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## The SITREP for the week ending 12/10/2021

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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:** The benchmark S&P 500 Index hit new highs last week as fears of the virulence of the latest COVID-19 'Omicron' variant subsided. The Dow Jones Industrial Average rallied over 1,390 points to finish the week at 35,971--a gain of 4.0%. The technology-heavy NASDAQ Composite rallied 3.6% closing at 15,631. **By market cap, the large cap S&P 500 finished the week up 3.8%, while the mid cap S&P 400 added 2.9%. The small cap Russell 2000 was the laggard finishing up 2.4%.**

**International Markets:** Almost all major international markets finished the week in the green as markets recovered from varying degrees of sell-offs over the last 3 weeks. Canada's TSX finished the week up 1.2%, while the United Kingdom's FTSE 100 gained 2.4%. On Europe's mainland, France's CAC 40 rallied 3.3% and Germany's DAX added 3.0%. In Asia, China's Shanghai Composite finished the week up 1.6%, its fifth consecutive week of gains. Japan's Nikkei added 1.5%. **As grouped by Morgan Stanley Capital International, developed markets rose 2.6% and emerging markets gained 2.4%.**

**Commodities:** Precious metals finished the week mixed with Gold ticking up 0.05% to \$1784.80 per ounce, while Silver pulled back -1.3% to \$22.20. **Crude oil rebounded from six weeks of solid selling.** West Texas Intermediate crude oil rallied 8.2% to finish the week at \$71.67 per barrel. The industrial metal copper gained 0.5%.

**U.S. Economic News:** The number of Americans filing for first-time unemployment benefits fell to a 52-year low of just 184,000 last week. However, the reading is predominantly due to the government's method of smoothing the data to take into account the big swings in seasonal hiring around the holidays. Still, the data is consistent with the fact that companies remain reluctant to lay off workers amid the biggest shortage of labor in decades. By region, new jobless claims fell the most in the states of Virginia and North Carolina. They rose the most in California, New York and Texas. Meanwhile, **continuing claims, which counts the number of people already receiving benefits, rose by 38,000 to 1.95 million. That number also remains near pre-pandemic lows.**

**American workers continued to quit their jobs at a record pace, giving rise to what experts are calling "The Great Resignation".** The Labor Department reported 4.2 million workers quit their jobs in October following a record-setting 4.4 million in September. The chief reason the majority of people are quitting is because they are finding better or higher paying jobs. Job openings rose to 11 million—the second highest on record. **Companies continue to boost wages and benefits in an effort to attract or retain workers amid the biggest labor shortage in decades.** Analysts note that normally a record number of job openings sounds like very good news, but not in this case. As Jennifer Lee, senior economist at BMO Capital Markets, writes, "No employer is in a celebratory mood. It is difficult to fill orders or meet customer demands if there are not enough people to do the actual work." Average hourly pay rose by 4.8% in the 12 months ended in November—one of the highest rates of increase ever.

**The cost of living climbed again last month, lifting the rate of inflation to a nearly 40-year high.** The Bureau of Labor Statistics reported its consumer price index increased 0.8% last month, outpacing economists' forecasts of a 0.7% gain. Over the past year, the pace of inflation jumped 0.6% to 6.8%. **That's more than triple the Federal Reserve's stated target rate of 2%.** Likewise, core inflation, which strips out the volatile food and energy categories, climbed to 4.9% from 4.6%. The last time the core rate near 5% was in mid-1991. Analysts state the recent higher-than-expected inflation readings is likely to push the Federal Reserve to speed up its plans to phase out stimulus by the early spring—several months earlier than it had planned. Senior economist Sal Guatieri of

BMO Capital Markets wrote in a note, **“The Fed has little choice but to accelerate tapering and prepare for the possibility of much earlier rate hikes than it was planning just a few months ago.”**

