



November 15, 2021

WATERMAN WEALTH STRATEGIES



ECONOMIC REVIEW¹

- The Producer Price Index (PPI) for the month of October increased by 0.6% on a month-over-month basis, which was in line with expectations. The year-over-year increase came in at 8.6%.
- The Consumer Price Index (CPI) for the month of October increased by 0.9% on a month-over-month basis, which was above the expectation of a 0.6% increase. The year-over-year increase was 6.2%.
- The University of Michigan Consumer Sentiment Index fell to 66.8 from 71.7, whereas the consensus estimate was an expected increase to 72.4.

INSIGHT: Inflationary pressures increased even more than most economists expected for the month of October. While the Fed remains steadfast on its original notion that inflationary pressures are transitory, as time has gone on it seems as though inflation has begun to broaden. For example, according to the Labor Department everyday items such as eggs, meat and poultry are up +10.5% since last year. The broadening of inflationary pressures may serve as an indirect tax for the consumer moving forward. While the Fed has announced its tapering plans, it is important to reiterate that tapering is not tightening. Therefore, the central bank will continue to inject stimulus over the next eight months, just at a slower pace. The purchasing will end at its current pace around June of 2022, which now aligns with the next rate hike currently implied by the market. Lastly consumer sentiment continues to decline, while these surveys are volatile, they are important as consumer sentiment tends to be self-fulfilling as consumers tailor their spending habits.



A LOOK FORWARD¹

- Retail sales for the month of October will be announced on Tuesday, the expectation is for an increase of 1.4%.
- Housing starts for the month of October will be announced on Wednesday, the estimate is an increase to 1.578 million starts up from the previous month of 1.555 million starts.
- Building permits for the month of October will be released on Wednesday, the survey estimate is an increase to 1.64 million up from the previous month of 1.586 million.

INSIGHT: With the holiday season fast approaching, the month of October is projected to be quite strong in terms of retail sales with an immense surge in Halloween spending. According to National Retail Federation (NRF) Americans projected spending for Halloween 2021 was 10.14 billion compared to 8.05 billion in 2020. Although prices for goods have been surging as indicated by CPI increases, the consumer still looks quite strong. Continuing the theme of rising prices, housing prices continue to surge as low interest rates have been a tailwind for the real estate market. According to Federal Reserve Economic Data (FRED), the median price of homes sold in Q3 was \$404,700 reaching another record high for the year. Median home sales prices have surged 19% since Q3 of 2020 where the median price was \$337,500.

MARKET UPDATE

Market Index Returns as of 11/12/21 ¹	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-0.27%	8.88%	26.21%	34.32%	21.92%	18.89%
NASDAQ	-0.68%	9.84%	23.75%	36.36%	31.28%	26.03%
Dow Jones Industrial Average	-0.56%	6.83%	19.79%	26.50%	14.95%	16.48%
Russell Mid-Cap	0.38%	8.46%	24.91%	37.30%	20.43%	16.53%
Russell 2000 (Small Cap)	-1.00%	9.52%	23.11%	42.58%	18.18%	14.95%
MSCI EAFE (International)	-0.34%	3.78%	12.45%	20.81%	11.91%	10.40%
MSCI Emerging Markets	1.71%	2.68%	1.40%	10.98%	12.50%	11.16%
Bloomberg Barclays US Agg Bond	-0.75%	-0.14%	-1.69%	-0.93%	5.59%	3.35%
Bloomberg Barclays High Yield Corp.	-0.25%	0.19%	4.73%	8.11%	7.45%	6.67%
Bloomberg Barclays Global Agg	-0.82%	-0.37%	-4.42%	-2.03%	4.60%	2.82%



OBSERVATIONS

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -0.27% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index decreased by -1.00% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.34%, underperforming domestic stocks.
- Emerging market stocks were positive on the week with the MSCI EM up +1.71%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.75%.



BY THE NUMBERS

BOND BULL RUN – Just over 40 years ago (9/30/1981), the yield on the 10-year US Treasury note closed at an all-time peak of 15.84%. The yield on the 10-year Treasury note closed on 11/12/21 at 1.583%. The all-time low closing yield on the 10-year Treasury note was 0.501% set on 3/09/20 (source: Treasury Department).

FIRST YEAR IN OFFICE - The first calendar year of the 8-years that Barack Obama was president (2009) produced a S&P 500 gain of +26.5% (total return). The first calendar year of the 4-years that Donald Trump was president (2017) produced a S&P 500 gain of +21.8% (total return). The first calendar year of the Joe Biden presidency has produced a S&P 500 gain of +26.2% YTD (total return) with 7 weeks to go in the year. 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).

NOT BABIES ANYMORE - “Baby Boomers” are the 78 million Americans born between 1946-1964, i.e., the last of the “boomers” will turn 65 years old in 2029. By 2030, an estimated 9.5% of the US civilian labor force will be individuals at least age 65 years old, up from 6.6% today (source: Bureau of Labor Statistics).

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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.

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)

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Building Permits: This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

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.

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¹ Data obtained from Bloomberg as of 11/12/2021