MIDWEST FINANCIAL

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The SITREP for the week ending 12/23/2021

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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 rebounded from the losses of the previous on signs that the Omicron variant of the coronavirus may not be as disruptive as feared.** Trading volumes were low ahead of the Christmas holiday. The Dow Jones Industrial Average surged 585 points finishing the week at 35,950—a gain of 1.7%. The technology-heavy NASDAQ Composite retraced all of last week's decline and then some by rising 3.2% to 15,653. **By market cap, the large cap S&P 500 rose 2.3%, while the mid-cap S&P 400 added 2.5%. The small cap Russell 2000 finished the week up 3.1%.**

International Markets: **Major international markets also finished predominantly in the green**. Canada's TSX rose 2.3% and the United Kingdom's FTSE 100 gained 1.4%. On Europe's mainland, France's CAC 40 and Germany's DAX added 2.3% and 1.4%, respectively. In Asia, China's Shanghai Composite ticked down -0.4%. Japan's Nikkei notched a third week of gains, finishing the week up 0.8%. **As grouped by Morgan Stanley Capital International, developed markets rallied 2.4%, while emerging markets gained 1.2%.**

Commodities: **Precious metals rose alongside the equities markets.** Gold rose 0.4% to $1811.70 per ounce, while silver gained 1.8% to $22.94. **Energy rebounded after last week's decline.** West Texas Intermediate crude oil finished the week up 4.3% to $73.79 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, added 2.3% last week.

U.S. Economic News: **The number of Americans filing first-time unemployment claims remained unchanged last week at 205,000**. Before the pandemic, initial claims had averaged about 220,000 a week. The number of people already collecting benefits, known as **continuing claims, declined slightly to 1.86 million**. The low number of claims reflects the tight labor market and robust demand for workers. Economists expect claims to gradually rise toward their pre-pandemic level of around 1.7 million as more individuals return to the labor market as their benefits expire.

Sales of existing homes rose to their highest levels in almost a year in November according to the latest data from the National Association of Realtors (NAR). The NAR reported existing home sales rose 1.9% to a seasonally-adjusted annual rate of 6.46 million last month—its third consecutive monthly gain and the highest level since January. **Compared to the same time in 2020, home sales were down 2%.** The reading was a slight miss from the 6.5 million annual rate economists had expected. On a regional basis, the southern states are seeing the most gains. Sales rose 2.9% in the South, and 2.3% in the West. Sales were up a slight 0.7% in the Midwest and were unchanged in the East. The median price for an existing home sold in November was $353,900, an increase of 13.9% over the past year. **Unsold inventory was at a 2.1 month supply--the lowest since January.** A six-month supply is generally considered a "balanced" housing market.

New home sales jumped 12.4% to a seasonally-adjusted annual rate (SAAR) of 744,000 last month the government reported. Despite the increase, sales were below expectations. Analysts had expected a SAAR of 766,000. Of note, **the *median* sales price of a new home sold was $416,900—a new record high.** The supply of new homes fell slightly to a 6 ½ month supply. Regionally, sales rose in all regions in November except the Midwest. Sales were strongest in the West. The housing sector remains robust but remains off the highs seen last year. **Sales are currently 14% below last year's level.** Although the sector is expected to continue to be strong, the prospect of higher mortgage rates should keep activity from getting red-hot again, economists said.

The confidence of the nation's consumers showed resilience this month in the face of rising prices for just about everything. The Conference Board reported its index of consumer confidence rose to 115.8 in December from a revised 111.9 in the prior month. Economists were expecting a reading of just 111. Confidence in November was revised to a modest gain after initial estimates of a sharp decline. The part of the survey that tracks how consumers feel about current economic conditions fell 0.3 point to 144.1 this month, while the gauge that assesses what Americans expect over the coming six months rose to 96.9 from 90.2. Lynn Franco, senior director of economic indicators at the Conference Board stated, "Expectations about short-term growth prospects improved, setting the stage for continued growth in early 2022. **The proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all increased.**"

The Conference Board reported its index of leading economic indicators (LEI) rose a sharp 1.1% last month, exceeding forecasts of a 0.9% gain. Over the last six months, the index is up 4.6%. The increase signals the economy should continue to expand in the first half of 2022—although the emergence of a new COVID-19 variant along with persistent inflation and risks to the supply chain remain. **Eight out of 10 LEI subcomponents increased in November**, led by jobless claims, equity prices and the Treasury yield curve. The coincident index, which measures current conditions, rose 0.3% in November after a 0.5% gain in the prior month, while the lagging index fell 0.1%. The LEI is a weighted gauge of 10 indicators designed to signal business-cycle peaks and valleys.

The mood of America's consumers continued to show gradual improvement according to the University of Michigan. The gauge of consumer sentiment rose 3.2 points to 70.6 in December. The reading was slightly above the consensus forecast of an unchanged reading of 70.4. Sentiment has remained relatively stable since it dipped sharply in August. Sentiment was as high as 88.3 in April. Richard Curtin, the UMich survey's chief economist stated, "**The uptick was primarily due to significant gains among households with incomes in the bottom third of the distribution.** Indeed, the bottom third expected their incomes to rise during the year ahead by 2.8%, up from 1.8% last December."

