Weekly Market Recap

October 11, 2021

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	4,391	0.8%	16.9%
Dow Jones Industrial Average	34,746	1.2%	13.5%
NASDAQ	14,580	0.1%	13.1%
Russell 2000® Index	2,233	-0.4%	13.1%
MSCI EAFE Index	2,266	0.1%	5.5%
10-yr Treasury Yield	1.60%	0.1%	0.7%
Oil WTI ($/bbl)	$79.49	4.8%	63.8%
Bonds*	$114.13	-0.8%	-1.9%

Source: Bloomberg, FactSet
*Bonds represented by the iShares U.S. Aggregate Bond ETF

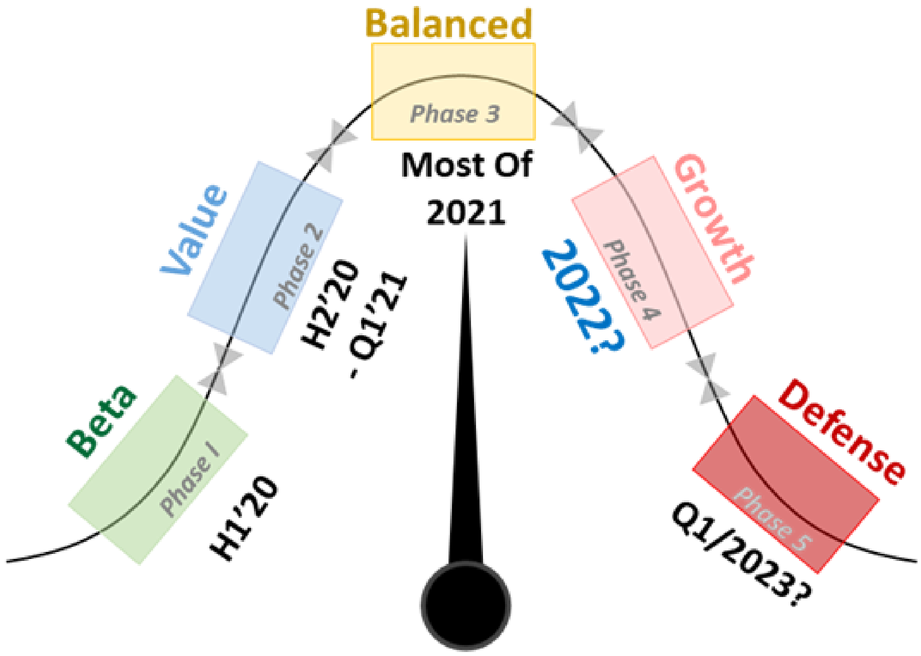
Last Week:

U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) rose +0.8%, as Senate leaders reached a deal to raise the debt ceiling by $480B to $28.9T, a move that is expected to push the debt ceiling debate out to December 3, 2021. September nonfarm payrolls came in well below expectations for the second month in a row, and a global energy crunch contributed to an increase in stagflation fears. The ten-year Treasury yield continued to rise to 1.6%, benefitting value/cyclical equities relative to growth stocks. The dollar gained +0.1%, West Texas Intermediate (WTI) crude oil rose +4.8%, and gold fell slightly.
- Weekly S&P 500 Index Sector Returns:
  - Energy (+5.0%) outperformed, as OPEC maintained its gradual production increase plans.
  - Financials (+2.3%) outperformed, led by trust companies and life insurers as interest rates rose.
  - Industrials (+1.8%) rose, led by railroad stocks.
  - Utilities (+1.5%), and consumer staples (+1.4%) rose, as investors favored more defensive sectors.
  - Materials (+1.0%) outperformed, led by precious metals, global miners, and select chemicals.
  - Consumer discretionary (+0.9%) rose, led by autos, home retailers, and **Amazon** (+0.2%).
  - Technology (+0.3%) underperformed, with weakness from semiconductors, despite strength from Oracle (+5.2%), and **Microsoft** (+2.0%).
  - Communication services (-0.1%) fell, led lower by **Facebook** (-3.8%) amid scrutiny from a whistleblower, though **Alphabet** (+2.4%), Netflix (+3.2%), and Twitter (+2.7%) outperformed.
  - Health care (-0.3%) fell, led lower by Moderna (-10.6%), Bristol-Myers (-3.8%), and HCA (-3.0%).
  - REITs (-0.7%) fell, led lower by data centers and cell towers.

