the size of purchase reductions in future months, which would be a more hawkish result than previously expected. The minutes also showed that some Fed members have expressed growing concern about the potential for persistent inflation in the months ahead, given the broadening of price pressure we've seen over the past few months. Overall, the minutes largely showed the Fed is expected to continue to normalize monetary policy in the short term.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	−2.18	−0.11	23.91	28.10
Nasdaq Composite	−3.52	0.03	20.91	27.75
DJIA	−1.95	−2.39	15.93	18.84
MSCI EAFE	−3.72	−3.24	7.41	10.99
MSCI Emerging Markets	−3.62	−3.23	−3.50	1.44
Russell 2000	−4.13	−2.14	14.68	22.24

Source: Bloomberg, as of November 26, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.10	−1.48	−1.27
U.S. Treasury	0.55	−2.03	−2.23
U.S. Mortgages	−0.20	−1.06	−0.85
Municipal Bond	0.67	1.17	1.86

Source: Morningstar Direct, as of November 26, 2021

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for November is set to be released. Expectations are for consumer confidence to decline, with the index set to drop from 113.8 in October to 110.7. If accurate, the estimated result would bring the index in line with September’s 109.8 reading. Over the past few months, consumer confidence has been challenged by rising concerns about inflation and the pace of the overall economic recovery. Still, despite the declining confidence compared with data from earlier in the summer, the index should remain well above the initial lockdown-induced lows recorded last year. In addition, consumer spending has continued to show solid growth throughout the fall despite lowered confidence over the same period. This data indicates that consumers are going out and spending despite rising concerns. Although it’s encouraging that we haven’t seen spending fall alongside confidence, this report will continue to be widely monitored. Declining confidence could weigh on spending in the months ahead.

Wednesday will see the release of the Institute for Supply Management (ISM) Manufacturing index for November. This widely followed monitor of manufacturer confidence is expected to rise modestly, from 60.8 in October to 61. This is a diffusion index, where values above 50 indicate expansion, so an improvement would signal that the manufacturing recovery picked up steam. Despite the headwinds for manufacturers created by tangled global supply chains and rising prices, high demand has continued to support manufacturer confidence throughout the year. Manufacturer confidence

What to Look Forward To (continued)

rebounded swiftly following the expiration of initial lockdowns last year, and the index is expected to remain well above pre-pandemic levels in November. Historically, high manufacturer confidence has supported faster growth in business spending, so any improvement would be a positive sign for business investment.

On Friday, the November employment report is set to be released. Economists expect to see that 525,000 jobs were created during the month, in a slight decline from the 531,000 jobs added in October. Nonetheless, the anticipated result would mark a very strong month of job growth. This year's labor market recovery has evolved in fits and bursts, including an acceleration in job growth in October that followed improvements on the medical front. Another strong month of job growth in November would be a very positive sign for the pace of the overall economic recovery. The unemployment rate is expected to show further improvement, with economists calling for a drop from 4.6 percent in October to 4.5 percent in November. As long as estimates hold, this report should demonstrate a continued healthy recovery for the labor market heading into the end of the year.

We'll finish the week with Friday's release of the ISM Services index for November. This measure of service sector confidence is expected to decline modestly from the record high of 66.7 set in October to 65. This is another diffusion index, where values above 50 indicate expansion, so the anticipated result would leave the index in healthy expansionary territory. If estimates hold, service sector confidence would end the month at its second-highest level on record. As was the case with manufacturing confidence, service sector confidence rebounded swiftly once initial lockdowns were lifted last year. This year, as the continued easing of state and local restrictions led to a surge in consumer demand for services, we've seen another boost in service sector confidence. October's result was powered by growth in all 18 service sector industries covered in this report, highlighting the widespread improvements for this sector. Given that the service sector accounts for the majority of economic activity in the country, continued high levels of confidence would be a welcome signal for the overall economic recovery.

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