



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 11/26/2021

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

In the markets:

U.S. Markets: U.S. stocks declined in the holiday-shortened week as news about the emergence of a new, potentially more contagious, coronavirus variant in South Africa triggered a sharp sell-off in equities around the world. The Dow Jones Industrial Average declined 703 points for the week closing at 34,899, a decline of -2.0%. The technology-heavy NASDAQ Composite retreated -3.5% to 15,492. **By market cap, the large cap S&P 500 ended down -2.2%, while the mid cap S&P 400 and small cap Russell 2000 declined -3.2% and -4.1%, respectively.**

International Markets: Almost all major international markets finished the week in the red. Canada's TSX declined for a second week, giving up -2.0%, while the United Kingdom's FTSE 100 fell -2.5%. On Europe's mainland, France's CAC 40 and Germany's DAX plunged -5.2% and -5.6% respectively. China was the only major market to finish the week in the green. China's Shanghai Composite ticked up a bare 0.1%. Japan's Nikkei ended down -3.3%. **As grouped by Morgan Stanley Capital International, developed markets retreated -4.0%, while emerging markets declined -4.4%.**

Commodities: Precious metals were no "safe haven", and sold off along with equities. Gold pulled back -3.6% to \$1785.50 per ounce, while Silver declined a much larger -6.8% to \$23.11. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, declined for a second week, down -2.6%. **Oil sold off over concerns of travel restrictions due to the new COVID variant.** West Texas Intermediate crude oil fell for a fifth consecutive week, plunging -10.3% to \$68.15 per barrel.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits plunged to its lowest level since 1969 last week. The Labor Department reported just 199,000 people filed for benefits, far below the consensus forecast of 260,000. Unemployment filings had been steadily moving toward pre-crisis lows, when they were in the low 200,000s. They totaled as much as 900,000 a week at the start of the year. Meanwhile, **the number of people already collecting benefits, so-called "continuing claims", fell by 60,000 to 2.05 million.** That number is also at a pandemic low. Rubeela Farooqi, chief U.S. economist at High Frequency Economics, writing about first-time filings, stated "the level has moved below the 218,000 average seen in 2019, a solidly positive signal about the labor market."

Sales of existing homes moved higher in October underscoring the robust demand for housing across the country. The National Association of Realtors (NAR) reported existing home sales increased 0.8% between September and October hitting a seasonally-adjusted annual rate of 6.34 million. Economists had expected sales to come in at a 6.2 million rate. Lawrence Yun, NAR chief economist, said in the report "Home sales remain resilient, despite low inventory and increasing affordability challenges." **The median price for an existing home sold in October was \$353,900, up more than 13% from a year ago.** Unsold inventory was at a 2.4-month supply—a 6-month supply of homes is generally considered to be a sign of a balanced market. Yun also noted that inflationary pressure may be encouraging people to choose to buy a home rather than rent for the security of a fixed monthly payment.

The U.S. economy gained momentum last month according to an index compiled by the Federal Reserve Bank of Chicago. The Chicago Fed's National Activity Index (CFNAI) rose to 0.76 in October from -0.18 in September, exceeding the consensus forecast of 0.17. **The CFNAI is composed of 85 economic indicators** drawn from four broad categories of data: production and income; employment, unemployment and hours; personal consumption and housing; and sales, orders and inventories. A positive reading signals growth above the historical trend and a negative reading corresponds to growth below trend. **All four broad categories of indicators used to construct the index made positive contributions to it in October, and all four categories improved from the prior month, the Chicago Fed reported.**

Data analytics firm IHS Markit reported U.S. businesses grew rapidly this month, but labor and supply shortages continue to weigh on the economic recovery. Markit's flash survey of U.S. manufacturers rose 0.7 point to a two-month high of 59.1, while a similar survey of service-oriented companies slid to a two-month low of 57—down 1.7 points. Still, any reading above 50 signals growth and readings above 55 are considered exceptional. Chris Williamson, chief business economist at IHS Markit wrote, "The US economy continues to run hot. **Growth remains above the survey's long-run pre-pandemic average as companies continue to focus on boosting capacity to meet rising demand.**"

Orders for goods expected to last at least three years, so-called "durable goods", fell last month but economists were quick to point out the report wasn't as bad as the headline suggested. The Census Bureau reported orders fell 0.5% in October, missing estimates of a 0.3% increase. However, **the decline stemmed almost entirely from fewer orders for passenger airplanes. Excluding the transportation category, orders rose a solid 0.5%.** Over the past year orders for durable goods have risen by almost 14% and easily exceed pre-pandemic levels. New orders were fairly strong outside transportation. **Demand also rose for industrial metals, metal parts, electronics, appliances, electrical equipment and networking gear.**