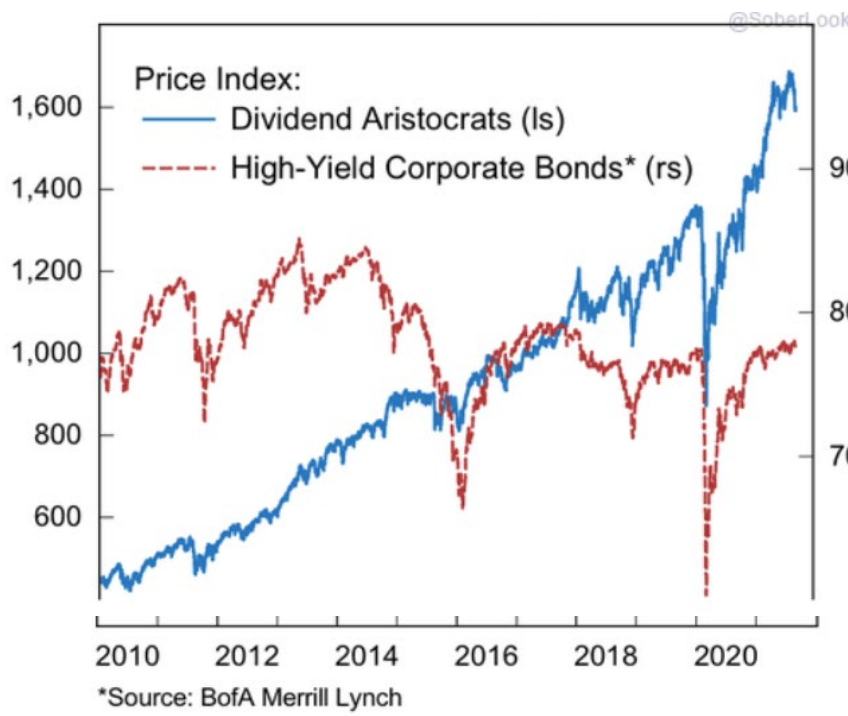
Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 9.

- Cornerstone Macro believes that U.S. equities are in the “balanced” phase of the equity market cycle, and that the S&P 500 Index may enter the “growth” phase in 2022.



Source: Cornerstone Macro

- Since 2010, dividend growth stocks (Dividend Aristocrats Index) have outperformed high-yield corporate bonds, as the price appreciated at a higher rate.



The left and right axes reflect the “prices” of the underlying indices that represent Dividend Aristocrats Index and the High-yield Corporates Bond Index. Source: The Daily Shot

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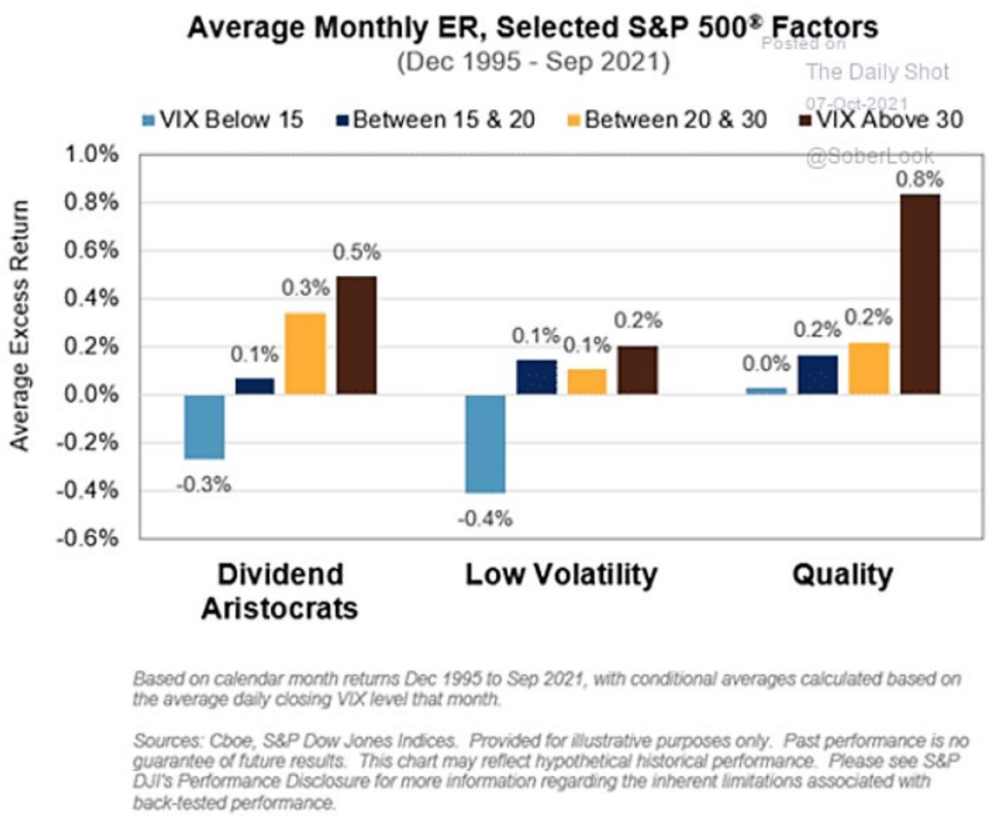
- Equity market returns can be robust even during high tax rates experienced during the 1950s. Conversely, U.S. stocks can generate weak returns despite low tax rates like the 2000s after the tech bubble implosion.

