Summary

Economic data for the week included stronger manufacturing data and higher home prices, while consumer sentiment fell back a bit. The employment situation report came in far weaker than expected on a headline basis, although other data appeared more robust.

U.S. equity markets fell back last week upon the Federal Reserve's evolving opinion of inflation and the uncertainty surrounding the new Covid omicron variant; foreign stocks, however, fared better. Bonds gained ground in keeping with investors moving away from risky assets. Commodities lost ground, with the prices of crude oil and natural gas continuing to fall on demand concerns.

Economic Notes

(+) The **ISM manufacturing index** for November came in at a reading of 61.1, a tenth below the 61.2 reading expected, and continuing to fall in a region of strong expansion. New orders were strong, production accelerated, and backlogs continued to expand—albeit at a lesser rate. Inventories are also in expansion, likely as companies respond to supply shortages in some materials. Prices paid and supplier deliveries fell back a bit, but remained at high levels, pointing to materials costs and logistical hang-ups. Sentiment remains strong in the manufacturing space, with companies hinting that demand is and should remain strong based on their indications, but held back by the supply issues being discussed non-stop.

(+) The **ISM services/non-manufacturing index** rose 2.4 points in November to 69.1, beating consensus expectations for 65.0—this represented another all-time high (from 25-year history) and 18th straight month of gains. New orders and general business activity led with continuing high readings, followed by gains in employment and prices paid. Supplier deliveries fell a bit (representing an improvement on previous slowness), but remained solidly in expansion. Inventories rose to just below 50. Generally growth was widespread across every industry, fueled by high consumer demand particularly in real estate, transportation, and retail. This has been coupled with the well-discussed supply constraints keeping fulfillment of this demand somewhat in check.

(0/+) The **S&P/Case-Shiller home price index** of 20 key cities increased by 1.0% in September, which fell short of the 1.2% expected for the month. Every city saw gains, led by Tampa, Miami, and Atlanta, which each were up over 2% for the single month. The national year-over-year rate decelerated by -0.6%, but remained quite high at 19.1%.

(0/+) The more encompassing **FHFA house price index** rose by 0.9% for September, also falling short of the expected 1.2%. Every region saw positive results, led by West South Central (OK, AR, TX, LA) and New England, which rose 1.5-2.0% for the month. The trailing 12-month rate of growth nationally decelerated by a similar -0.7%, to 17.8%, but remained at a high level compared to history.

(+) **Pending home sales** rose 7.5% in October, beating the median forecast estimate of 1.0%. Strength was widespread, with the Midwest and South seeing gains of 8-12%, while the West was weakest at 2%. The year-over-year rate of gain improved by several percentage points to a still-negative pace of -4.7%. This bodes well for upcoming existing home sales in future months.

(-) The **Conference Board index of consumer confidence** declined -2.1 points in November to 109.5, below the median forecast of 110.9. Assessments of present conditions fell by -3 points, while future expectations eroded by half that amount. The labor differential, measuring the ease in finding employment rose 3 points to an all-time high reading. This jobs market reading reflects other data that shows continued improvement, with jobs appearing far more available than there are interested workers. Overall, as noted by a variety of sources, confidence isn't as strong as one would think given the general strength of the economy and financial markets, not to mention job availability and higher wages. Both actual and an intense media focus on inflation (perhaps as it relates to holiday gift-giving) have weighed on the public—not to mention the ongoing pandemic, and delta variant flare-up globally. The omicron variant now threatens confidence as we enter the heart of the holiday season, although there is more unknown than known about its severity and impact on mobility.

(+) The **ADP private employment** report showed a rise of 534k in November, which slowed from the prior month, but beat the median consensus forecast of 525k. Details included 424k gains in services, a third of which were in leisure/hospitality, which continues to recover from lows. Goods-producing jobs gained 110k, half of which were manufacturing, and the other half in construction. Overall, while leisure still has room to go for recovery, the general private labor market appears to be quickly improving.

(0/+) **Initial jobless claims** for the Nov. 27 ending week rebounded higher by 28k to a level of 222k, but lower than the expected 240k. **Continuing claims** for the Nov. 20 week fell by -107k to 1.956 mil., below the 2.049 mil. expected by consensus. Initial claims were mixed, with a 10k increase in CA being most notable. The general trend of improvement continues, although seasonal adjustments can skew the weekly results in one direction or the other this time of the year.

(-) The employment situation in November disappointed compared to expectations of a more robust report. Progress continued in jobs being filled, although the recent pace has slowed among industries particularly, with overall levels remaining below those prior to the pandemic's start in early 2020. Perhaps ironically, just as Fed Chair Powell noted that job reports coming in as merely 'decent' would be enough to further justify tapering, the last few releases have been somewhat borderline.

