



Weekly Market Commentary November 22, 2021

The Markets

Thinking about the possibilities.

The Standard & Poor's (S&P) 500 Index finished last week slightly higher and has gained about 6 percent during the past 25 days; however, investors have curbed their enthusiasm. The S&P 500 hasn't experienced a move of one percent or more in 25 trading days. That's the longest period without a move of that size in about two years, according to a source cited by Avi Salzman of *Barron's*.

It's possible investors are taking time to think about the current mix of conditions and how the economy and financial markets may be affected. For example:

- **Consumers have said they're concerned about inflation.** The University of Michigan's Consumer Sentiment Index declined in early November on a year-to-year and a month-to-month basis. Survey participants indicated their outlook was negatively affected by inflation concerns, reported Surveys of Consumers Chief Economist Richard Curtin.
- **Retail sales were higher than expected.** There was a difference between what consumers said and what they did. Despite inflation concerns, retail sales were up 1.7 percent from October to November and 16.3 percent year-over-year, reported Jeff Cox of CNBC.
- **Companies were very profitable during the third quarter.** Supply chain issues and inflation were frequently mentioned by companies during earnings calls, but they didn't affect corporate profits. The majority (82 percent) of companies reported higher than expected earnings per share. On average, company profits were up 39 percent year-over-year, which was the strongest growth since 2010, reported John Butters of FactSet.
- **The oil shortage may already be over.** Oil prices dropped last week. A surge of COVID-19 cases in Europe is expected to slow demand just as supplies may increase as some countries begin to release oil from strategic petroleum reserves, reported Avi Salzman of *Barron's*. During the past decade, oil prices have accounted for about 56 percent of the price of a gallon of gasoline, according to the U.S. Energy Information Administration. As oil prices fall, gasoline prices also may move lower.

The performance of major U.S. stock indices was mixed last week, according to Avi Salzman of *Barron's*. The yield on 10-year U.S. Treasuries dropped last week.

We hope you have a wonderful Thanksgiving.

Data as of 11/19/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	0.3%	25.1%	31.2%	20.4%	16.4%	14.7%

Dow Jones Global ex-U.S. Index	-1.0	7.1	14.4	9.7	8.2	5.5
10-year Treasury Note (yield only)	1.5	N/A	0.9	3.1	2.3	2.0
Gold (per ounce)	0.0	-1.4	-0.2	15.1	8.9	0.9
Bloomberg Commodity Index	-0.5	31.1	39.1	6.4	3.8	-3.3

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; Federal Reserve Bank of St. Louis; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

INFRASTRUCTURE AND ECONOMIC GROWTH... The bipartisan Infrastructure Investment and Jobs Act (IIJA) was signed into law last week, and the Build Back Better Act (BBBA) passed the House of Representatives and moved on to the Senate.

For decades economists have tried to determine how spending on infrastructure – roads, bridges, canals, railways, broadband and other projects – contributes to economic growth. There are diverse opinions on the subject. Here are a few:

“Increasing infrastructure investment has significant macroeconomic benefits. Near term it has a large so-called multiplier—the increase in GDP for a dollar increase in investment. It is among the highest compared with other types of federal government spending and tax policy... In a full-employment economy, the GDP multiplier on traditional infrastructure is estimated to be 1.23 one year after the investment, and 1.12 for nontraditional infrastructure. It is higher when the economy is operating below full employment.”

— *Mark Zandi and Bernard Yaros, Jr., Moody's Analytics, July 21, 2021*

“Infrastructure spending by government can boost long-run economic growth by making an economy more productive, in part by improving connectivity – both physical and digital... The point here is that there can be diminishing returns from spending... I view infrastructure investment primarily as a way of boosting the economy's speed limit. Government should focus on high-value projects.”

— *James Pethokoukis, American Enterprise Institute, April 2, 2021*

“A new era of large-scale infrastructure investment would necessarily be less revolutionary than the railways and roads of the past. Yet it might nonetheless prove surprisingly transformative in its direct economic impact, its knock-on effects on private industry—and in the psychological spur it provides to a country that could do with a bit of reinvigoration and renewal.”

— *The Economist, May 1, 2021*

“Finally, even if infrastructure investment had no impact on employment, productivity, and growth, it'd still deliver public goods that should be available to all but that may not be profitable to produce privately (such as rural broadband).”

— *Marcela Escobari, Dhruv Gandhi and Sebastian Strauss, Brookings Institute, March 17, 2021*

The IIJA will invest approximately \$1.2 trillion, including \$550 billion in new spending, on infrastructure projects across the United States. IIJA is expected to increase the deficit by about \$256 billion over the next 10 years, according to the Congressional Budget Office.

Weekly Focus – Think About It

1. Which of the following holds the largest portion of the U.S. national debt?
 - a. China
 - b. Social Security

- c. Military Retirement Fund
- d. Japan
- e. Medicare

Answer: B

Best regards,

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- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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