Average – Tax rates, GDP, and S&P 500 return by decade

Decades	Corporate top tax rate	Individual top tax rate	Capital gains top tax rate	Dividend top tax rate	Real GDP growth	S&P 500 10-year annualized total return	
1950s	50.9%	90.5%	25.0%	91.0%	4.2%	19.3%	Strong market returns, despite high tax rates
1960s	50.8%	80.3%	25.4%	80.3%	4.5%	7.8%	
1970s	47.9%	70.2%	36.0%	70.2%	3.2%	5.9%	
1980s	43.0%	48.4%	23.6%	48.4%	3.1%	17.6%	
1990s	34.7%	36.7%	26.0%	37.0%	3.2%	18.2%	
2000s	35.0%	36.2%	16.8%	23.4%	1.9%	-1.0%	Weak market returns, despite low tax rates
2010s	32.2%	37.7%	21.2%	21.2%	2.3%	13.6%	
Average	**42.1%**	**57.1%**	**24.9%**	**53.1%**	**3.2%**	**11.6%**	
Current	**21.0%**	**37.0%**	**23.8%**	**23.8%**	**-**	**-**	

Source: Truist IAG, Tax Policy Center, Strategas, Haver, Morningstar.

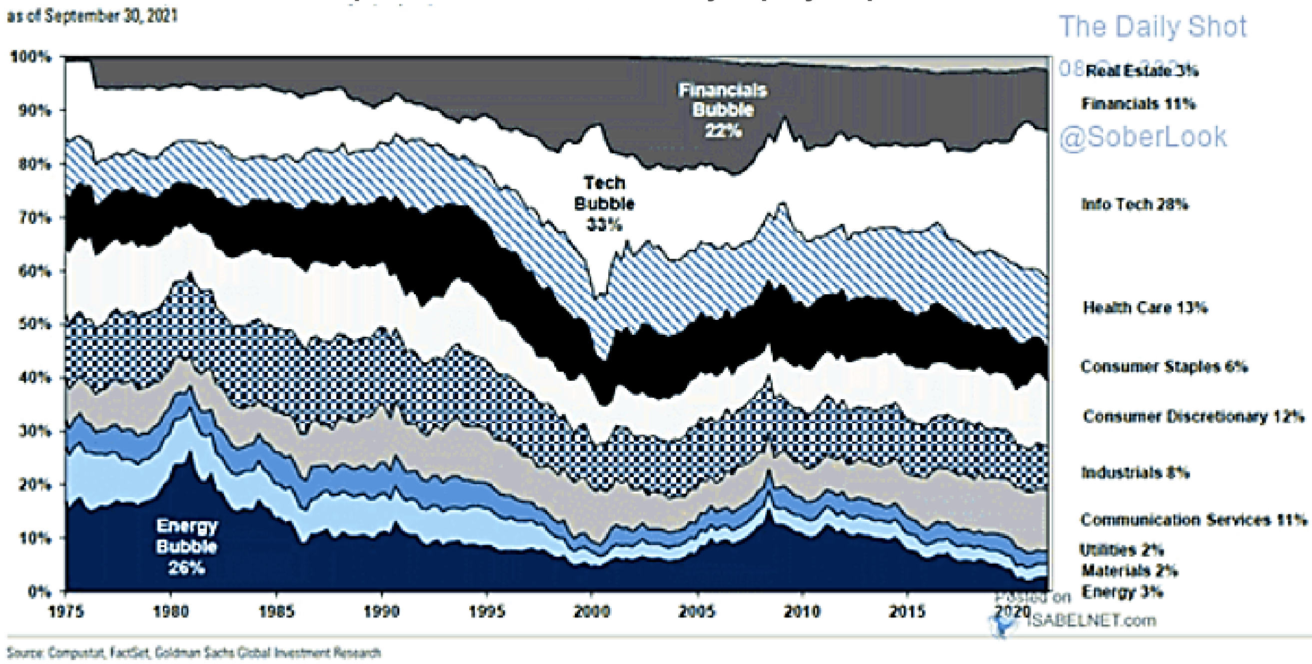
- Equities with quality characteristics historically outperformed when the VIX (volatility index) is at 15 or greater.



