



Midwest Financial
Brian Johnson, RFC
706 Montana Street
Glidden, IA 51443
www.midwestfinancial.us
brian@midwestfinancial.us
712-659-2156



The SITREP for the week ending 11/19/2021

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

In the markets:

U.S. Markets: The major U.S. indexes finished the week mixed as investors weighed strong economic data with concerns over rising inflation, ongoing supply shortages, and a sporadic rise in coronavirus infections in some areas of the country. The Dow Jones Industrial Average shed 498 points finishing the week at 35,602 - a decline of -1.4%. In contrast, the technology-heavy NASDAQ Composite gained 1.2%, closing at 16,057. **By market cap, the large cap S&P 500 managed a 0.3% gain for the week, while the mid cap S&P 400 retreated -1.1% and the small cap Russell 2000 declined -2.8%.**

International Markets: Major international markets were also mixed last week. Canada's TSX and the United Kingdom's FTSE 100 declined -1.0% and -1.7%, respectively, while France's CAC 40 rose 0.3% and Germany's DAX gained 0.4%. In Asia, China's Shanghai Composite added 0.6%. Japan's Nikkei finished the week up 0.5%. **As grouped by Morgan Stanley Capital International, developed markets finished the week down -1.3%. Emerging markets fell a steeper -2.1%.**

Commodities: Commodities finished the week predominantly to the downside. **Gold declined -0.9%** to \$1851.60 per ounce, while **Silver fell -2.2%** to \$24.78. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished the week down -0.9%. **West Texas Intermediate crude oil plunged -6.0%** to \$75.94 per barrel as Austria's announcement of a new lockdown starting next week sent transportation and energy stocks reeling.

U.S. Economic News: The number of Americans filing first-time unemployment benefits fell for a seventh consecutive week and is nearing pre-pandemic lows amid the biggest labor shortage in decades. The Labor Department reported new filings for initial benefits slipped by 1,000 to 268,000 last week. Economists had estimated new claims would total 260,000. New jobless claims fell the most last week in Kentucky, Michigan, Tennessee and Ohio, all states with large auto-producing industries. Carmakers had recently idled some plants due to parts shortages. The only state to post a big increase in jobless claims was California. **Meanwhile, "continuing claims", which counts the number of people already receiving benefits declined by 129,000 to 2.08 million. This number is also at a pandemic low.**

Homebuilders grew more confident this month, as demand for housing remained strong despite continued pressures from supply and labor shortages. The National Association of Home Builders (NAHB) reported its monthly confidence index rose three points to 83 in November. It was the highest reading since May. In the report, **the sub-indexes that measure current sales conditions and traffic of prospective buyers each rose three points** as well. The gauge that assesses sales expectations for the next six months remained unchanged from the previous month. Regionally, **every part of the country experienced a monthly increase in confidence among home builders except the Northeast**, where confidence waned. In addition to shortages of building supplies and skilled labor, **the NAHB noted another constraining factor in home-builders' ability to construct new houses—a shortage of available lots.** Robert Dietz, chief economist at the National Association of Home Builders, wrote in its report, "Lot availability is at multi-decade lows and the construction industry currently has more than 330,000 open positions. Policymakers need to focus on resolving these issues to help builders produce more housing to meet strong market demand."

Sales at the nation's retailers rose at their fastest pace in seven months in October, but analysts noted all was not well under the surface. The Census Bureau reported sales surged 1.7% last month—their biggest gain since March when the government rolled out billions in stimulus money. Economists had expected a reading of 1.5%. **However, the problem is at least half of the increase in retail sales totals was attributed to inflation.** A separate government survey last week showed consumer prices rose almost 1% in October amid the biggest

surge in inflation in 31 years. In the details of the report, sales rose 4% at internet retailers, 3.8% at electronics and appliance stores, and 2.2% at department stores. Increases in these sectors show Americans still have plenty of appetite for most consumer goods even though they are paying higher prices.