The 12-month increase in the Personal Consumption Expenditures (PCE) index, rumored to be the Federal Reserve's preferred measure of inflation, jumped to 5.7% in November from 5% the prior month. That reading is the **highest since 1982.** The spike in inflation explains the Fed's pivot earlier this month away from its dovish policy stance, analysts said. Economists don't think inflation will peak for several more months. The core PCE rate that strips out food and energy surged to 4.7% from 4.1% on an annual basis. Meanwhile, consumer spending rose 0.6% in November following a 1.4% gain in the prior month. **After adjusting for inflation, consumer spending was actually flat in November.**

The Chicago Fed's nationwide measure of the economy continued to grow in November, but at a slower pace. The Chicago Fed reported its National Activity Index (CFNAI) fell to 0.37 last month, from 0.75 the month before. The reading was close to economists' expectations of a reading of 0.40. **Three of the four broad categories of indicators used to construct the index made positive contributions to it in November, but all four categories worsened compared with October**, the Chicago Fed said. The CFNAI index is composed of 85 economic indicators drawn from four broad categories of data. **Both the index and its three-month average suggest that the U.S. economy continues to expand at a moderate pace.**

International Economic News: **The Canadian economy maintained its streak of monthly gains in October** by adding 0.8% to GDP growth for the month. The reading brought it within a statistical inch of where it was before the coronavirus pandemic began. Statistics Canada reported total economic activity in October was just 0.4% below the pre-pandemic level recorded in February 2020. Furthermore, the gains are expected to continue. Preliminary data pointed to another gain in November that Statistics Canada said would leave the gap at just 0.1%. **Gains for the month were seen across most sectors, including manufacturing, whose rebound of 1.8% was driven primarily by auto manufacturing.**

Across the Atlantic, **the United Kingdom's economy grew more slowly in the third quarter than previously thought, and that was before the 'Omicron'-variant of the coronavirus posed a further threat to the global recovery.** The UK's Office for National Statistics reported gross domestic product in the world's fifth-biggest economy increased by 1.1% in the third quarter—weaker than the 1.3% preliminary estimate. **Analysts also expect the data to show a further slowdown in the fourth quarter and a weak start to 2022 due to a rise in Omicron cases** which weighed on Britain's hospitality and leisure sector and retailers. Prime Minister Boris Johnson has ruled out new COVID restrictions in England before Christmas but said he might have to act afterwards.

On Europe's mainland, in their first phone conversation **new chancellor of Germany Olaf Scholz and Chinese President Xi Jinping pledged to strengthen economic ties.** According to China's state-run news agency Xinhua, the new German leader urged Xi that German-Chinese relations should be fostered "in the spirit of mutual respect and mutual trust." Xi Jinping reiterated that China-Germany cooperation is the forerunner of China-EU cooperation, and that as the two countries look ahead to the next 50 years, they must have a global and long-term perspective, move forward, and strive for new developments in bilateral relations.

In Asia, **China's Ministry of Commerce has expressed "strong dissatisfaction and firm opposition" to a United States ban on imports from its Xinjiang region**. The ministry described the US action as "economic bullying", according to state news agency Xinhua. This week US President Joe Biden signed into law legislation that bans imports from China's Xinjiang region over concerns about forced labor. China has categorically dismissed accusations of abuses against the mostly Muslim Uyghur minorities in that region. **The law prohibits US businesses from importing goods from Xinjiang unless they can be proven not to have been made by forced labor.**

The Japanese government lifted its growth forecast for 2022 a full percentage point as it expects the rate of recovery from the pandemic-related slump to pick up earlier than expected. **The government now expects the economy to grow 3.2% next year.** The GDP growth forecast for the next fiscal year is slightly higher than the average 3.0% increase estimated by private-sector economists in a survey earlier this month by the Japan Center for Economic Research. In nominal terms, unadjusted for inflation, the world's third-largest economy will likely expand 3.6% to a record 564.6 trillion yen in fiscal 2022, upgraded from an earlier projection of 2.5%, the government said.

Finally: **While most adult readers of an economic situation report such as this one would be forgiven for never having heard of a company named "Shein", there's a good chance the young women in their families have. The Chinese clothing retailer and manufacturer Shein has exploded in growth over the past year and half. Google data shows it surpassed other major online brands like H&M, Zara, and Asos. Shein specializes in what analysts call "fast fashion"—a term meaning designs from fashion shows and runways that it then makes available to the public almost instantly. Shein's tight control of production and relatively small batch manufacturing of selected items tied with its super-low prices results in a powerful feedback loop with social media influencers. On a recent day, an astonishing 8,895 new products were added—and 9,634 were added the day before! (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, 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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