Summary

Economic data for the week included weaker-than-expected U.S. GDP growth for the third quarter, and declines in durable goods orders and pending home sales. However, home prices, new home sales, consumer confidence, and jobless claims all improved.

Global equity markets were mixed, with gains in the U.S. offset by little change in Europe, and declines in emerging markets. Domestic bonds fared positively due to a decline in interest rates. Commodities featured little change in energy prices, and mixed results in grains and metals.

Economic Notes

(-) The first estimate of **U.S. GDP for Q3** came in at an annualized 2.0%, which was a disappointment compared to the 2.6% expected by consensus, but a relief compared to some estimates that had fallen to near-zero. The gain in the quarter was driven by stronger private inventory investment, personal consumption (even though motor vehicles were down over -50%), state/local government spending, and nonresidential fixed investment. Inventories declined less than the prior quarter, which ended up being a net positive for growth. These were offset by declines in residential fixed investment, IT equipment, federal government spending, and net exports. Core PCE inflation rose 4.5% on a quarter-over-quarter annualized pace, which was a deceleration from Q2, although the GDP price index rose at an annualized 5.7% for the quarter.

The Atlanta Fed's GDPNow measure had modeled Q3 GDP to be in a steady deterioration recently, with the prior week's estimate having fallen to a barely-above-water 0.2%. However, this was obviously too pessimistic, and their initial estimate for Q4 is a robust 6.6%. The New York GDP Nowcast estimator remains on hiatus as they work to improve the underlying methodology, which had broken down in the midst of unprecedented Covid recovery and supply chain impacts. Economic growth has indeed been challenged again, with concerns over the Covid delta variant keeping a damper on mobility (both office work and leisure travel), in addition to reduced government transfer payments, and supply chain disruptions which have limited manufacturing production/sales—particularly for durable items such as autos and appliances. The cyclical recovery has been pushed out a bit to the next few quarters, assuming concern over Covid continues to abate and the absence of any new variant surprises.

(0) **Personal income** for September fell by -1.0%, which was a bit worse than expectations calling for a drop of -0.3%. While wages/salaries rose nearly a percent, transfer payments fell by -7%, in keeping with expiring extended unemployment benefits—contributing to the broader decline. **Personal spending** for the month rose by 0.6%, which generally met expectations, and included several upward revisions for prior months. Based on the two factors, the personal savings rate fell by -1.7% in the month to 7.5% (the lowest level since Feb. 2020, the last 'pre-pandemic' month). It appears that some hoarded savings may be used to offset the drop-off in jobless benefits. The PCE price index rose 0.3% on a headline level, and 0.2% on a core basis, removing food and energy prices. That brought the year-over-year inflation figures to 4.4% and 3.6%, on a headline and core basis, respectively.

(0) **Durable goods orders** for September declined by -0.4%, better than the consensus estimate calling for a -1.1% drop. Removing the more volatile components, which included a monthly decline in commercial aircraft and autos, core durable goods orders rose by 0.8%, which beat expectations of 0.5%. Underlying data was mixed, as machinery and metal goods orders rose, while those involving electronics (appliances and computers) fell. Core durable goods shipments also rose 1.4% for the month, beating expectations by nearly a percent. Inventories also rose by almost a percent in Sept. Over the past year, durable goods orders are up 15%. This indicator continues to point to recovery, although the data tends to be choppy.

(0/+) The **S&P/Case-Shiller home price index** rose by 1.2% in August, but fell short of the 1.5% expected by consensus. All 20 cities experienced an increase, led by Tampa, Las Vegas, and Phoenix, all coming in over 2% for the single month. The trailing 12-month gain decelerated by three tenths to a still-very strong 19.7%.

(0/+) The broader and less-urban **FHFA house price index** rose by 1.0% for August, also below the 1.5% median forecast. All but one of the national regions experienced a price increase, led by South Atlantic (DE south to FL) and Mountain, each of which were up just under 2%; New England fell back by a tenth of a percent. Here too, the national trailing 12-month rate of change decelerated by -0.7% to 18.5%. With home prices rising at what appeared to be an unsustainable rate, fueled by high demand for single-family space, low inventories, and attractive financing rates, some flattening seems to have occurred more recently. This had been the base case of some economists in the real estate segment, which tends to be sensitive to changes in those inputs.

(+) **New home sales** for September rose a sharp 14.0% to a seasonally-adjusted annualized rate of 800k units, beating the median forecast calling for a 2.2% rise. However, this featured a revision down for August. By region, sales in the South increased by 74k, followed by less dramatic gains in the West and Northeast, while the Midwest ticked down slightly. The months' supply measure ticked down by -0.8 to 5.7, due to the rising sales eating into existing inventories, although those are up from late last year. The median sales price of new homes came in at $408,800, which is up 19% from last year. Year-over-year, new home sales remain down -18% from last Sept., although the trend has moved in a more positive direction recently.

