September 24, 2021

9/24/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,798.00	213.12	0.62	1.77	13.69	29.77
S&P 500	4,455.48	22.49	0.51	1.33	18.62	37.24
NASDAQ	15,047.70	3.73	0.02	0.64	16.75	41.00
S&P MidCap 400	2,699.38	21.32	0.80	1.34	17.03	50.61

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.28	Euro/Dollar	1.17	-0.20
5-Year	0.95	Dollar/Yen	110.70	0.67
10-Year	1.45	GBP/Dollar	1.37	-0.52
30-Year	1.99	Dollar/Cad	1.27	-0.45

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Biosimilar drugs and generic drugs are both marketed as less expensive versions of costly name-brand drugs and are designed to have the same clinical effect as their pricier counterparts. The two drug types are very different from each other. The key distinction is that generics are exact replicas of synthetic drugs while biosimilars are made from living organisms which involve complex molecules and are comparable but not chemically identical to their brand-named counterpart. Generic drugs cost 40-50% less than the brand product while biosimilars are only 10-15% cheaper because of additional testing that is necessary. Since the first biosimilar entered the U.S. marketplace in 2015, 30 products have been approved and 21 have been launched. The EU has been slower to adopt, approving only 11 drugs during the same time. Estimates suggest that global sales topped $15 billion in 2020, representing a compound annual growth rate of 56% since 2015. There are several factors which support continued high growth for biosimilars. Between 2020 and 2025, 17 blockbuster molecules with annual peak sales amounting to $60 billion will lose exclusivity. In addition, regulatory improvements in the U.S., China, and Japan will encourage more rapid acceptance of biosimilars.

Economy

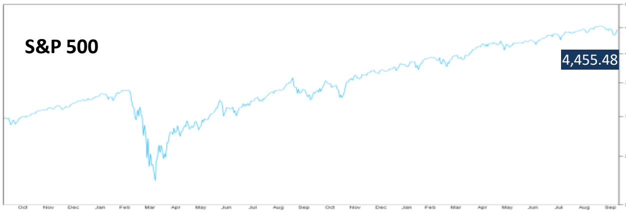
This week the economic data centered around housing statistics with the release of existing home sales, housing starts and new home sales. On Wednesday, existing home sales came in close to expectations dropping 2.0% in August to 5.88 million units at an annual rate. This is the biggest monthly decline since April and housing price appreciation has cooled since a recent high in May. The median sales price is now at $356,700, which is a 14.9% gain year-over-year. Over the past 12 months, existing home sales are down 1.5%, the first year-over-year decline since June 2020. Housing starts were released on Tuesday, rising 3.9% in August to 1.615 million units at an annual rate. These figures beat expectations and permits rose 6.0% to 1.728 million. Single family starts declined 2.8%. On Friday, new home sales came in better than consensus increasing 1.5% in August to 740,000 units at an annual rate. These sales are down 23.5% year-over-year and the median sales price remains at $390,000. Finally, on Thursday, weekly jobless claims increased 16,000 to 351,000 during the week ending September 18th. The four-week moving average is now at 336,000.

Fixed Income/Credit Market

On Wednesday, the FOMC left policy rates unchanged but their statement read that the economy has made progress towards their goals and if that progress continues then moderation in the pace of asset purchases will be warranted. The consensus now resides with an announcement at the November meeting and tapering to commence in December at $15 billion per meeting. The initial market reaction was somewhat muted, with long-term Treasury yields actually moving lower during intraday trading. However, by Thursday, fear subsided on the Evergrande situation in China which helped facilitate a delayed reaction to the Fed statement along the U.S. Treasury curve. On Thursday, 10-year Treasury yields increased 12.9 basis points (bps) to close at 1.43%. Some are wondering if Thursday's move higher in rates is an inflection point which leads to longer-term bearishness (higher rates) or if a reversal will occur. The 10-year is still well off its 2021 peak of 1.77% and week-over-week the net change is 8.6 bps. The benchmark tenor closed Friday at 1.45%.

Equities

It was a turbulent week for risk assets, but domestic equities proved their resiliency as all three major indexes managed to finish in positive territory. On Monday, the S&P 500 and Nasdaq experienced their biggest selloffs since May as concerns grew over the potential contagion from financially distressed Chinese property developer Evergrande. Although those concerns still exist, stocks rallied on Wednesday snapping a four-day losing streak as investors responded positively to a largely "as expected" Federal Reserve meeting. The upward momentum continued into Thursday with the S&P 500 posting a 1.21% gain. In other news, FactSet released some interesting information on analyst ratings for stocks. At the sector level, analysts are most optimistic on the energy (66%) and communication services (63%) sectors as they have the highest percentage of "Buy" ratings. On the other hand, analysts are most pessimistic on the consumer staples sector (42%) as it has the lowest percentage of "Buy" ratings.



Our View

This week volatility returned to equity markets with three days of over one percent swings in the major indexes. With elevated valuations and several potential factors causing increased uncertainty, the conditions have been in place for heightened market volatility. Timing market drawdowns is very tricky. We know that the risks are higher than usual because of the conditions in place, but the timing of the trigger event that causes the risk to manifest itself is unpredictable. Most of the known uncertainties are well anticipated and analyzed by investors and to some degree, these are priced into markets. Known uncertainties can be a triggering event when the current assessment of the uncertainty proves to be wrong or when new information becomes available. Sometimes the triggering event is from an unknown (or not widely known) source. Such was the case this week when news of the Evergrande Group's $300 billion cash shortage became apparent to investors. Evergrande and problems in the Chinese property market were not on the radar screens of many investors. As the developments surrounding Evergrande (China's second largest property developer) unfolded, market concerns centered around the possibility of broader market contagion, such as when Lehman Brothers failed. The fallout of a debt crisis at a company as large as Evergrande will be significant and wide-reaching considering their obligations to banks, suppliers, real estate buyers, and investors. Concerningly, individual Chinese investors are also exposed through wealth management products. However, we believe there is limited systemic risk for China's financial system. Chinese banks' total exposure to the property sector is only about 8%. There could be a lengthy back-and-forth negotiation process between the company and interested parties that investors and the Chinese government need to monitor. Despite the volatility caused by Evergrande, some investors will ignore the volatility because financial markets recovered by week's end. But as this week's market action highlights, investors need to remain cognizant that market conditions suggest higher volatility ahead.

COMING UP NEXT WEEK		Consensus	Prior
09/27 Durable Orders SA M/M (Preliminary)	(Aug)	0.60%	-0.10%
09/28 Consumer Confidence	(Sep)	114.3	113.8
09/30 GDP Chain Price SAAR Q/Q (Final)	(Q2)	6.1%	6.1%
10/01 Personal Consumption Expenditure SA M/M	(Aug)	-	0.30%
10/01 Personal Income SA M/M	(Aug)	0.20%	1.1%
10/01 ISM Manufacturing SA	(Sep)	59.8	59.9
10/01 Michigan Sentiment NSA (Final)	(Sep)	71.0	71.0

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