Nonfarm payrolls came in at 210k, a far cry from the 550k expected by consensus estimate. Gains originated from professional/business services (90k), transportation/warehousing (50k), construction (31k), and manufacturing (31k). On the downside, retail jobs declined by -21k, as did education. Payrolls for Sept. and Oct. were revised upward by a total of 82k, which was a small positive in the report.

The **unemployment rate** ticked down by -0.4% to 4.2%, surpassing the 4.5% level expected, with the U-6 underemployment figure improving by -0.5% to 7.8%. The household survey measure showed a gain of 1.1 mil. jobs, which was far better than the nonfarm payroll measure, but measured differently as it includes new small-business starts. Labor force participation rose a few tenths of a percent, to 61.8%, but still remains -1.5% under that of Feb. 2020. Participation continues to run below the expectations of the Fed and many private economists.

Average hourly earnings rose by 0.3% to $31.03, short of expectations of a 0.4% rise, and the slowest monthly pace in six months. Earnings moved 4.8% higher over the past 12 months. The **average workweek** lengthened by 0.1 hour to 34.8 hours.

Market Notes

Period ending 12/3/2021	**1 Week (%)**	**YTD (%)**
DJIA	-0.76	15.05
S&P 500	-1.17	22.45
NASDAQ	-2.60	17.77
Russell 2000	-3.82	10.30
MSCI-EAFE	-0.94	6.40
MSCI-EM	0.19	-3.31
BBgBarc U.S. Aggregate	0.52	-0.97

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
11/26/2021	0.06	0.50	1.16	1.48	1.83
12/3/2021	0.06	0.60	1.13	1.35	1.69

U.S. stocks experienced a volatile week, ending downward and capping a -4% pareback from highs last month (these always feel deeper). Despite a decent start on Monday after the prior week's negative reaction to the new Covid omicron variant news, Moderna's CEO commented that omicron may elude the effectiveness of current vaccines. (This is despite little data being available so far about r-values; and, of course, vaccine makers do benefit from additional vaccines being manufactured and dosed.) Markets took even more seriously Fed Chair Jerome Powell's comments to Congress alluding to a potentially faster pace of tapering, given that the 'threat of persistently higher inflation has grown.' (His comment about 'retiring' the term 'transitory' seemed to especially rattle markets, due to his persistent use of the word over the past year—it was perhaps seen as capitulating to the stubborn nature of current inflation pressures.) Later in the week, the back-and-forth market movement continued, as investors absorbed news of the first U.S. omicron cases, which have intensified over the weekend. Congress passed a bill to keep the government open, which removed one source of potential year-end volatility, while a poor employment situation report cast a negative pall by the end of the week.

By sector, defensive utilities provided the only positive performance, while results were most negative in communications and consumer discretionary (leisure/travel, although mostly Tesla), and financials. Real estate ended flattish on the week, with economic negativity offset by falling interest rates. Small caps suffered far worse than large caps domestically.

Foreign stock returns were interestingly more benign with mixed to little change across the board: gains in the U.K., Japan, and the emerging markets were offset by a decline in Europe. Lockdowns have intensified in several European countries, with mandatory vaccinations also on the docket in Germany, as well as travel restrictions in both Europe and Asia. In emerging markets, sharp declines in China, due to another property developer experiencing debt problems, and Turkey in USD terms, less due to Covid than unconventional monetary policy and an accompanying currency crisis. On the other hand, commodity nations, including Russia and South Africa, gained sharply.

U.S. bonds fared positively, as investors moved away from risk. Interestingly, investment-grade corporate and high yield bonds outperformed treasuries. The dollar was little changed, which resulted in similar gains in foreign bonds—especially USD-denominated emerging markets.

The U.S. treasury yield curve is simple, yet complicated, in that it compresses a large amount of information and assumptions about various possible rate paths. For example, with rising market concerns over faster Fed tapering off of purchases, 10-year and 30-year treasuries fell sharply in yield, while the 2-year has risen by an equivalent amount. This created a broad curve flattening effect. Rising inflation worries, but a slower Fed buying effort, might imply larger bond supply, lower prices, and higher yields at first glance. However, this was outweighed by worries over second derivative thinking of a Fed policy error (and more Covid), resulting in higher medium-term recession probabilities (resulting in a flight to quality).

Commodities continued their general decline, as concerns over demand are rooted in the potential impact of the omicron variant. The price of crude oil fell by almost -3% to just above $66/barrel, which brought the return over the last two weeks to over -15%. Some reports call for this latest downturn to be far overdone, though, with it being described as akin to airline oil usage grinding to a halt for several months. Natural gas prices plummeted -20% last week alone (gas is one of the most volatile commodity contracts), as forecasts of warmer-than-usual winter temperatures would indicate lower usage.

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.