U.S. industrial output surged last month, recovering the previous month's entire decline. The Federal Reserve reported industrial production rose 1.6% in October. Economists had expected just a 0.8% gain. Furthermore, **capacity utilization rebounded to 76.4% from 75.2% the prior month.** The capacity utilization rate reflects the limits to operating the nation's factories, mines and utilities. Economists had forecast a 75.8% rate. The main reason for the increase was a significant rebound in car manufacturing and the recovery from the effects of Hurricane Ida which hit the U.S. Gulf Coast in late August. **Motor vehicles and parts output surged 11% after a 7.1% decline in the prior month.**

Manufacturing activity in the New York region rebounded this month according to the latest data from the New York Federal Reserve. The NY Fed reported its Empire State manufacturing index jumped 11.1 points to 30.9 this month. **The reading far exceeded economists' expectations** of a reading of 22. In the report, the new-orders index rose 4.5 points to 28.8, while the shipments index soared 19.3 points to 28.2. On the inflation front, the prices-received index hit a record high, while the prices-paid reading was just off its record high. However, respondents are increasingly worried about the next six months. The expectation index fell 15.1 points to 36.9. Economists and investors use the Empire State index as an early gauge of the strength of the national ISM November factory index, to be released early next month.

International Economic News: The Bank of Canada stated it will not raise its benchmark interest rate until the slack in the country's economy is absorbed. Governor Tiff Macklem made the comments in an op-ed for the Financial Times newspaper. Furthermore, Macklem also noted that while inflation risks have risen, **the central bank continues to view the recent dynamics as transitory.** He added that the central bank's policy framework--a flexible inflation target focused on the 2% midpoint of a 1-3% control range--means Canadians can be confident that inflation will be kept under control while supporting a full recovery, said Macklem. **Canada's inflation rate rose to 4.4% in September and is expected to hit 4.7% in October.**

Andrew Bailey, governor of the Bank of England, has told members of parliament that he's "very uneasy" about the United Kingdom's inflation situation, in comments that suggests he could vote for an interest rate rise soon. Testifying to the Treasury Committee, Bailey said this month's vote to leave interest rates on hold was a "very close call." **The Office of National Statistics reported 160,000 new jobs created in October, despite the end of the UK's wage subsidy program.** The data reinforces the case for the Bank of England to raise interest rates as early as next month to rein in inflation.

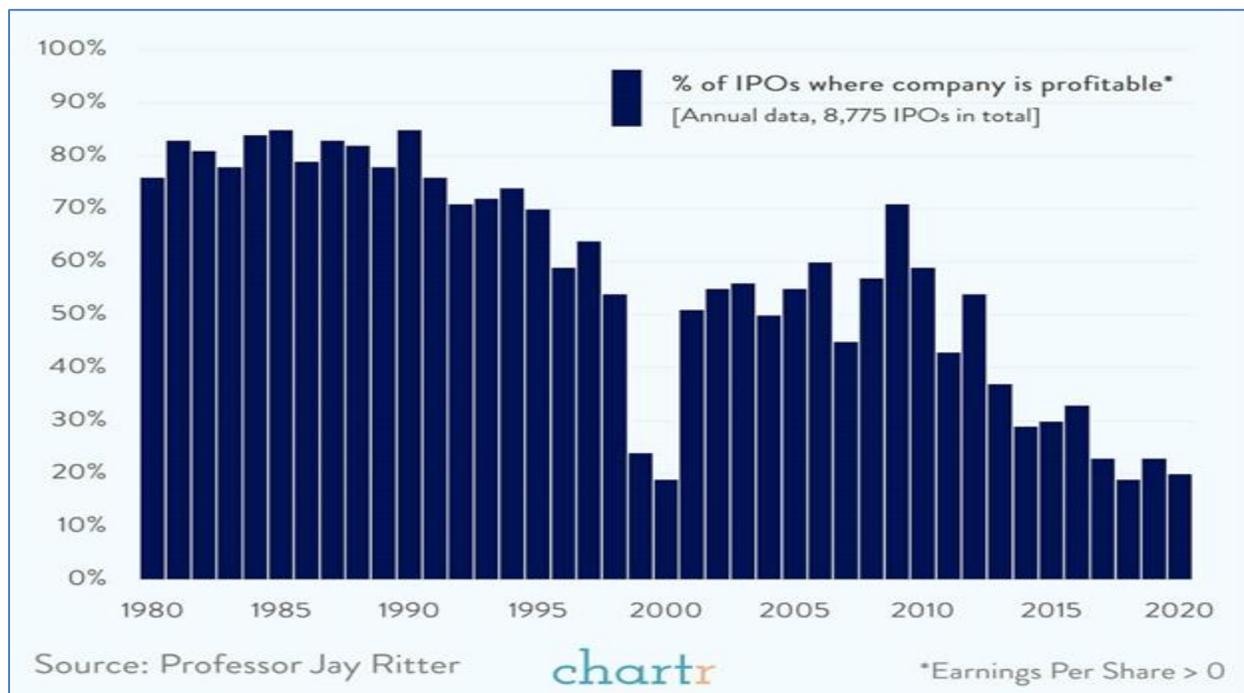
On Europe's mainland, **French Industry Minister Agnès Pannier-Runacher said that the government was "very cautiously" monitoring Europe's latest wave of Covid-19 infections,** urging citizens to get vaccinated to ensure stricter measures won't be necessary. The World Health Organization has once again recognized **Europe as "at the epicenter" of the coronavirus pandemic, with the region accounting for the vast majority of new cases and deaths in recent weeks.** France recorded more than 20,000 new daily infections as the latest wave of the epidemic picks up speed. Around 69% of the French population is fully vaccinated against the coronavirus. That's slightly higher than the vaccination rate in Austria and Germany, although significantly behind countries like Spain and Portugal.

