Midwest Financial

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The SITREP for the week ending 11/12/2021

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SIT REP: n. a report on the current situation; a military abbreviation; from "situation report".

In the markets:

U.S. Markets: **U.S. stocks retreated from record highs**, as the highest inflation readings in three decades weighed on sentiment. The Dow Jones Industrial Average declined 228 points to finish the week at 36,100—a decline of -0.6%. The technology-heavy NASDAQ Composite retreated -0.7% to 15,861. **By market cap, the large cap S&P 500 pulled back -0.3%, while the mid cap S&P 400 ticked down -0.1% and the small cap Russell 2000 closed down -1.0%.**

International Markets: **Major international markets finished the week predominantly in the green**. Canada's TSX rose 1.5%, while the United Kingdom's FTSE 100 gained 0.6%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 0.7% and 0.2%, respectively. In Asia, China's Shanghai Composite gained 1.4%. Japan's Nikkei finished the week flat. **As grouped by Morgan Stanley Capital International, developed markets retreated -0.5% and Emerging markets finished the week up 2.1%.**

Commodities: **Precious and base metals moved higher as investors reacted to news on the inflation front.** Gold gained $51.70 to $1,868.50 per ounce, a gain of 2.9%. Silver finished the week up $1.19 to $25.35 per ounce, an increase of 4.9%. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished up 2.5%. **Energy, however, pulled back for a third consecutive week.** West Texas Intermediate crude oil declined -0.6% to $80.79 per barrel.

U.S. Economic News: **The number of Americans filing first-time unemployment benefits slid to a new low for the pandemic era**, as businesses continued to retain the workers they have and focus on finding more. The Labor Department reported new filings for jobless benefits dropped by 4,000 to 267,000 last week. Economists had expected new claims would total 265,000. Claims fell the most in California, Washington, and Louisiana. States with large numbers of autoworkers, such as Kentucky, Ohio, and Tennessee, had the most number of new filings as automakers shut down some assembly lines due to parts shortages. Meanwhile, **continuing claims, which counts the number of people already collecting benefits, rose by 59,000 to 2.16 million. Despite the rise that number remains near its pandemic low.**

A record number of Americans quit their jobs in September in the midst of the worst labor shortage in decades. The Labor Department reported 4.4 million people quit their jobs in September—a third consecutive record high. The latest reading brings the so-called 'quit rate' to 3% of the labor force—the highest level since the government began tracking it in 2000. Before the pandemic, the quit rate was fairly steady at about 2.3%. The leisure and hospitality sectors, which put workers directly in contact with customers, were the hardest hit. Nick Bunker, director of economic research at Indeed Hiring wrote, "Quits are up the most in sectors where most work is in-person or relatively low paying." **Including layoffs, retirements and deaths, some 6.2 million left their jobs in September in what has been dubbed "The Great Resignation."**

Optimism among the nation's small business owners hit a seven-month low as they continued to struggle to find both people willing to work and supplies. The National Federation of Independent Business (NFIB) reported its small-business confidence index fell 0.9 points to 98.2 last month. It was the lowest reading since March. Businesses are facing one of the worst labor shortages since World War II. More than 4 million people left the workforce during the pandemic and haven't returned. Furthermore, businesses are forced to pay sharply higher prices for key supplies—if they can find them at all. **Business owners don't expect their problems to be as "transitory" as the Federal Reserve believes. The measure of how small-business owners think the economy will perform over the next six months sank to its lowest level in almost nine years.**

The cost of living surged again last month as Americans paid more for food, gas, and just about everything else. The government reported the consumer price index (CPI) jumped 0.9% last month—0.3% higher than economists had expected. Over the past year, inflation rose to 6.2% from 5.4% the prior month. **That reading of the CPI is more than *triple* the Federal Reserve's intended 2% target, and the highest reading since November of 1990.** Another closely watched measure of inflation that omits the food and energy categories rose 0.6% last month. The so-called core rate climbed to 4.6% from 4% and also sits at a 30-year peak. Philadelphia Federal Reserve President Patrick Harker stated this week he was "acutely aware this period of rising prices is painful for many Americans."

