



November 1, 2021

# WATERMAN WEALTH STRATEGIES



## ECONOMIC REVIEW<sup>1</sup>

- The Conference Board Consumer Confidence Index rose from 109.3 to 113.8; economists expected the index to decrease to 108.
- The preliminary reading of Gross Domestic Product (GDP) for Q3 came in at 2.0%, below the consensus estimate of 2.6%.
- Personal Income for the month of September decreased more than expected; the estimate called for a decrease of -0.3% whereas the actual decrease was -1.0%.
- Personal Consumption Expenditures (PCE) for the month of September was in-line with estimates, increasing by 0.3%. The year-over-year reading also came in in-line with economists' estimates, rising 4.4%.

**INSIGHT:** Although cases have declined in recent weeks, for the majority of the third quarter worries over the Delta variant coupled with persistent supply constraint issues led to GDP growth for Q3 to come in below expectations. The largest drag in the GDP reading came from personal consumption which makes up nearly 70% of GDP. Personal consumption grew by 1.6% whereas consumption for Q2 grew at 12%. According to economists, the third quarter was when we were supposed to see people return to the workforce and start to spend their pent-up savings. One of the biggest surprises was the reverberating effect of supply side issues. Major corporations have cited in their earnings calls the negative impacts of supply constraints. On a more positive note, many economists agree that the expected GDP growth we lost in the third quarter is not gone forever, instead it appears it will be pulled forward into Q4 and the beginning of 2022.



## A LOOK FORWARD<sup>1</sup>

- ISM Manufacturing will be announced on Monday, the expectation for the month of October is a decrease in the index from 61.1 to 60.3.
- ISM Services will be announced on Wednesday, the expectation for the month of October is a decrease in the index from 61.9 to 61.8.
- Nonfarm payrolls for the month of October will be announced on Friday, economists expect the reading to show an addition of 400,000 jobs compared to the previous month's increase of 194,000.

**INSIGHT:** The issue of the supply side and its impact on manufacturing has been well documented and strides have been made to try and alleviate some of those persistent issues. For example, the Federal government and three United States goods carriers, UPS, FedEx, and Walmart agreed to ramp up operational efficiencies as we move into the holiday season. In addition to this, many ports on the West Coast have moved to a 24-hour cycle to try and increase capacity as more ships come from Asia. Lastly, with the Fed expected to announce its plans to taper in mid-November, the next jobs report may be paramount in their conviction moving forward. The previous few months have showed softening in employment data due to concerns over the Delta Variant, however the Fed has stayed steadfast in its proposal. As concerns over Delta have waned, a stronger than expected jobs report may justify the Fed's plans.

# MARKET UPDATE

Market Index Returns as of 10/29/21 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	1.35%	7.01%	24.04%	41.20%	22.55%	18.93%
NASDAQ	2.72%	7.29%	20.88%	39.49%	31.21%	25.69%
Dow Jones Industrial Average	0.40%	5.93%	18.77%	36.92%	16.14%	17.19%
Russell Mid-Cap	-0.40%	5.95%	22.02%	43.91%	21.00%	16.55%
Russell 2000 (Small Cap)	0.27%	4.25%	17.19%	48.58%	17.36%	15.60%
MSCI EAFE (International)	-0.11%	2.46%	11.01%	33.47%	12.16%	9.80%
MSCI Emerging Markets	-2.18%	0.99%	-0.27%	15.22%	13.14%	9.43%
Bloomberg Barclays US Agg Bond	0.52%	-0.03%	-1.58%	-0.55%	5.49%	3.11%
Bloomberg Barclays High Yield Corp.	0.09%	-0.17%	4.36%	10.47%	7.43%	6.34%
Bloomberg Barclays Global Agg	0.02%	-0.24%	-4.29%	-1.30%	4.39%	2.57%



## OBSERVATIONS

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +1.35% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index increased by +0.27% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.11%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -2.18%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.52%.



## BY THE NUMBERS

**AFTER TEN MONTHS OF 2021** - With just 2 months to go in calendar year 2021, the S&P 500 is up +24.0% YTD (total return) as of the close of trading last Friday 10/29/21. Over the last 30 years (1991-2020), November and December have ranked as the # 2 and # 3 “best months” for the S&P 500. The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

**TAXES** - The “millionaire’s surtax” proposed by President Biden on 10/28/21 would impose a 5-percentage point surtax on adjusted gross income over \$10 million plus an additional 3 percentage points (for 8 percentage points in total) over \$25 million of adjusted gross income. An estimated 30,000 US tax filers (out of an estimated total of 144 million returns) are projected to make at least \$10 million in the 2022 tax year (source: Tax Policy Center).

**DIFFERENT REASONS** - From the beginning of the pandemic (approximately March 2020) through 6/30/21, an estimated 3 million American workers retired earlier than US historical trends would have forecasted. These “excess retirees” were mostly older workers, some concerned about the risk of getting infected while continuing in the workforce. Others attributed the surging value of homes and stock portfolios as the driving force that made an early retirement possible (source: Federal Reserve Bank of St. Louis).

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## Economic Definitions

**Conference Board Consumer Confidence Index:** The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region, and top 8 states.

**The Federal Reserve System:** The central bank of the United States. It performs several general functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**Personal Income:** Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals  
Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

**ISM Manufacturing Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

## Index Definitions

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

## Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg as of 10/29/2021