Summary

In a holiday-shortened week, economic data included stronger personal income and spending, as well as recovering consumer sentiment, while durable goods orders fell back. Housing data was strong in both new and existing home sales.

Global equity markets were benign until Friday, when the emergence of a new Covid variant rattled investors. U.S. treasury bonds fared slightly positive due to flows away from risk, while credit and emerging market bonds fell back. Commodities also fell back, highlighted by a rapid correction in the price of crude oil.

Economic Notes

(0) The second release of **Q3 U.S. GDP** saw a revision up a tenth of a percent from 2.0% to 2.1%, although market expectations called for a slightly better figure of 2.2%. Personal consumption was revised up by a tenth, with stronger demand for goods, while gains in services were revised down slightly. Growth in structures was reversed from a negative -5% rate to a positive 2%. Overall, little in the growth picture changed in a meaningful way. PCE inflation was little changed from the initial estimate, staying high at a rounded 5.3% annualized rate for the quarter on the headline side, and 4.5% for core.

Estimates for the 4th quarter look better so far. The well-watched Atlanta Fed GDPNow measure has risen to 8.6%, while the *Blue Chip* consensus range lies between 4-6% (5% being the median). This improvement has been driven by private sector investment and net exports, while personal consumption has declined—although it remains at a high level.

(+) **Personal income** for October rose by 0.5%, beating forecasts calling for 0.2%, and led by wage/salary income as government payments decelerated. **Personal spending** rose 1.3% for the month, exceeding the median forecast of 1.0%. However, spending was broadly mixed by category, with travel down yet some recreation spending was stronger, as was that on goods. Therefore, the personal savings rate declined by -0.9% to 7.3%. The **PCE price index** rose 0.6% for the month on a headline basis, and 0.4% for core—both generally matching expectations. This brought the year-over-year change to 5.1% and 4.1% on a headline and core level, respectively.

(-) **Durable goods orders** in October declined by -0.5%, which disappointed relative to the 0.2% increase expected by consensus. Removing transportation, and the drop in aircraft and parts orders, core durable goods reversed into a 0.5% increase. Core capital goods shipments rose 0.3%, which was about half that of expectations.

(+) **Existing home sales** rose 0.8% in October to a seasonally-adjusted annualized rate of 6.34 mil. units, which was a positive surprise compared to the median forecast of a -1.4% decline. Single-family sales rose by 1%, offset slightly by the smaller condo/co-op group, which declined -3%. The Midwest rose by 4%, while the Northeast declined by -3%, with other regions little changed. However, sales are down -6% from a year ago. The median sales prices for an existing home rose by 1.3% to $353,900, which equated to a 13% gain year-over-year. Months' supply was unchanged at a tight 2.4. For comparison's sake, supply was just under 4 months on average throughout 2019, pointing to the continued problems with insufficient housing stock to satisfy booming demand.

(+) **New home sales** in October rose 0.4% to a seasonally-adjusted rate of 745k units in October, which surpassed the median expectation calling for no change, but was a substantial deceleration from the prior month when including a revision downward. Regionally, the Midwest saw the strongest gains, while the Northeast fell by several thousand units. The months' supply of new homes rose a few tenths to 6.3, nearly double from last year's low—due to stronger inventories, led by a rebound in homes classified as 'under

construction'. The median price of a new home was up 18% from a year ago at $407,700, while the average prices rose 21% from last year to $477,800.

(+) The final **Univ. of Michigan consumer sentiment** survey for November reversed an earlier decline by increasing 0.6 of a point to 67.4, beating expectations of 66.8. Assessments of both current conditions and expectations for the future both improved. Inflation expectations for the coming year were flat at 4.9%, while they ticked up by a tenth to 3.0% for the next 5-10 years.

(+/0) **Initial jobless claims** for the Nov. 20 ending week fell by -71k to 199k, well below the 260k level expected by consensus. The initial claims number was the lowest in over 50 years, and reiterated the continued improvement in labor, although some holiday-based seasonality effects also appeared to be at play. Claims fell by the largest amounts in CA, WA, and KY, while VA saw gains in claims. **Continuing claims** for the Nov. 13 week declined by -60k to 2.049 mil., which was still higher than the median forecast of 2.032 mil.