Prices at the producer and wholesale level surged again last month offering little hope that the biggest increase in inflation will wane anytime soon. The Bureau of Labor Statistics reported its Producer Price Index (PPI) rose 0.6% last month—in line with expectations. **The wholesale cost of gasoline and some food categories both rose sharply to account for a large part of the increase.** Americans are paying a lot more for fuel now than they were a year ago. The average cost of a gallon of gas nationwide is $3.38, up 54% from the same time last year. **Since January, wholesale prices have climbed at least 0.5% every single month—before the pandemic they rose an average of 0.1% per month.** The pace of wholesale inflation over the past 12 months remained steady at the elevated level of 8.6%. That's the highest since the index was reconfigured in 2009, and likely one of the highest since the early 1980's. The core rate, which strips out the food and energy categories, rose 0.4% last month. The increase in the core rate over the past 12 months moved up 0.3% to 6.2%.

International Economic News: At a policy announcement last month, **the Bank of Canada became the first central bank from a G-7 country to exit its quantitative easing and signaled it could begin hiking interest rates as early as April of next year—three months earlier than previously anticipated**. The BoC had planned to let activity in the current cycle run hotter than usual in an effort to boost employment, but its focus has now pivoted to moving inflation closer to its 2% target, analysts say. **Inflation in Canada was at 4.4% in September—its highest level in nearly two decades.** Money markets are signaling an expectation of a hike as soon as March and five in total next year.

Across the Atlantic, **the United Kingdom's economic recovery slowed sharply over the summer as Britain was hit by rising coronavirus infection rates, a third Covid-19 lockdown, and supply shortages.** Figures from the Office for National Statistics show that national output expanded by 1.3% in the three months to September. Economists had expected an expansion of 1.5%. The reading remained 2.1% lower than it was at the end of 2019 right before the onset of the coronavirus pandemic. The third-quarter performance followed expansion of 5.5% in the three months to June--a period when restrictions on activity were being lifted. **Of the three main parts of the economy, services recorded the fastest growth, up 1.6%. A 0.3% decline in manufacturing output restricted growth in the broader production sector to 0.8%, while construction recorded a 1.5% fall.**

On Europe's mainland, **the German government's panel of independent economic advisers cut its 2021 growth prediction for Europe's biggest economy**, the latest in a series of downgrades by forecasters. The German Council of Economic Experts cut its growth forecast for this year to 2.7%--down 0.4% from its earlier prediction in March. **Higher energy prices and bottlenecks in supplies of raw materials and parts were responsible for the downgrade**. However, on a positive note, it expected gross domestic product would expand by 4.6% in 2022, with the economy likely to return to its pre-pandemic size in next year's first quarter.

In Asia, **a leading emerging markets analyst warned China's "zero-Covid" strategy will cause its economy to slow down further.** Hao Zhou, senior emerging markets economist at Commerzbank stated, "If China continues to stick to its zero-Covid strategy, I think domestic demand will be under pressure." The zero-Covid strategy typically involves strict lockdowns (even after the detection of just one or a handful of cases), extensive testing, heavily controlled or closed borders, as well as robust contact tracing systems and quarantine mandates. **Many countries in Asia initially took an aggressive approach and tried to eliminate Covid within their borders, but most have gradually abandoned that strategy** as lockdowns became less effective in controlling the virus. China's economic growth has slowed in the wake of an energy crisis and concerns over real estate giant Evergrande and its debt burden.

Japan's government cut its view on economic conditions for the first time in more than two years after a key indicator – current economic conditions - extended its decline in September to its lowest level in more than a year. Japan's Cabinet Office reported its index showing current economic conditions, compiled from data including factory output, employment and retail sales, slipped a preliminary 3.8 points from the previous month to 87.5—its biggest decline since May 2020. **The government lowered its assessment of the index to "weakening" from "improving"** in its first downgrade since August 2019. A government official stated a slowdown in the shipment of vehicles and their components and factory output contributed to the significant decline.

