BECKER WEALTH MANAGEMENT, LLC

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The S&P 500 posts third consecutive positive week.

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Market attention last week centered around D.C. fiscal policy negotiations, corporate earnings reports, and a stream of economic reports sprinkled with ample Fed commentary.

The S&P 500 posted a third consecutive positive week with REITs, financials, and healthcare leading the way. Interest rates drifted higher across the curve with the 10yr closing at 1.66%. Industrial metals (copper, aluminum, zinc) took a breather last week, pulling overall commodity markets lower despite another weekly increase in oil to $83.76 and the USD weakened marginally (-0.31%).

Market Anecdotes

- Corporate earnings were a big focus last week. With 23% of the S&P 500 having reported, FactSet reported an 84% beat rate, a 13.4% beat margin, and blended growth of 32.7%. Revenue figures are beating at a 75% clip and a 2.2% beat margin for blended growth of 15.3%.
- The Value Line Index marked new record highs last week on the back of a notable improvement in overall market breadth following the September/early October soft patch.
- One risk to corporate earnings looking forward into 2022 and 2023 is an increased likelihood of operating profit margin compression, given the pandemic related surge to record high margins.
- A subtle reminder of inter-market correlations is that cyclical sectors (energy, financials, industrials) and value-oriented style tend to outperform under rising interest rate environments.
- Bank Credit Analyst produced an interesting research piece highlighting a notable slowdown in mean reversion of value factors in the overall market since the global financial crisis.
- The Bank of England guided markets toward a potential rate hike occurring prior to year-end 2021.
- The Central Bank of Russia (CBR) raised rates again last week, now at +250bps for the year, amidst an inflation backdrop (>4%) well above target, record high Covid cases, and extremely low vaccination rates.
- A reliable reflection of market inflation expectations can be seen in bond yields where 5yr rates have increased exactly 2x that of 30yr rates so far this year - short term inflation pressures being priced in much more firmly than longer term rate markets at this time.
- Beyond the widely followed Fed Funds rate as a barometer of the price of money (liquidity), investors are well served to note the prevailing deeply negative real interest rates across the curve 5yr -1.69%, 7yr -1.30%, 10yr -0.98%, 20yr -0.54%, and 30yr -0.32%.
- With demand outstripping the supply chain's ability to deliver goods, the fix will ultimately be some combination of an increased supply response and reduced demand through higher prices.
- A key reminder is that electric vehicle adoption will very likely drive a sharp increase in US electrical generation after two decades of slow declines.
- New U.S. contracts based on LIBOR will cease on 12/31/21 with the Fed's recommended SOFR still under much scrutiny due to its lack of credit sensitive exposure. Existing contracts have an extension window to 6/30/23 with fallback protocols being legislated this year.

Economic Release Highlights

- October's U.S. flash Purchasing Managers' Index (PMI) surprised on the upside with readings (Consumption, Manufacturing, Service) of 57.3, 59.2, and 58.2.
- October non-U.S. PMIs (Consumption, Manufacturing, Service) were in line to slightly lower than consensus with the Eurozone at 54.3, 58.5, 54.7, Japan at 50.7, 53.0, 50.7, and the U.K. at 56.8, 57.7, 58.0.
- September Industrial Production declined 1.3%, well below consensus call for 0.2% growth.
- October's Housing Market Index moved higher to 80, well ahead of the consensus call for 75.
- Housing Starts (1.555M) and Permits (1.589M) both fell short of consensus calls for September, a cool down from August's big upside surprise.
- Existing Home Sales for September beat expectations on an annual rate (6.290mm vs 6.030mm) and increased notably on Month over Month basis as well (+7.0% vs -2.0% prior month).
- Chinese Q3 GDP rose at a 0.2% annualized pace, 4.9% Year over Year with 2021 growth in the 2.0%-2.5% range, a remarkable slowdown driven by a tangible slowdown in industrial production.

INSIGHT

MARKET ANALYSIS

Equity	Level	1 Wk	1 Mo	3 Mo	YTD	1 Yr
Dow Jones	35677	1.12	4.23	2.92	18.30	28.21
NASDAQ	15090	1.30	1.32	2.92	17.68	32.04
S&P 500	4545	1.66	3.50	4.42	22.39	33.55
Russell 1000 Growth		1.81	2.26	3.83	21.05	32.09
Russell 1000 Value		1.56	4.95	5.12	22.57	36.72
Russell 2000		1.14	3.36	4.44	16.88	41.95
Russell 3000		1.66	3.52	4.44	21.45	34.73
MSCI EAFE		0.63	0.38	2.48	11.60	28.20
MSCI Emg Mkts		0.75	2.60	(1.84)	2.22	16.48
Fixed Income	**Δ Yield**	**1 Wk**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**
US Aggregate	1.83	0.01	0.01	(0.04)	(0.31)	(0.47)
High Yield	4.42	0.02	(0.00)	(0.15)	(0.70)	(0.99)
Municipal	1.80	0.00	0.01	(0.02)	(0.11)	(0.20)

Commodities	Current	9/30/21	6/30/21	3/31/21
Oil (WTI)	82.62	75.22	73.52	59.19
Gold	1772.70	1772.70	1763.20	1691.10

Currencies	Current	9/30/21	6/30/21	3/31/21
USD/Euro ($/€)	1.16	1.16	1.19	1.17
USD/GBP ($/£)	1.38	1.35	1.38	1.38
Yen/USD (¥/$)	114.31	111.50	111.05	110.61

Treasury Rates	Current	9/30/21	6/30/21	3/31/21
3 Month	0.06	0.04	0.05	0.03
2 Year	0.48	0.28	0.25	0.16
5 Year	1.22	0.98	0.87	0.92
10 Year	1.66	1.52	1.45	1.74
30 Year	2.08	2.08	2.06	2.41

Style Returns

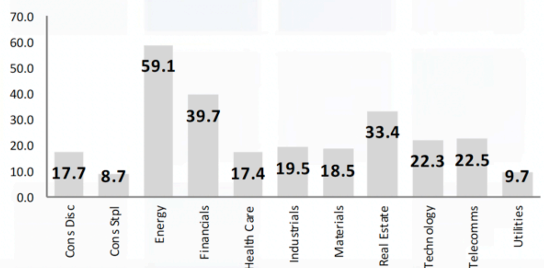
MTD

	V	B	G
L	5.54	5.73	5.91
M	6.30	6.38	6.50
S	4.46	3.97	3.51

S&P 500 Sector Returns

YTD

	V	B	G
L	22.57	21.79	21.05
M	25.69	22.52	16.73
S	28.40	16.88	6.43



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