Spending among the nation's consumers continued to rise, however consumers didn't get as much bang for their buck. Consumer spending climbed 1.3% in October, beating forecasts of a 1.0% increase. However, **higher prices accounted for about half the gain.** After factoring in inflation, consumer spending rose a more modest 0.7%. Consumer spending is the main engine of the U.S. economy and so far rising prices have not deterred Americans from buying more goods and services. Gus Faucher of PNC Financial Services noted "Watch what consumer do, not what they say. **Although consumer confidence has declined in the fall because of high inflation, households continue to spend.**"

Officials at the Federal Reserve expressed greater worries about the surge of inflation at their meeting earlier this month, raising the possibility of the Fed ending its bond purchases sooner than previously hinted. Most senior officials at the central bank still expect price rises to slow next year, minutes of the Fed's Nov. 2-3 meeting showed, but **they also acknowledged "inflation pressures could take longer to subside"** than they previously believed due to ongoing labor and supply shortages. These shortages have pushed the annual rate of inflation to a 31-year high of 6.2%, from just over zero a little over a year ago. Some analysts say the Fed could take that step as soon as its Dec. 14-15 meeting based on the most recent public comments of senior officials.

International Economic News: Canada's parliament formally opened this week following the September elections. The minority government headed by Prime Minister Justin Trudeau presented an agenda focused on making **economic growth, inflation pressures, climate change, and reconciliation with indigenous communities its focus.** The outline of what Justin Trudeau plans to achieve in the near future was presented by Canada's governor-general Mary Simon in her Speech from the Throne. The speech will be debated in the House of Commons and could result in the new government facing its first vote of confidence, as it will require the support of either the opposition Bloc Quebecois or the New Democratic Party (NDP) to get it passed. **Trudeau's ruling Liberal Party is 10 short of the 170 seats required for a majority.**

The economic fallout from the coronavirus has made Britain's workforce smaller, younger, and more diverse according to a recent report. The Resolution Foundation said that while mass unemployment had been avoided during the Covid-19 emergency, **there has been a large increase in people who have exited the workforce and are no longer looking for a job.** Reflecting a sharp rise in early retirement among older workers, the think tank said economic inactivity--a measure of people out of a job, but who are not looking for work--had soared by 586,000 since the start of the crisis. It said these trends had led to a shrinking of Britain's workforce, **leaving a more concentrated number of women and younger adults to form the backbone of the UK economy.**

