OBSERVATIONS

- Bond market volatility reaches the highest level since the spring of 2020 as traders brace for the Federal Reserve's tapering of its bond buying program.[1]
- As interest rates have been on the rise globally, the total value of negative yielding debt has declined to just over $10 trillion, down from the peak of over $18 trillion in December 2020. Negative rates have generally been concentrated in Europe, where Germany (-0.17%), Netherlands (-0.05%), and Switzerland (-0.17%) continue to have negative yields on their respective 10-Yr government bonds.[2]
- Poland joins other eastern European countries as the country's central bank lifts its main policy interest rate to 1.25% (from 0.1% earlier this year) as it ramps up efforts to tame inflation. In contrast, the Bank of England maintained its all-time low policy interest rate of 0.1%.[1]
- The S&P 500 notched its 63rd record close last week — number of days on which the S&P reached a new record high. The 2021 streak ranks second most all-time (since the great depression) following the 77 record closes in 1995.[3]
- Meanwhile, the S&P 500 just capped off its best first year ever following a presidential election after returning 37.4% from last year's elections, the record bested the 35.4% run following Franklin Roosevelt's 1932 presidential win.[1]
- The October jobs report showed nonfarm employment gains of +531k (better than the expected 450k) and the unemployment rate dropped by 0.2% to 4.6%. Job gains were broad and led by leisure and hospitality (+164k), professional and business services (+100k), and transportation and warehousing (+54k).[4]
- Over 90% of S&P 500 companies have reported earnings, with 81% reporting better than expected earnings. Earnings for Q3 grew by nearly +40% as compared to the same quarter a year ago. For the full calendar year, earnings (Q1, Q2, and Q3 reported plus Q4 expected) are projected to grow by +45% over 2020.[5]

EXPECTATIONS

- The S&P 500 enters the seasonally strong November and December with year-to-date gains (as of 31-Oct) of +24.0%. Since 1945, the S&P has posted positive returns between November and December 80% of the time, with an average gain of +3.9% during the two-month stretch.[1]
- The Federal Reserve, as expected, announced it would begin winding down its monthly bond buying program by $15 billion per month — noting that "similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook."[1]

ONE MORE THOUGHT[6] *Democratic Party Stumbling Towards a Deal*

After more than four months of internal negotiations the US House passed the bi-partisan infrastructure bill that totals $1.2 trillion over a decade, but Democratic lawmakers failed to finalize the terms of an approximately $1.85 trillion spending and tax plan by their self-imposed deadline of the end of October. Prior to departing for the G20

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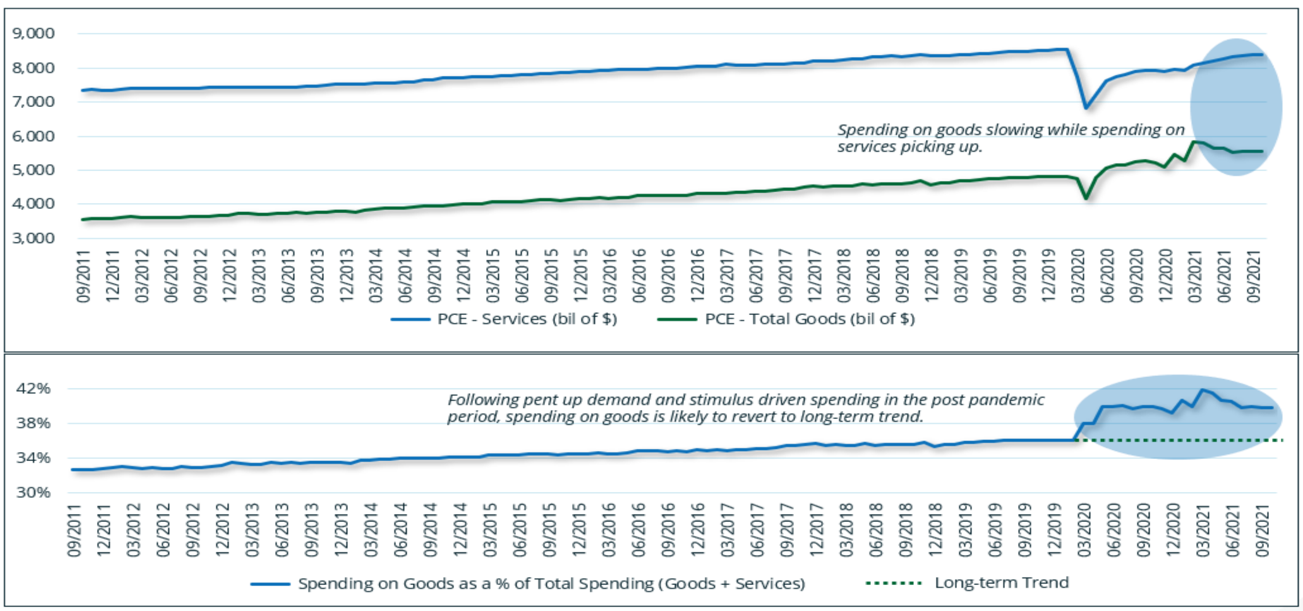
[1] *Bloomberg LP*
[2] *Bloomberg LP, as of 3-Nov, https://www.wsj.com/articles/negative-bond-yields-recede-in-europe-11635932524?mod=markets_lead_pos4*
[3] *Bloomberg LP, as of 3-Nov, History from https://www.marketwatch.com/story/what-the-s-p-500-ringing-up-50-record-highs-in-2021-says-to-stock-market-historians-11629903117*
[4] *Bureau of Labor Statistics, The Employment Situation – October 2021, released 5-Nov*
[5] *Factset Earnings Insight, 5-Nov*
[6] *https://www.wsj.com/articles/pelosi-says-house-democrats-will-add-paid-leave-back-to-bill-11635951745?mod=hp_lead_pos2*

Summit in Europe, President Biden tabled a compromise package that tried to appease progressive Democrats with programs aimed at expanding social-spending and climate change legislation along with a minimum corporate tax rate of 15% and other tax provisions aimed at wealthy individuals, while still keeping moderate Democrats on board. However, critical Democratic votes in the US Senate, Joe Manchin of West Virginia and Krysten Sinema of Arizona have not yet signaled they would vote for the plan. Meanwhile the Democratic-led House of Representatives are modifying the framework to provisions to lower drug prices and re-insert paid family leave. Additionally, Democrats still need to address the debt ceiling limit which will re-assert itself in early December. We still expect a deal to emerge among Democrats to move this bill forward, but brace yourself for more brinksmanship between progressives and moderates as we head into the Thanksgiving holiday.

CHART OF THE WEEK

Spending Shifting from Goods to Services



Source: Clearstead, Bloomberg LP, as of 30-Oct, PCE = Personal Consumption Expenditures of Services and both Durable and Non-durable Goods

The recent GDP report highlighted a slower pace of consumer spending following the brisk pace witnessed in the earlier part of the year. While spending on goods has more than recovered the pre pandemic peak, spending on services is just now closing in on the levels seen in the pre pandemic period. We would expect that services related spending begins to outstrip goods related spending in the coming months as the economy continues to normalize.

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