**Sentiment among the nation’s consumers rebounded in December but rising inflation may make the bounce rather short-lived.** The University of Michigan reported its measure of consumer sentiment rose 3 points to 70.4 in December, but that remains far below where it was this time last year when the index was 80.7. Economists had expected a reading of 68.0. The gauge of how consumers feel about current conditions rose a point to 74.6, while the indicator that measure expectations for the next 6 months added 4.3 points to 67.8.  
**Inflation continues to be consumers’ primary concern about the economy.**

**U.S. consumer credit increased by \$16.9 billion in October, down from a \$27.8 billion gain in September,** the Federal Reserve reported. Economists had expected a \$25 billion gain. The annual growth rate declined 3% to 4.7% in October. Revolving credit such as credit cards rose 7.8%, following an 11.7% gain in September. Non-revolving credit, like auto and student loans, rose 3.7% after a 6.5% gain the prior month.

**International Economic News:** Analysts at the Royal Bank of Canada’s (RBC) economic research department released a report noting that while the COVID-19 pandemic caused one of the worst recessions in history, **the recovery represents an opportunity for a “great Canadian restart”.** Canada’s economy averaged annual growth of 2.1% between 2010 and 2019, according to data from Statistics Canada. RBC’s report offers a path that policy-makers could take if they want to boost the country’s potential growth rate. **The report suggested policy-makers adopt new approaches to innovation, protect the country’s intellectual property, attract new sources of talent, and enable lifelong learning for its workforce.**

Across the Atlantic, **the British Chamber of Commerce is now expecting the UK economy will grow at a slower pace than expected next year, with trade set to lag “significantly”.** The BCC said economic growth was projected to slow down to 4.2% in 2022, compared to its previous forecast of 5.2%. **The downgrade largely reflects a softer outlook for consumer spending amid an anticipated “running down” of household savings built up during lockdowns.** If the current global supply chain disruption eases in the second half of 2022, inflation is expected to drift back towards the Bank of England’s 2% target by the middle of 2023, the report said.

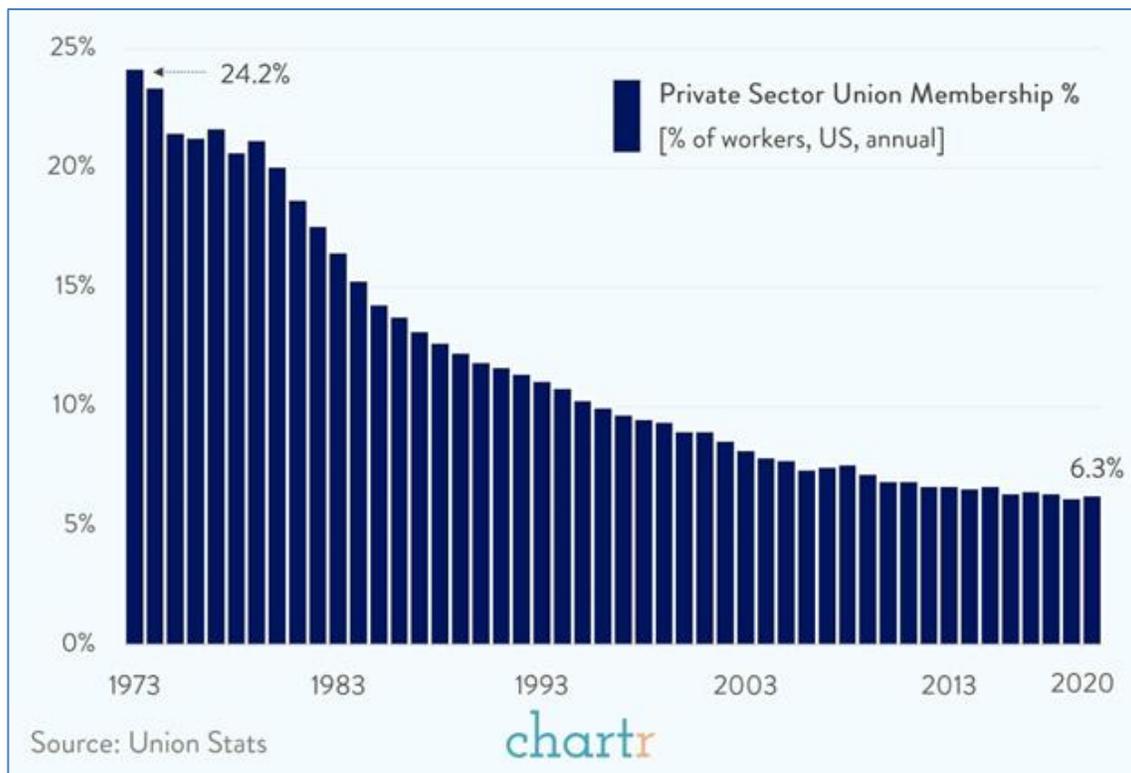
On Europe’s mainland, **French President Emmanuel Macron stated the European Union needs to rethink its budget framework and alter deficit rules** to encourage post-pandemic investment and foster growth as it emerges from the coronavirus pandemic. **“The new rules must be more simple and transparent”**, Macron said. Furthermore, Macron stated the bloc’s leaders should discuss whether a major stimulus package agreed to last year is enough and what national investment could be allowed beyond budget cap rules. **Macron said he wants European leaders “to make Europe a great continent of production, innovation and job creation.”**

