



**CAPITAL MARKETS COMMENTARY**

# Stock Market Drifts Higher, Further Impacts of COVID-19 and Manufacturing Expansion

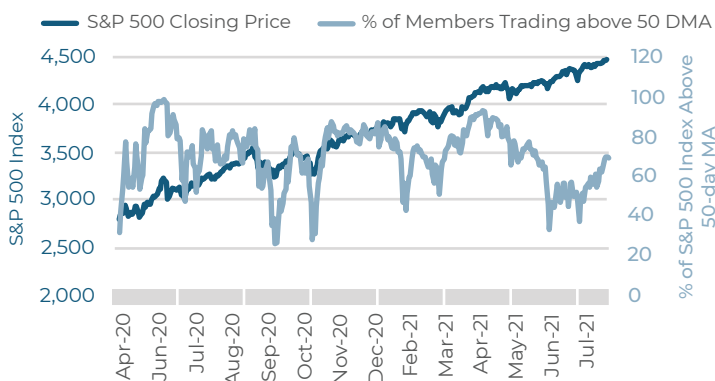
AS OF AUGUST 31, 2021

- » Stock Market drifts higher on low volume
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## STOCK MARKET DRIFTS HIGHER ON LOW VOLUME

Through the end of August, the S&P 500 Index is up +20.4%, marking the 6th best start to a calendar year since 1950. In fact, the current bull market is off to the fastest start since World War II, doubling in August in only 354 trading days. Despite the strong trend, we have seen poor market breadth and below-average volume. As a reminder, market breadth is simply a running tally of how many individual stocks are participating in an uptrend. As Exhibit 1 demonstrates, with many indexes at or near all-time highs, less than 70% of S&P 500 stocks are above their 50-day moving average. While this began to improve in the last week of August, this picture has been in place for more than three months.

EXHIBIT 1: MARKET BREADTH HAS BEEN WEAK DURING THE PAST THREE MONTHS

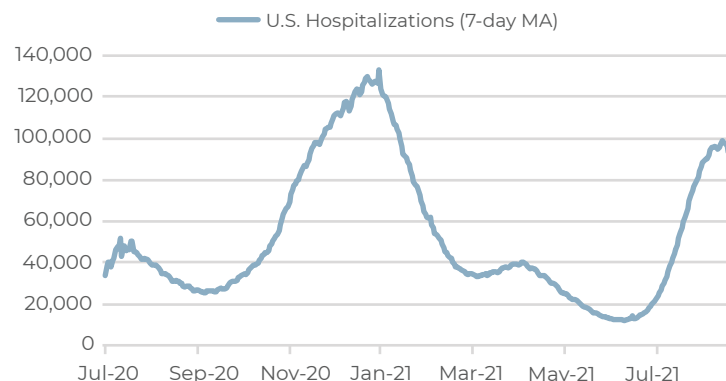


Source: Bloomberg

## COVID-19 IMPACTING CONSUMER BEHAVIOR & JOBS PICTURE

Consumers are starting to react to concerns about the rise in COVID-19 cases. For example, the University of Michigan Consumer Sentiment survey recently reached 70, its lowest level since 2011. Alternative data is showing the same things, as the number of restaurant diners, airline travelers, and hotel revenue per room have all slowed during the month of August.

EXHIBIT 2: THE RISE IN COVID-19 CASES AND HOSPITALIZATIONS HAVE IMPACTED CONSUMER BEHAVIOR



Source: Our World in Data

The U.S. labor market showed signs of slowing in August as well. The U.S. Bureau of Labor Statistics August employment report revealed that the economy added a disappointing 235,000 jobs during the month, falling well short of Bloomberg-surveyed economist's median forecasted gain of 733,000. This comes after a strong July, during which companies added just over 1 million jobs. Labor force participation in August remained elevated at 61.7%. The total nonfarm payrolls remain 5.3 million shy of its February 2020 peak.

## MANUFACTURING EXPANDS BUT STILL DEALING WITH BOTTLENECKS

The ISM U.S. Manufacturing PMI has averaged 59.9 for the past 12 months and the survey for the month of August came in at 59.9. As a reminder, a figure above 50 is a sign of economic expansion. While the economy continues to expand, U.S. manufacturers are struggling to keep products flowing, dealing with a combination of shortages in raw materials and intermediate components, along with a lack of labor supply.

EXHIBIT 3: MANUFACTURING GREW IN AUGUST, SLIGHTLY HIGHER THAN JULY



Source: Institute for Supply Management

## FED'S COMMENTS CALM INVESTORS

Fed Chairman Jerome Powell spoke at the annual Jackson Hole Economic Symposium, and investors largely walked away feeling a little bit less nervous about tapering and rising rates. While Powell remained unclear about just when the 2021 tapering process would begin, he did send a message of caution around less-than-stellar employment levels and stuck to the central bank's message that the current bout of inflation is due in part to supply-chain disruptions and will likely be transitory.

The Fed is currently purchasing \$120 billion a month of Treasury and Agency mortgage-backed securities (MBS). Since early 2020, these purchases have grown the balance sheet by more than 80%. The Fed is likely to start to taper its bond purchases either in late 2021 or early 2022, with most expecting the Fed to steer clear of any rate hikes until at least 2023.

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