(-) **Pending home sales** for Sept. fell -2.3%, in contrast to a 0.5% gain expected by consensus. This brought pending sales down -7% compared to this time last year. All four national regions were down on the month, led by the Midwest and Northeast, which each fell over -3%. According to the NAR, some potential buyers seem to have put a pause on home search activity, with plans to resume next year.

(+) The Conference Board **index of consumer confidence** rose 4.0 points in October to 113.8, surpassing a slight decline to 108.0 expected. While both were positive, consumer expectations for the future slightly outpaced assessments of present conditions. The labor differential, which measures the ease in finding jobs, rose a bit to its highest reading in over 20 years. No doubt, numbers have shown that the labor market has moved in favor of employees.

(+) The **Univ. of Michigan index of consumer sentiment** rose by 0.3 of a point to 71.7 in the final October report, which reversed an earlier month decline, and outperformed compared to no change expected. This was the result of slightly more pessimistic expectations for current conditions, while assessments for the future improved. Inflation expectations for the coming year were unchanged at a high 4.8%, while those for the next 5-10 years ticked up a tenth to 2.9%.

(+) **Initial jobless claims** for the Oct. 23 ending week fell by -10k to 281k, below the 288k consensus estimate. **Continuing claims** for the Oct. 16 week also fell, by -237k to 2.243 mil., below the 2.420 mil. expected. The most impactful initial declines were in CA, GA, and MI, while DC and KY saw a rise in claims. According to the DOL, this was the lightest week for both initial and continuing claims since the infamous month of March 2020. Based on these measures, labor markets continue to see improvement, particularly over a multi-month basis.

Market Notes

Period ending 10/29/2021	1 Week (%)	YTD (%)
DJIA	0.40	18.77
S&P 500	1.35	24.04
NASDAQ	2.72	20.88
Russell 2000	0.27	17.19
MSCI-EAFE	-0.11	11.01
MSCI-EM	-2.18	-0.27
BBgBarc U.S. Aggregate	0.52	-1.58

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2020	0.09	0.13	0.36	0.93	1.65
10/22/2021	0.06	0.48	1.22	1.66	2.08
10/29/2021	0.05	0.48	1.18	1.55	1.93

U.S. stocks continued to show positivity and news highs on the back of strong corporate earnings, as well as selected economic data, such as lower jobless claims (which indirectly equate to potentially stronger consumer spending, assuming the labor market continues to show repair). With about 56% of S&P companies having reported so far, the combined year-over-year earnings growth rate is a robust 37% (per FactSet), led by energy, materials, and industrials.

By sector, consumer discretionary rose over 4%, followed by arond-2% gains in technology, communications, and health care. In the consumer discretionary sector, Tesla rallied to a market cap of over $1 trillion (larger than the next top ten automakers combined) upon news of a deal with Hertz for a historic order of electric vehicles for rental. A variety of technology and consumer-related stocks, such as Apple and Amazon, declined along with quarterly call discussion of higher costs and supply bottlenecks affecting anticipated revenue and earnings strength. On the negative side, financial and energy stocks lost the most ground during the week. Real estate gained slightly, along with a pullback in interest rates.

Foreign stocks were mixed, with Europe, Japan, and the U.K. largely flat, while emerging markets declined across a variety of countries, notably China, which fell nearly -5%. In Europe, earnings results came in strongly, as in the U.S., although central banks appear to be on a faster pace to pull back on monetary accommodation compared to the U.S. Fed. The ECB made no change in policy at its meeting, after a tapering announcement earlier in the fall.

U.S. bonds earned positive returns as interest rates fell back from highs. Investment-grade corporates outperformed governments slightly as spreads tightened due to strong quarterly results, while high yield and bank loans were little changed. Foreign bonds in developed markets and local currency emerging markets fell back, negatively affected by a stronger U.S. dollar.

In recent years, the Fed has been known to telegraph their intentions prior to formal Fed meetings, to pre-empt financial market surprises. Remarks from Chair Powell and others lay out a framework that a November start to tapering is all but a done deal, while leaving the door open for rate increases perhaps sooner than expected—as inflation has run longer and hotter than expected. The interesting part is that while market expectations for inflation are elevated for the next few years, they fall off dramatically for future years (5-10 years out), converging back toward 2%. The Fed may not be using the term 'transitory' as often lately, but certainly not implying inflation is a long-term threat (likely an area of focus in their meeting this coming week). These assumptions seem to have also kept long-term interest rates under control.

Commodities fell back broadly, with some gains in agriculture (mostly corn and wheat) offset by declines in energy and especially industrial metals (largely aluminum but also copper). Experiencing less volatility than in recent weeks, the price of crude oil declined by a fraction of a percent to around $83.50/barrel.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.