**After months of supply disruptions, German exporters have painstakingly recovered their pandemic losses--**however analysts noted the new ‘Omicron’ coronavirus variant will undoubtedly weigh on growth. **In the latest report, exports were up 3.8% from early 2020, just before COVID-related restrictions were introduced in Germany.** However, new **orders for manufactured goods declined amid weak demand.** The latest figures suggest Europe’s largest economy finds itself on weak footing heading into the final months of the year and an outbreak of the new variant of the coronavirus is sure to weigh even heavier.

In Asia, **the Chinese Academy of Social Sciences (CASS), a top government think-tank stated the world’s second-largest economy is expected to have expanded by about 8% this year.** However, ongoing stress in China’s property sector is likely to slow down the country’s economic growth next year. In its latest annual “blue book” on the economy, CASS stated the property downturn was likely to weigh on the expenditures of local governments next year. China’s economy is expected to grow about 5.3% in 2022 bringing the average annual growth rate forecast for 2020-2022 to 5.2%, CASS said. **CASS urged China’s central government to proactively engineer a soft landing for the property sector.**

**A surge of coronavirus cases this summer and the associated drop in consumer spending caused Japan's economy to shrink faster than estimated during the third quarter, Japan's government reported.** Japan's Cabinet Office reported gross domestic product contracted an annualized 3.6% during the July to September period. That was worse than the 3.0% projected by the government's preliminary reading. The faster rate of contraction corresponds to a period in which Tokyo hosted the Olympic Games without fans and shortly afterwards, when daily Covid-19 infections soared in big cities. **Takashi Miwa, chief economist at Nomura Securities, said that private consumption and public investment had hit third-quarter GDP as the country's fifth coronavirus wave coincided with difficulties across global supply chains.**

**Finally:** A Starbucks location in Buffalo, NY, voted for unionization during the past week. It was the first time a union won the right to represent Starbucks workers in that company's history. Starbucks has an army of 235,000 workers in the U.S. and Starbucks management has spent significant resources over the years successfully dissuading its stores from unionizing. Is this a sign of a turn in the fortunes of union membership? Over the past 50 years, private sector unionization has collapsed. Private sector unionization has dropped by almost three fourths, from about 24% in the early 70's to about 6% currently. If the Starbucks vote is a sign of things to come, there's a long road back to previous glory! (Chart from 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

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### *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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A handwritten signature in black ink that reads "Brian D. Johnson". The signature is written in a cursive, flowing style.

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