

# THE CAPITAL MARKETS

Issue 11 | November 2021



The Dow Jones Industrial Average (DJIA) finished October at 35,820 +5.84% for the month, +17.03% year-to-date. The S&P 500 closed October at 4,605, +6.91% for the month, +22.61% so far for the year. The NASDAQ Composite gained +7.27% in October, +20.25% for the year. As measured by the Russell 2000, small-company stocks ended October +4.21% for the month, +16.32% year-to-date. Energy (+9.89%) was the best performing sector in October.

***"Major indexes have been on a winning streak in recent weeks, and some investors say they expect stocks to keep rising through the end of 2021, continuing a rally that has been fueled by low interest rates over the past year."***

*(The Wall Street Journal, Stocks Hit Record as Fed Scales Back Bond Buying, Will Horner, November 3, 2021)*

## MARKETS NOT SPOOKED IN OCTOBER, RALLY TO NEW HIGHS

After seeing the first -5% drop in nearly a year in September, markets rallied in October, driven by stronger than expected corporate earnings for U.S. companies in the third quarter. This is despite supply chain issues, inflation, and the Delta variant of COVID-19. At the time of this writing, with 90% of the S&P 500 reporting, companies have seen +39% profit growth from last year, and 81% of companies reported higher earnings than analysts expected. Many observers were optimistic about how companies were able to weather inflationary and supply chain pressures, a major concern in the September drop, and were also cheered by what appears to be a strong U.S. consumer and persistently high demand for goods and services. The earnings performance has not been uniform; however, with 'stay-at-home' companies such as Peloton and Roku struggling while 'reopening' companies such as Uber and Airbnb saw strong growth. With many large technology companies at stretched valuations after leading the market for years, we are continuing to encourage investors to remain diversified and balanced across each sector and industry of the market. Some sectors perform favorably under certain business conditions and unfavorably in others, but these can change rapidly and are difficult to predict. Being over-concentrated in one industry or sector of the market can lead to sharp volatility if business conditions reverse.

We're also encouraging investors to recognize the context of where we are in the market cycle. With the S&P 500 having recently closed above 4,700, markets are now +39% higher than pre-pandemic record highs and +104% above the March 2020 low. Valuation measures such as forward P/E ratios are as high as they've been since the early 2000s. Eventually, downward pressure will likely be felt in stocks as the economy recovers and the Federal Reserve raises interest rates. A prudent balance between diversified stocks, bonds, and cash, consistent with your situation and time horizon is encouraged.

***"The spate of upbeat earnings reports have helped offset concerns that mounting inflation could hurt corporate profits... 'It's been a really good earnings season, so markets continue to power ahead driven by earnings growth,' said Altaf Kassam, head of investment strategy for State Street Global Advisors in Europe. 'What we're seeing is companies do have the pricing power they need and consumers are spending some of the cash they've saved up over the pandemic.' ... Jason Pride, chief investment officer for private wealth at Glenmede added that investors have grown more comfortable with the prospect of the Federal Reserve tapering its bond purchases, a key element of the central banks pandemic-era stimulus policies. 'We're making progress on chipping away at a lot of the items that were on the wall of worry,' he said."***

*(The Wall Street Journal, Stocks Hover Near Records; Tesla Shares Slip, Caitlin Ostroff, November 8, 2021)*

## BOOMING OCTOBER JOBS NUMBER A RELIEF FOR MARKETS

The economy got a long-awaited strong jobs number in October after a few disappointing months in a row as the Delta variant spiked through the summer. The U.S. economy added 531,000 jobs in October, above expectations for 450,000. A total of 235,000 jobs also revised up the numbers for August and September. The unemployment rate ticked down to 4.6% from 4.8% and is now below the Federal Reserve's estimates for where employment would end up in 2021. In an encouraging sign for many, just under 200,000 women joined the labor force for the month, a reversal of recent trends. Economists are still expecting tightness in the labor force to persist; however, as many workers near retirement age who left the labor force early in the pandemic are deciding to retire early and not return. Low unemployment and tightness in the labor force will support future interest rate increases by the Fed, something that will be closely watched.

## Market Metrics

INDEX OR METRIC	CLOSE AS OF 09/30/2021	CLOSE AS OF 10/31/2021	CHANGE PREVIOUS MONTH END	2021 YTD % CHANGE
<b>Dow Jones Industrial Average</b>	33,843.92	35,819.56	+1,975.64	+17.03%
<b>S&amp;P 500</b>	4,307.54	4,605.38	+297.84	+22.61%
<b>NASDAQ Composite</b>	14,448.58	15,498.39	+1,049.81	+20.25%
<b>RUSSELL 2000</b>	2,204.37	2,297.19	+92.82	+16.32%
<b>Fed Funds Rate</b>	0.00%-0.25%	0.00%-0.25%	UNCHANGED	
<b>2-Year Treasury</b>	0.28%	0.48%	+0.20%	
<b>10-Year Treasury</b>	1.52%	1.55%	+0.03%	
<b>Crude Oil \$ per Barrel</b>	\$75.03	\$83.57	+\$8.54	+72.24%
<b>Gold \$ per Troy oz.</b>	\$1,757.00	\$1,783.90	+\$26.90	-5.87%
<b>UK Point in U.S. \$</b>	\$1.34844US = 1£	\$1.3708US = 1£	\$ WEAKER	+0.28%
<b>Euro in U.S. \$</b>	\$1.1590US = 1€	\$1.1573US = 1€	\$ STRONGER	-5.42%
<b>Canada \$ per U.S. \$</b>	\$1.2668C = \$1.00US	\$1.23955C = \$1.00US	\$ WEAKER	-2.70%
<b>Japan Yen per U.S. \$</b>	111.575¥ = \$1.00US	114.025¥ = \$1.00US	\$ STRONGER	+10.44%