Source: The Daily Shot

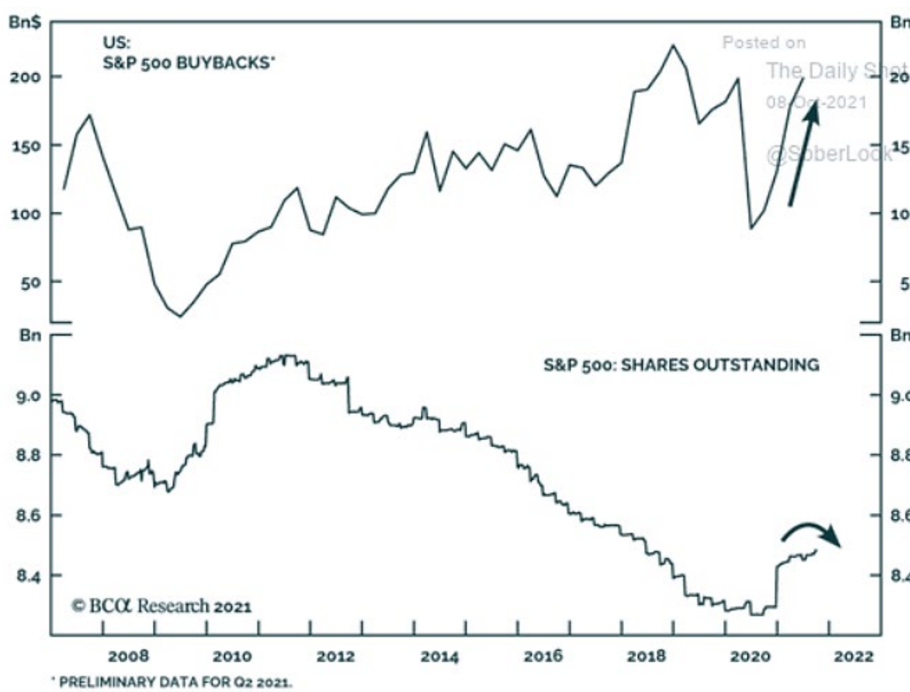
- Since 1975, the information technology, communication services, and health care sectors grew, while the energy, and materials sectors shrunk.

Sector Composition of the S&P 500 by Equity Capitalization, 1975-2021



As of 09.30.2021. Source: The Daily Shot

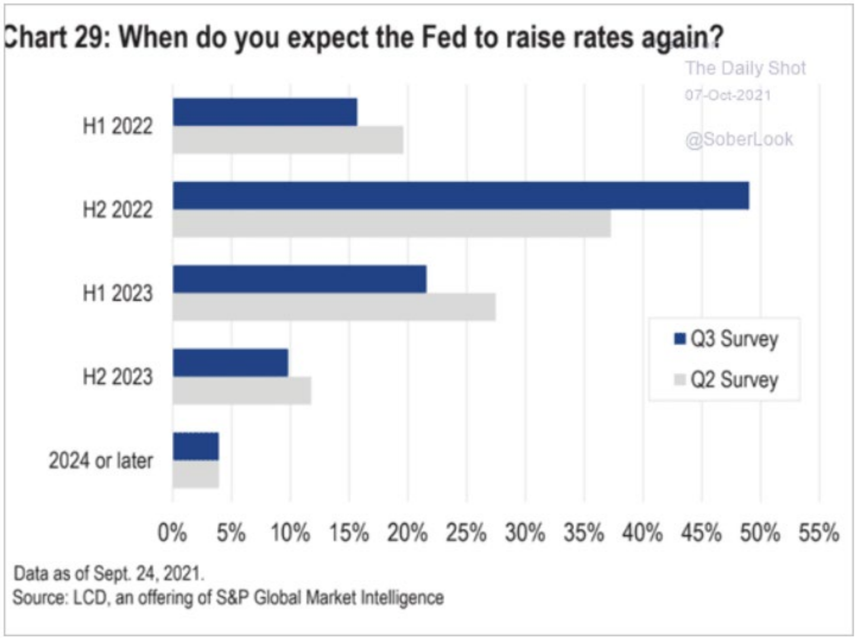
- Stock buybacks are rebounding in 2021, becoming a tailwind for U.S. equities.