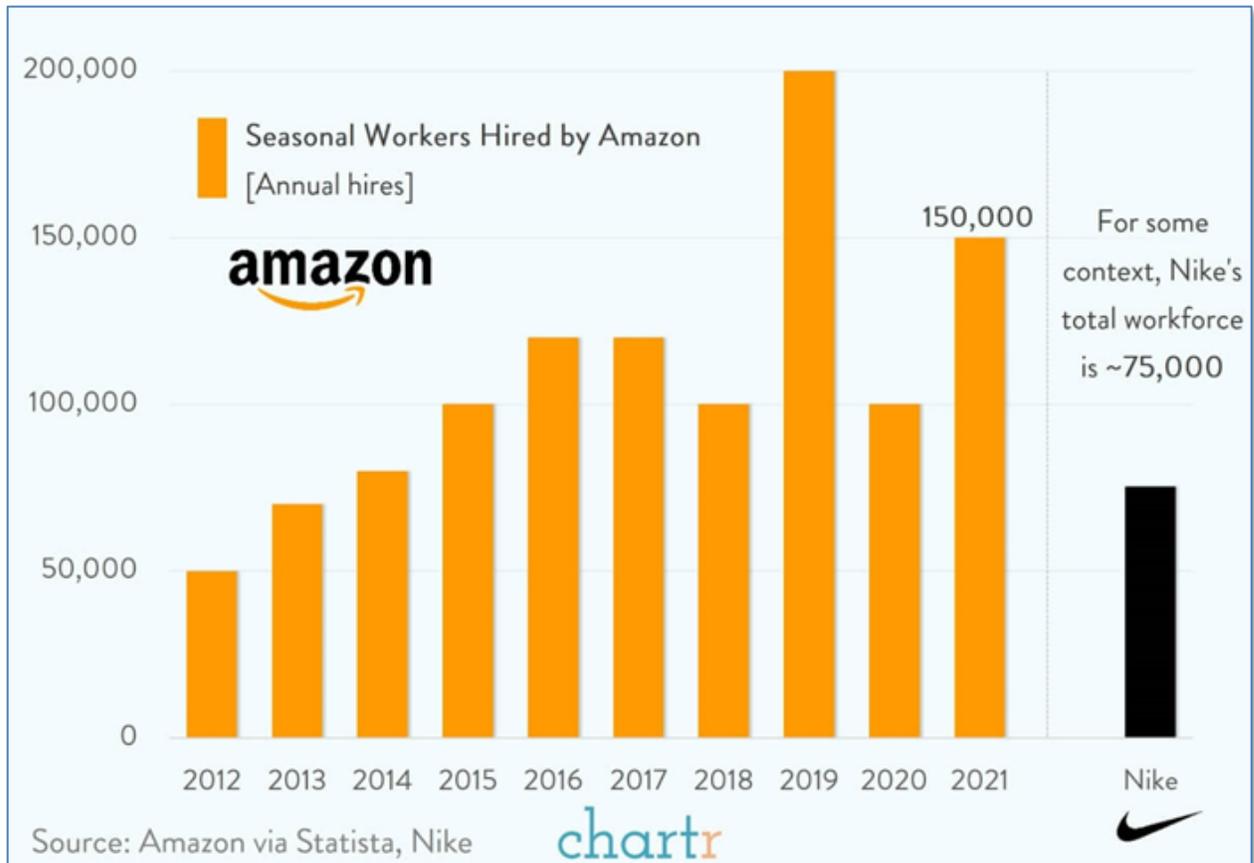
The dispute over licenses given to French fishermen to fish in British waters continued to escalate as French fishermen temporarily blockaded the port of Calais and Channel Tunnel disrupting the flow of goods between France and the United Kingdom. Last week, France said it was still waiting for 150 licenses from Britain and the Channel Islands. Britain, meanwhile, says only the vessels lacking the correct documentation are missing out on relevant licenses. Jean Luc Hall, director-general of the National Committee for Maritime Fisheries and Marine Farming, said, "Our coordinated action is intended to show that we have the capacity to block the ports, block the Channel Tunnel and therefore paralyze the British economy. **The idea is not to cause harm, but to show that we have the capacity to react.**" Mr. Hall hopes to get "British authorities to reflect on the issue".

Europe's largest economy is on track to stagnate in the final quarter of this year as supply chain bottlenecks show no sign of easing up, Ifo economist Klaus Wohlrabe said. Wohlrabe said the fall in Germany's business climate index in November gave the economic institute cause for concern. **Ifo's business climate index fell to 96.5 in November from 97.7 in October, marking the fifth consecutive decline and the worst reading since February.** The Ifo Institute said supply bottlenecks and the fourth wave of the coronavirus are threatening Germany's economic recovery. Ifo is concerned the country may impose restrictions on business and consumer activity as neighboring Austria has done.

In Asia, **carbon dioxide emissions from the China, the world's second-largest economy, have fallen for the first time since last year's lockdown.** According to data published by Carbon Brief, a climate research and news service, emissions declined by about 0.5% in the third quarter. Lauri Myllyvirta, an analyst at the Centre for Research on Energy and Clean Air stated, **"The reasons [for the decline] are the clampdown on runaway real estate lending, resulting in a sharp reduction in steel and cement output, and the sky-high coal prices."**

Japan's new economic security minister downplayed concerns about regulations that could hamper international commerce, saying repeatedly Japan's commerce was based on a robust free market. Former finance ministry official Takayuki Kobayashi, who was appointed to his new position last month, stated "the basic principle is that business is free. Our country can't prosper without that. When looking at areas to be protected or strengthened, like supply chains, we must communicate with private sector companies." Kobayashi is charged with adding an economic perspective to national security strategy and drawing up legislation on bolstering supply chains, ensuring the safety of core infrastructure, nurturing advanced technology and protecting patents.

Finally: At the end of September, Amazon employed almost 1.5 million people around the world, with nearly a million in the U.S. alone. That translates to roughly 1 in every 150 American workers getting a paycheck from Jeff Bezos and company. During the holidays that number goes up even more. This year, Amazon announced it would take on another 150,000 seasonal employees—that's essentially the equivalent of hiring the entire workforce of a company like Nike - *twice*. (Chart by chart.co)



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