Market Notes

Period ending 11/26/2021	1 Week (%)	YTD (%)
DJIA	-1.95	15.93
S&P 500	-2.18	23.91
NASDAQ	-3.52	20.91
Russell 2000	-4.13	14.68
MSCI-EAFE	-3.72	7.41
MSCI-EM	-3.62	-3.50
BBgBarc U.S. Aggregate	0.13	-1.48

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
11/19/2021	0.05	0.52	1.22	1.54	1.91
11/26/2021	0.06	0.50	1.16	1.48	1.83

U.S. stocks experienced a unique holiday week, where volumes tend to be normally slow. By sector, communications, technology, and consumer discretionary suffered the largest declines (over -3%), the latter in leisure/travel largely, while energy ended the week as the only gaining industry. Real estate fell back, along the middle of the pack.

Financial markets were certainly pleased Monday morning by President Biden's re-nomination of Jerome Powell for another term as Federal Reserve chair. The other leading candidate was Fed governor Lael Brainard, seen as more dovish and likely to keep lower interest rate policies in place for longer. While markets have often rewarded dovishness, it appeared the 'known' was valued a bit more than the 'unknown', particularly during this stretch of higher inflation. Rather, Brainard was nominated for Vice Chair for monetary policy, which could be a stepping stone for a later nomination to the main post. Markets do tend to prefer consistency above all else. Normally, these nominations aren't as controversial, but the more progressive wing of the Democratic party has been unhappy with the current Fed's lighter-touch handling of banking regulation (with Sen. Elizabeth Warren even going as far as calling Powell 'dangerous' in that regard).

Normally a light post-holiday trading day, stocks sold off sharply on Friday as a news of a significantly different Covid variant turned holiday sentiment negative. This variant from South Africa, now known as 'omicron', apparently contains a greater number of mutations (several dozen) and transmissibility than prior variants. With little known so far about its severity thus far, markets reacted first, presumably to absorb the details later, as

they are prone to do. Aside from the obvious health concerns, the secondary impacts of slower consumer demand would threaten the global economic recovery and/or result in reimposed lockdowns or at least closures, as has been the case in recent weeks in Europe already. (Monday morning stock futures activity is strongly positive, as worries have already calmed a bit over the weekend.)

Foreign stocks performed generally in line with U.S. equities, with the U.K. faring slightly better, and Europe a bit worse. Even prior to the new South African variant's emergence, increased Covid cases have caused more extreme governmental action in Germany and Austria. Now, travel bans are the next line of hoped-for line of defense against faster case rates. As has been the case for the past 18 months, threats to economic activity and stock earnings remain the primary driver of sentiment globally. Despite some flattening in growth as of late in Europe, manufacturing PMI has ticked upward.

U.S. bonds gained slightly, with a 'risk off' sentiment moving towards treasuries and pushing yields lower again—treasuries were among the only 'winners' last week, as expected. (It's also the answer to the question of why to own government bonds when they're paying a yield of under 2%.) Corporate bonds, on the other hand, fell back as credit spreads widened. Emerging market debt suffered more than other categories, down well over -2%.

Commodities fell back generally, as a sharp decline in the energy segment surpassed still-significant declines in industrial and precious metals, while agriculture gained. The price of crude oil plunged by over -10% to just above $68/barrel. Initially, announcements of U.S. and Chinese strategic petroleum reserve releases were intended to help alleviate fears over ongoing supply constraints (for the time being, at least); however, the 50 mil. barrel amount was smaller than the markets expected, resulting in a net price increase early in the week. OPEC+ will be meeting again in Dec., but has been resistant to raising production levels. This was a moot point by Friday, with the new Covid variant concerns causing an immediate -10% correction in oil prices, with recovery demand threatened. As is often said in the commodity world: 'The cure for high oil prices is high oil prices.'

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.

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