Source: The Daily Shot

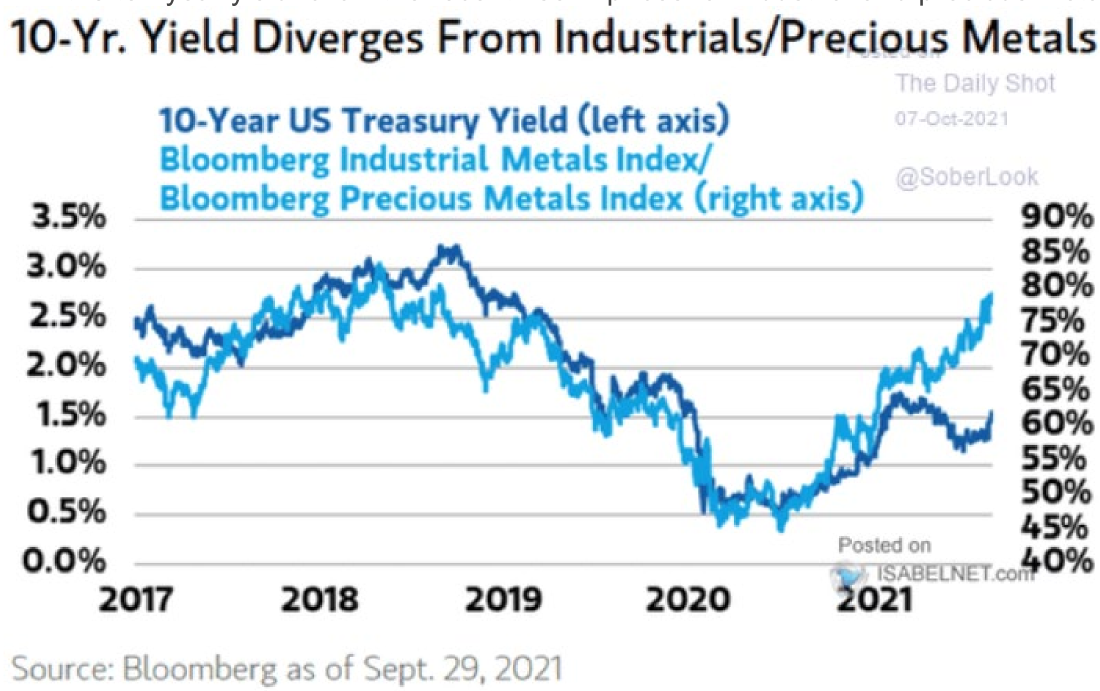
Fixed Income Markets

- Nearly 50% of credit investors surveyed by S&P Global expect the Fed to raise rates in the second half of 2022, with a little over 20% expecting a rate lift off to occur in the first half of 2023.



Source: FactSet

- Historically, industrials and precious metals prices are highly correlated to the U.S. ten-year Treasury yield. Will the ten-year yield follow the recent rise in prices for industrial and precious metals?



