September 10, 2021

9/10/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,607.72	-761.37	-2.15	1.77	13.07	25.69
S&P 500	4,458.58	-76.85	-1.69	1.33	18.70	33.52
NASDAQ	15,115.49	-248.02	-1.61	0.63	17.28	38.43
S&P MidCap 400	2,686.53	-74.02	-2.68	1.31	16.47	44.66

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.22	Euro/Dollar	1.18	-0.39
5-Year	0.81	Dollar/Yen	109.84	0.16
10-Year	1.33	GBP/Dollar	1.39	-0.12
30-Year	1.93	Dollar/Cad	1.26	0.90

Source: Bloomberg/FactSet

What Caught Our Eye This Week

According to a survey by the American Gaming Association, 36% more people will bet on football this season than in 2020. The survey predicts that 45.2 million Americans are expected to bet on the NFL, making it the most-bet-on season in the league's history. The significant uptick is largely attributed to the growth of regulated sports betting across the country. Heading into the 2021 season, 32 states and the District of Columbia have regulated betting markets with five more states looking to join the expansion. Fans are the heartbeat of professional sports, and leagues like the NFL are realizing the full potential of sports betting to drive fan engagement. Last spring, the NFL partnered with Caesars Entertainment, DraftKings, and FanDuel allowing them exclusive rights to leverage sports betting within NFL Media properties. While professional sports teams make money from partnerships, the online sports betting industry is losing a lot of money as more than a dozen companies compete for market share. The U.S sports betting market is expected to almost triple over the next four years, growing from $5.5 billion in 2021 to $15.67 billion in 2025. With the industry's small profit margins (typically around 5%), it is unlikely every company will survive.

Economy

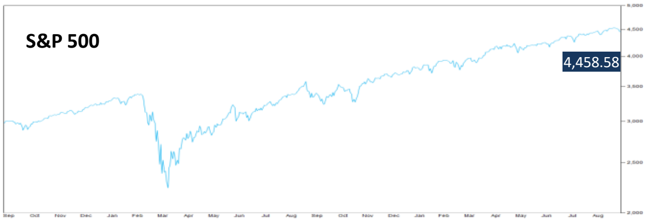
It was a relatively quiet week on the economic data front. On Wednesday, the Job Openings and Labor Turnover Survey (JOLTS) showed the number of job openings in the U.S. rose by 749,000 from a month earlier to a series high of 10.934 million for the month of July. This came in well above expectations of 10.049 million, and the largest gains were seen in the health care and social assistance (+294,000), finance and insurance (+116,000), and accommodation and food services (+115,000) sectors. On Thursday, initial jobless claims declined to a new pandemic low of 310,000 in the week ending September 4th beating expectations of 335,000. The four-week moving average now stands at 339,500, a decrease of 16,750 from the previous week, and a new pandemic low. In other news, the Labor Department reported that prices producers get for final demand goods and services surged by 8.3% year-over-year in August – the highest annual rate since at least 2010. Furthermore, the producer price index rose 0.7% for the month which was above consensus estimates of 0.6%. Excluding food, energy and trade services, final demand prices increased 0.3% for the month, below expectations of 0.5%.

Fixed Income/Credit Market

Current negative real interest rates in the U.S. fixed income realm are creating an attractive funding environment and corporations wasted little time issuing investment grade debt this week. Moreover, high grade bond sales totaled approximately $76 billion through Thursday, which equaled $10 billion less than the entire amount sold during the previous month. It is interesting to note that much of this week's issuance was focused on balance sheet management instead of mergers and acquisition financing as companies prepare for a future Fed tapering announcement. Furthermore, the torrid pace of investment grade issuance has ballooned supply by over $1 trillion dollars thus far in 2021. However, with ample amounts of liquidity on the sidelines, the new supply of debt was absorbed without pushing credit spreads out as the Bloomberg U.S. Corporate Investment Grade OAS held steady at 88 basis points (bps) this week and resides roughly 1 standard deviation below the 5-year mean of 117 bps. In another sign of strong demand, Lipper reported a fifth week of inflows into investment grade funds.

Equities

September has proven to be a volatile month for stocks as the S&P 500 finished with losses every day this week – its first 5-day consecutive slide since February. Fears over the increasing Delta variant have hampered investor sentiment due to the potential effects new outbreaks may have on economic growth. Additional factors behind the weakness include the Federal Reserve's prospective drawdown of its stimulus initiatives, relations with China, rising inflation, and stretched valuations within the market. The instability has been broad, with all market sectors feeling the effects of the uncertainty – each posted weekly losses greater than -1% except for the consumer discretionary. For the week, the S&P 500, Dow, and Nasdaq fell -1.69%, -2.15%, and -1.61%, respectively. On a month-to-date basis, each index has respectively fallen -1.42%, -2.13%, and -0.94%. Value continues to lag growth as well, trailing by 57 bps this week. On a positive note, however, multiple strategists increased their forecasts on the S&P 500 during the course of the week, noting the resounding resiliency the market has displayed over the past 18-months.



Our View

Equity markets were softer this week as near-term economic expectations weakened. The Federal Reserve's most recent survey of national business conditions termed the "Beige Book" indicated that business activity slowed in July and August. The slowdown was largely attributed to travel, dining, and leisure segments of the economy. The Beige Book confirmed weakness in the labor market report for August as both reports indicated deceleration in similar economic areas. Several wall street firms lowered estimates for 3Q GDP due to the Delta variant and supply chain issues. Supply chain disruptions are having a deleterious effect on a wide swath of industries. For example, home building and construction activity has recently flattened (at least partially) due to a shortage of building materials. U.S. auto sales in August 2021 were 619,806, which was half the number of cars sold in the same month a year ago. Since March, the sales rate has deteriorated largely due to dwindling inventories on auto dealer lots because a shortage of crucial semiconductors has crimped auto production. At least in the short run, the economy is experiencing a temporary supply shortage in many industries. The demand side of the equation is not a problem as pent-up demand has not yet been exhausted for the most part. When supplies are artificially constrained, the market-clearing price rises, and producers have some latitude to raise prices. This is the same effect, at least partially, in what we are seeing in the labor market, with wage rates running at a 4.2% increase year-over-year. Despite job openings reaching a record high at 10.9 million, the economy has over 5.3 million fewer workers since the start of the pandemic. The supply of labor seems to be constricted by Covid-19 and other structural factors. The paradox in all this is that factors *causing the economy to slow* are also creating near-term *inflationary pressures*. The Fed relies heavily on labor market conditions and its surveys of business conditions to assess the status of the economy. It knows that supply issues are creating an unusual economic dynamic right now, but it also knows that there is little they can do to impact the economy's supply side.

COMING UP NEXT WEEK		Consensus	Prior
09/14 CPI ex-Food & Energy SA M/M	(Aug)	0.30%	0.30%
09/14 CPI SA M/M	(Aug)	0.40%	0.50%
09/15 Capacity Utilization NSA	(Aug)	76.4%	76.1%
09/15 Industrial Production SA M/M	(Aug)	0.40%	0.90%
09/16 Retail Sales ex-Auto SA M/M	(Aug)	-0.20%	-0.40%
09/16 Retail Sales SA M/M	(Aug)	-1.0%	-1.1%

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