



November 8, 2021

# WATERMAN WEALTH STRATEGIES



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

- The ISM Manufacturing Index decreased in the month of October to 60.8, however, it fell less than economists' expectations of 60.5.
- The ISM Services Index increased to 66.7 in October, beating economists' expectations of 62.
- Nonfarm payrolls for the month of October increased by 531,000, which was higher than economists' expectations of 450,000.

**INSIGHT:** After back-to-back lackluster reports in August and September, the labor market bounced back in October. This can be attributed to the first full month of hiring following the expiration of federal enhanced unemployment benefits, coupled with waning Delta variant cases. The leisure and hospitality industry which lagged significantly over the last few months staged a strong comeback, increasing by 164,000 whereas the previous month the sector only added 66,000. The unemployment rate continues to decrease, dropping to a pandemic era low of 4.6%. On the other hand, the labor force participation rate remained unchanged at 61.6%. However, the participation rate among so-called prime age workers 25 to 54, ticked higher to 81.7%. Roughly 4.7 million fewer people have a job now than they did before the pandemic. The stagnant participation rate points to challenges with getting people back into jobs, due in part to increased retirements and parents leaving jobs for childcare purposes.



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

- The Producer Price Index (PPI) for the month of October will be announced on Tuesday, the expectation is for producer prices to rise by +0.6%. The year-over-year estimate calls for an increase of 8.6%.
- The Consumer Price Index (CPI) for the month of October will be announced on Wednesday, the estimate is an increase of +0.4%. The year-over-year estimate calls for an increase of 5.8%.
- The University of Michigan Consumer Sentiment Index will be announced on Friday, for the month of October the expectation is for the index to increase to 72.3 from the previous month's reading of 71.7.

**INSIGHT:** Inflation continues to be top of mind for investors; to combat increasing price pressures the Fed has announced its plan to reduce its bond purchasing program. Starting later in November, the Fed will reduce its monthly pace of asset purchases to \$105 billion per month from the current rate of \$120 per month. In particular, the Fed will reduce Treasury purchases to \$70 billion per month from \$80 billion, while reducing mortgage-backed securities purchases to \$35 billion per month from \$40 billion. The Fed expects to keep tapering Treasury securities by an additional \$15 billion per month starting in December. At this pace, tapering would conclude in June of 2022. While the reduction in asset purchases should help to ease inflationary pressures, supply chain issues persist. These two factors may negate each other and therefore the Fed's actions may not move the needle on lowering inflation all that much.

# MARKET UPDATE

Market Index Returns as of 11/5/21 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	2.03%	9.17%	26.56%	35.79%	21.88%	19.86%
NASDAQ	3.08%	10.59%	24.59%	35.23%	30.84%	27.15%
Dow Jones Industrial Average	1.43%	7.44%	20.47%	30.40%	15.11%	17.87%
Russell Mid-Cap	1.98%	8.04%	24.43%	38.53%	19.92%	17.39%
Russell 2000 (Small Cap)	6.11%	10.62%	24.35%	48.27%	17.85%	17.45%
MSCI EAFE (International)	1.64%	4.14%	12.83%	26.67%	11.84%	10.50%
MSCI Emerging Markets	-0.04%	0.95%	-0.31%	10.61%	10.89%	10.00%
Bloomberg Barclays US Agg Bond	0.64%	0.61%	-0.95%	-0.52%	5.91%	3.19%
Bloomberg Barclays High Yield Corp.	0.61%	0.44%	5.00%	8.88%	7.55%	6.71%
Bloomberg Barclays Global Agg	0.70%	0.45%	-3.63%	-1.77%	4.73%	2.45%



## OBSERVATIONS

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +2.03% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index increased by +6.11% on the week.
- International stocks as measured by the MSCI EAFE were positive on the week, up +1.64%, underperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -0.04%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.64%.



## BY THE NUMBERS

**INCREDIBLE** - The S&P 500 has gained at least +30% (total return) on a trailing 1-year basis at the end of each of the last 9 months, i.e., February 2021 through October 2021. The next best stretch of “30% or more” trailing 12-months since 1990 was the 6-month period from November 1995 through April 1996. 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).

**PAYING A LOT MORE** - The average price of a gallon of gasoline has gone up by more than \$1 during calendar year 2021, rising from \$2.253 a gallon as of 12/31/2020 to \$3.421 a gallon as of Friday 11/05/2021. The last calendar year that experienced gas prices rising by at least \$1 a gallon was 2009 (source: AAA).

**MOVING THERE** - Of the 50 largest American cities per the 2020 Census, Fort Worth, TX experienced the largest percentage growth rate (+24.0%) over the last decade, while Detroit suffered the largest percentage loss (down 10.5%). Just 4 of the top 50 US cities lost population in the last decade (source: Census Bureau).

**MOVING IN THE RIGHT DIRECTION** - As of last Friday 11/05/2021, pandemic deaths per week in the US have declined for 6 consecutive weeks, falling 44% over the period (source: NBC News, Meet the Press, First Read).

Reprinted with permission from BTN. Copyright © 2021 Michael A. Higley.

---

## Economic Definitions

**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.

**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.

**Producer Prices - PPI (headline and core):** Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**University of Michigan Consumer Sentiment Index:** Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

## 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.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Advisor Group Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates.

Certain information may be based on information received from sources the Advisor Group Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute "projections," "forecasts" and other "forward-looking statements" which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

Securities and investment advisory services are offered through the firms: FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Triad Advisors, LLC, and Woodbury Financial Services, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Securities America, Inc., a broker-dealer and member of FINRA and SIPC. Advisory services are offered through Arbor Point Advisors, LLC, Ladenburg Thalmann Asset Management, Inc., Securities America Advisors, Inc., and Triad Hybrid Solutions, LLC, registered investment advisers. Advisory programs offered by FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., and Woodbury Financial Services, Inc., are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser. Advisor Group, Inc. is an affiliate of these firms. [3905344]

---

<sup>1</sup> Data obtained from Bloomberg as of 11/05/2021