Source: The Daily Shot

U.S. Economic and Political News

- Senate leaders reached a deal to raise the debt ceiling by $480B to $28.9T, which is expected to push the debt ceiling deadline out to December 3 of this year.
- President Biden proposed a compromise in the $1.9T-$2.2T range, which Senator Manchin said he would not rule out. Progressives also conceded they would need to reduce the initial $3.5T figure. However, as the week progressed, there seemed to be some renewed focus on the complicated path for additional fiscal stimulus, given the many choices regarding what programs should be reduced and how.
- Nonfarm payrolls increased only 194K in September, which was well below consensus expectations for a ~500K increase, and which followed a big miss in August. However, there was a net upward revision to the two prior months of 169K, private payrolls increased 317K and the unemployment rate fell to 4.8% from 5.2% (though the participation rate did decline).
  - Economists also highlighted the better takeaways from the household survey, where employment increased by 526K jobs.
  - While the Delta variant spread remained a headwind, there was a notable improvement in COVID-19 trends, according to Bloomberg.
  - Stronger wage growth also underpinned the tight labor market narrative, and investors continued to flag supply-side issues as the biggest headwind facing the labor market recovery.
- Federal Reserve Chair Powell said after the September Federal Open Market Committee (FOMC) meeting that employment growth "all but met" the test for substantial further progress.
  - This week brought more articles about whether Powell will be renominated as Fed Chair, with some of the focus on the latest criticism from Senator Warren. However, some parties believe this reappointment drama is largely overblown, as those same articles also highlighted White House confidence in Powell.
- According to The Market Ear, there were more than 4K articles on the Bloomberg Terminal mentioning the word "stagflation" in September, more than twice as many as in August, which itself represented a record high going back to 2012.
  - European gas prices ramped almost five-fold thus far this year, even with some of the reprieve this week that stemmed from Russia's pledge to boost supplies to the region (which, according to CNBC, generated some skepticism among analysts).

International Markets and News

- The Chinese stock market (Shanghai Composite) rose 0.7% this week, as investors focused on positive economic data, including the September PMI increase to 53.4 from 46.7 in August.
    - On Friday, Beijing ordered an immediate increase in coal output to fight a nationwide power crunch, which impacted several industries.
    - Fantasia Holdings, a small property developer, said that it failed to pay a USD 206M debt shortly after a subsidiary missed paying renminbi (RMB) 700M loan on time.
    - China's Evergrande missed a payment on a debt guaranteed by the company after already missing two coupon payments in the past two weeks.
    - The top 100 real estate companies reported that September property sales declined 36% year-over-year.
- European markets (STOXX 600 Index) rose 1.0%, as financials performed well. This was likely due to rising expectations of higher interest rates and a steepening yield curve, which would benefit earnings for banks.
    - Wholesale natural gas prices surged to record levels in Europe, as the global fuel shortage spiked, threatening to increase costs significantly for households and to reduce industrial production.
    - The European Central Bank (ECB) continues to believe the recent ramp in inflation is temporary, but acknowledged that the risks to the outlook "were widely regarded as being tilted to the upside," according to the minutes from the ECB's September meeting.
- Japanese equities (Nikkei 225 Index) fell -2.5%, as concerns related to global inflation, oil prices, and the Chinese property market weighed on investor sentiment.
    - Another potential investor concern stemmed from prospective policies from newly inaugurated Prime Minister Fumio Kishida, as he indicated that he might support a capital gains tax increase.
    - Kishida said he will continue to push for Japan to emerge from deflation, and identified the "three arrows" from economic plans developed under former Prime Minister Shinzo Abe: which were aggressive monetary policy, fiscal consolidation, and sustained structural reform.

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This Week:

- Corporate earnings reports will decrease this week, with notable earnings including, but not limited to: JPMorgan Chase, **UnitedHealth**, Bank of America, Wells Fargo, Morgan Stanley, **Citigroup**, BlackRock, US Bancorp, Fast Retailing, Wipro, HCL Technologies, Walgreens Boots Alliance, First Republic Bank, Delta Air Lines, and Domino's Pizza.
- U.S. Economic data:
  - Monday: Limited economic data;
  - Tuesday: NFIB Small Business Index, JOLTS;
  - Wednesday: MBA Mortgage Purchase Applications, CPI ex Food, Energy, CPI;
  - Thursday: PPI ex Food, Energy, PPI, Manufacturing Sales;
  - Friday: Empire Manufacturing, Export Prices, Import Prices, Retail Sales ex Autos, Retail Sales, Wholesale Inventories, Wholesale Trade, Business Inventories, Michigan Consumer Sentiment (Preliminary).

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
Executive Director

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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

Technical Terms: **S&P 500 Dividend Aristocrats**: also known as the Dividend Aristocrats, is an exclusive index within the Standard and Poor's 500 that was launched in 2005. It contains companies that increased their dividend payouts for over 25 consecutive years. It is a high-performance index and consists of approximately 60 large-cap stocks over a wide variety of sectors and is often considered an attractive index to invest in, as it includes many stable growth-oriented stocks. (Technical definitions are sourced from Corporate Finance Institute.)

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