Finally: Apple is a money-making machine of astounding proportions. In the time it took you to read that sentence, Apple brought in $20k. And by the end of the day, Apple will have made a billion dollars in revenue – just today! Thehustle.co produced the graphic below showing the astounding rate at which Apple racks up sales revenue. It is breathtaking. (Data from Apple annual report, graphic from thehustle.co)

(**Sources:** All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)

The SITREP | Glossary of Terms

Index, Exchange and Investment Definitions:

- **Barclays Aggregate Index -** An unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays U.S. Treasury Bond Index, the Barclays U.S. Government-Related Bond Index, the Barclays U.S. Corporate Bond Index, and the Barclays U.S. Securitized Bond Index.
- **Barclays US Corporate Index** is a broad-based benchmark that measures the investment grade US dollar- denominated, fixed-rate, taxable corporate bond market. It includes USD denominated securities issued by US and non-US industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
- **Barclays Aggregate Bond Index** (formerly known as the Lehman Brothers Aggregate Bond Index), an unmanaged, market capitalization weighted index of government and corporate bonds, mortgage-backed securities, and other asset-backed securities, with interest reinvested. This index commonly serves as a proxy for the U.S. bond market.
- **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.
- **CBOE Volatility Index** shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."
- **The DJ Equity All REIT Total Return Index** measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- **The S&P 500** is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.
- **The Dow Jones Industrial Average** is a price-weighted index of 30 actively traded blue-chip stocks.
- **The NASDAQ Composite Index** is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe: market-cap weighted index composed of 2,000 U.S. small-cap common stocks.
- **The CAC-40 Index** is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse.
- **The ISEQ Overall Index** is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies.
- **The FTSE MIB** (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange.
- **The IBEX 35** is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange.
- **The DAX 30** is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.
- **The FTSE 100 Index** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
- **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.
- **The RTS Index** (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange.
- **The SSE Composite Index** is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

- **The Shanghai Composite Index** tracks the biggest and most important public companies in China.
- **The Hang Seng Index** is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong.
- **The IDX Composite** or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX).
- **The Korea Composite Stock Price Index** or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange.
- **The Asia Dow** measures the Asia equity markets by tracking 30 leading blue-chip companies in the region.
- **The S&P/ASX 200 Index** is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's.
- **Nikkei 225 (**Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE).
- **The Nikkei Average** is the most watched index of Asian stocks.
- **The BSE SENSEX** (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).
- **Karachi Stock Exchange 100 Index** (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period.
- **The Dow Jones Americas Index** measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region.
- **The Mexican IPC Index** (Indices de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange.
- **The Bovespa Index** is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.
- **The S&P/TSX Composite Index** is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization.
- **The Global Dow** is an equally weighted index of 150 widely traded blue-chip common stocks worldwide.

- **The MSCI World Index** is a free-float weighted equity index that includes developed world markets and does not include emerging markets.

- **The MSCI EAFE Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.
- **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies.
- **The US Dollar Index** measures the performance of the U.S. dollar against a basket of six currencies.
- **Corporate BBB 1-3-year Index -** as represented by the BBB rated component of the BofA Merrill Lynch 1-3 Year U.S. Corporate Index, comprised of U.S. dollar-denominated investment-grade corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.
- **High Yield Index -** as represented by the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index, a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment–in-kind securities.
- **10 -Year US Treasury Index -** This index represents a theoretical rolling 10-year U.S. Treasury note, renewed semiannually to a new higher coupon based on the indicated rise in rates.

Index Disclosures:

"An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees/costs/expenses, and cannot be invested-in directly. Past performance is not a guarantee of future results."

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* refers to Market Conditions Midwest Financial monitors each day. For more information you can contact Midwest Financial.

"Good risk managers are unapologetic about taking actions to avoid or mitigate risk - even if the actions don't always pay off - because they know that in the long run, their investors will survive the trip when other investors are left in smoking ruins at the side of the road to retirement."