Austria will become the first country in Western Europe to reimpose a full COVID-19 lockdown, it said on Friday and neighboring Germany warned it may follow suit. A fourth wave of infections has plunged Germany, Europe's largest economy, into a national emergency, Health Minister Jens Spahn said. Austrian Chancellor Alexander Schallenberg stated that nation's lockdown would start on Monday of next week and **all civilians would be required to be vaccinated before February 1st.** Asked if Germany could rule out an Austrian-style full lockdown, Spahn said: "We are now in a situation--even if this produces a news alert--where we can't rule anything out. We are in a national emergency," he said.

In Asia, **China's economic growth is likely to deteriorate further next year as rising risks of fallout from the property market and Beijing's zero-tolerance approach to the coronavirus could weigh on its economy**, analysts say. Recent outbreaks of the Delta variant have prompted travel restrictions and lockdowns in some cities in China, while Beijing's tough stance on deleveraging the property sector, which contributes 14% to China's gross domestic product (GDP), will further slow growth in the coming months, according to Andrew Fennell, senior director at Fitch Ratings. **China's economy grew by 4.9% in the third quarter of 2021 compared with a year earlier, down from the 7.9% growth seen in the second quarter.** Fitch has also lowered its 2022 GDP growth forecast to 5.2% from 5.5%.

Japan's government agreed to spend \$490 billion on stimulus measures, a move by its prime minister to boost an economy battered by coronavirus restrictions and by a supply chain crunch that has affected the country's largest manufacturers. The stimulus package, Japan's largest to date, accounts for about 10% of the country's economic output, officials said. "I want to bring Japan's economy, which has been severely damaged, onto a trajectory of recovery," Prime Minister Fumio Kishida said. The package includes aid to struggling businesses and hospitals, money for strengthening semiconductor supply chains, and programs to encourage domestic tourism and investment in a nationwide university endowment fund.

Finally: To paraphrase the famous line from the Humphrey Bogart movie "The Treasure of the Sierra Madre", recent IPOs seem to be saying "Profits? We don't need no stinkin' profits!" Rivian Automotive, a maker of electric "adventure vehicles" based in Irvine California recently went public with an eye-watering first-day valuation of \$105 billion. This is a higher valuation than both Ford, whose valuation is \$78 billion, and GM at \$90 billion. There's just one slight problem - Rivian does not make a profit. In fact, according to Professor Jay Ritter at the University of Florida's Warrington College of Business, in the last year only about 20% of IPO's were by companies that actually made money. This is a complete reversal since the 80's, when 80% of IPOs were profitable. And it is reminiscent of 2000, when a similarly tiny percentage of IPOs were profitable - right before the dot.com crash. (Data: Professor Ritter, Chart: chartr.co)



(Sources: All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zeroedge.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.”

The views expressed represent the opinion of Brian Johnson, owner of Midwest Financial an SEC registered investment advisor. Information is for illustrative purposes only and does not constitute investment, tax or legal advice. Stated information is derived from proprietary and nonproprietary sources that have not been independently verified for accuracy or completeness. While Midwest Financial believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations estimates, projections and other forward-looking statements are based on available information and Midwest Financial's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or limited in such statements. Investing in equity securities involves risks, including the potential loss of principal while equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Past performance is not indicative of future results.

Midwest Financial does not accept any liability for the use of the information discussed. Consult with a qualified financial, legal, or tax professional prior to taking any action.

This presentation is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Midwest Financial is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Midwest Financial and its representatives are properly licensed or exempt for licensure. Past performance is not guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Midwest Financial unless a client service agreement is in place.



Brian Johnson, RFC
Managing Member
712-659-2156
706 Montana St.
Glidden, IA 51443

* 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."