Weekly Market Update

General Market News

- The yield curve continued to flatten last week as inflationary data lifted the front end of the curve. The 2-year Treasury yield opened last Monday at 0.405 percent and closed the week more than 11 basis points (bps) higher at 0.522 percent. The 10-year increased roughly 13 bps, with yields moving from 1.455 percent to 1.584 percent, and the 30-year rose roughly 7 bps from 1.888 percent to 1.955 percent. The front end of the curve continues to come under pressure as the Federal Reserve (Fed) attempts to separate tapering from rate hikes.

- Global markets (excluding emerging markets) were down slightly, in part due to inflationary pressure and the recent winning streak for markets. The S&P 500 came into the week boasting a five-week winning streak and finished last Monday up for the eighth consecutive trading day, marking the longest streak of all-time closing highs since 1997. But producer and consumer price information released midweek led to concerns over the effect of inflationary pressures on global growth. Concerns over consumer comfort entering the holiday season were shared by investors, with the consumer discretionary sector faring worst. Other underperforming sectors included energy, which moved lower because of easing prices in Europe, and utilities. Top-performing sectors were materials, health care, and industrials.

- On Tuesday, October's Producer Price Index was released, showing that producer prices increased 0.6 percent, which was in line with economist estimates and slightly higher than the 0.5 percent increase in prices we saw in September. On a year-over-year basis, producer inflation increased 8.6 percent, which was also in line with estimates. Core producer prices, which strip out the impact of volatile food and energy prices, rose 0.4 percent for the month and 6.8 percent year-over-year. Producer prices have faced upward pressure throughout most of the year because of tangled global supply chains and rising material costs. Labor shortages have also prompted this increased inflationary pressure. While the pace of monthly price increases slowed from earlier in the year, the large year-over-year increase in prices is a reminder that producers face high levels of inflationary pressure.

- Wednesday saw the release of the October Consumer Price Index. Consumer prices rose 0.9 percent against calls for a modest 0.6 percent increase. On a year-over-year basis, consumer prices increased 6.2 percent, which was higher than economist estimates for a 5.9 percent increase and brought consumer inflation to its highest annualized level in more than 30 years. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.6 percent for the month and 4.6 percent year-over-year. Core producer prices increased more than expected on both a monthly and annual basis. Consumer prices have seen upward pressure this year due to supply chain troubles and high levels of pent-up demand. The Fed's recent decision to start tapering asset purchases was expected due to increasing inflationary pressure.

General Market News (continued)

- On Friday, the preliminary estimate for November's University of Michigan consumer sentiment survey was released. The index fell from 71.7 in October to 66.8 to start the month against calls for an increase to 72.5. This disappointing result brought the index to its lowest level in 10 years, as consumer views soured on present economic conditions and future expectations. The sharp drop in sentiment was due in large part to rising fear over inflation and its potential impact on the current economic recovery. Consumer 1-year inflation expectations increased to 4.9 percent during the month, the highest they have been since 2008. Consumer buying conditions for household goods fell notably and sit at their second-lowest level since 1978. Historically, improving confidence has helped support faster sales growth, so this disappointing result may signal a slowdown in consumer spending growth.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.27	1.75	26.21	32.51
Nasdaq Composite	–0.68	2.38	23.75	34.96
DJIA	–0.56	0.86	19.79	24.74
MSCI EAFE	–0.34	1.29	12.45	21.01
MSCI Emerging Markets	1.71	1.67	1.40	10.40
Russell 2000	–1.00	5.05	23.11	39.64

Source: Bloomberg, as of November 12, 2021

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.11	–1.69	–0.94
U.S. Treasury	–0.05	–2.61	–2.43
U.S. Mortgages	–0.21	–1.07	–0.78
Municipal Bond	0.62	1.12	2.54

Source: Morningstar Direct, as of November 12, 2021

What to Look Forward To

Tuesday will see the release of the October retail sales report. Sales are expected to increase 1.1 percent, a healthy step up from their 0.7 percent gain in September. The strong expectations are partly due to a rebound in auto and gas sales in October. Core retail sales, which strip out volatile auto and gas sales, are expected to show a more modest 0.5 percent increase after rising 0.7 percent in September. If estimates hold, this report would mark three consecutive months with retail sales growth. Given the importance of consumer spending to the economy, such a result would be encouraging. In September, we saw widespread increases in spending, with 11 of 13 categories showing growth. If strong retail sales growth continues in October, it would be a good sign for the pace of overall economic growth heading into the end of the year.

The October industrial production report will be released Tuesday. Industrial production is expected to increase 0.9 percent after a weather-driven 1.3 percent drop in September. Manufacturing production is also expected to rebound, with economists calling for a 0.9 percent gain in October, following a 0.7 percent drop in the previous month. Although the September downturn in industrial production and manufacturing output was partially due to Hurricane Ida, producers have also faced headwinds created by rising costs and material and labor shortages. Auto manufacturing has seen notable weakness lately, falling 7.2 percent in September, due in large part to the global semiconductor shortage. Looking ahead, high demand should support industrial production and manufacturing output growth, but producers are facing very real impediments to notably faster growth.

Tuesday will also see the release of the National Association of Home Builders Housing Market Index for October. Home builder confidence is expected to remain unchanged at 80. This is a diffusion index, where values above 50 indicate growth, so the anticipated result would show the sector's strength. Home builder confidence has remained strong since the expiration of initial lockdowns last year. During this period, consumer preferences for large single-family homes, along with low mortgage rates, have boosted the housing market. Historically, high levels of home builder confidence have supported new home construction, so a strong November reading for the index would bode well for the pace of construction during the month. The number of homes available for sale remains very low on a historical basis, so any acceleration in building new homes would be welcome.

Speaking of new home construction, Wednesday will see the release of the October building permits and housing starts reports. Both measures of new home construction are expected to show growth after experiencing a slowdown in September. Permits are expected to increase 3 percent, while housing starts are set for a 1.6 percent gain. Given the lack of houses for sale, the estimated results would mark an encouraging rebound in construction. Permits currently sit well above pre-pandemic levels, and housing starts remain very strong on a historical basis. Still, both indicators can be volatile from month to month. The strength in new home construction during the year is impressive, especially given the headwinds created by tangled supply chains and relatively high material costs. Overall, if estimates hold, these reports would signal the continued health of the housing industry and bode well for the overall economic recovery.

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