STOCK MARKETS DROP AS DEBT CEILING FIGHT COMES INTO FOCUS, INFLATION CONTINUES RISING AND 11 MILLION JOBS REMAIN OPEN

- U.S. equity investors had a rough time during the holiday-shortened week as all the major domestic equity indices dropped an uncomfortable amount
- The small-cap Russell 2000 (-2.8%) fared the worst, but the mega-cap DJIA (-2.2%) was not too far behind
- The S&P 500 dropped 1.7% while the technology-infused NASDAQ lost 1.6%
- Every single one of the 11 S&P 500 sectors finished the week in the red, with Real Estate (-3.9%), Health Care (-2.7%), and Industrials (-2.5%) ending the week redder than the others
- Wall Street really couldn't point to a single main event that dragged down markets, but there was a palpable cloud hanging over the markets all week
- Treasury Secretary Yellen warned lawmakers that the consequences of not resolving the debt-ceiling could be significant
- The 10-year Treasury yield increased two basis points to 1.34%
- As markets crept lower every single day, the Volatility Index, as measured by the VIX, crept higher, ending the week at 21, much higher than where it began (16)
- WTI Crude added about 50 cents to end the week at $69.72/barrel

Weekly Market Update – September 10, 2021

	Close	Week	YTD
DJIA	34,608	-2.2%	13.1%
S&P 500	4,459	-1.7%	18.7%
NASDAQ	15,115	-1.6%	17.3%
Russell 2000	2,228	-2.8%	12.8%
MSCI EAFE	2,381	-0.3%	10.9%
Bond Index*	2,378.68	0.03%	-0.56%
10-Year Treasury	1.34%	0.02%	0.4%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

Stocks Retreat to Kick Off September

It was only a four-day trading week due to the Labor Day holiday, but U.S. equity markets retreated every single day. In turn, volatility increased every single day too, although overall volumes were lower, likely due to the end of the summer holiday.

The Real Estate sector was the worst performer, hit hard as longer-term rates increased. And the small-cap Russell 2000 was also the worst performer, after having outperformed its larger-cap cousins for the past two weeks.

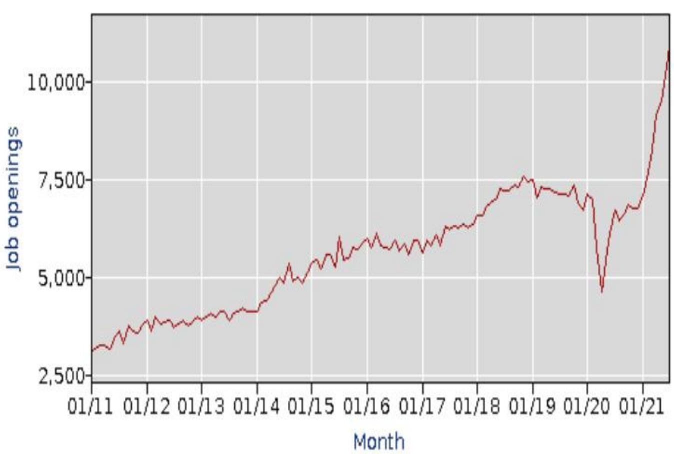
Wall Street could not point to one set of data or one event that pushed markets lower, but it could have been a self-fulfilling prophecy as market pundits kept preaching that September is historically the worst month for stocks.

Yes, there are worries that the delta variant might delay or even derail the economic recovery, especially as summer winds down and kids are returning to school. On Thursday, President Biden announced a six-step plan to combat COVID that will require all employers with more than 100 employees make vaccinations mandatory. Interestingly, while such an announcement might normally rattle markets, traders seemed more worried about uncertainty surrounding the federal debt ceiling. And as if on cue, Treasury Secretary Janet Yellen reiterated her plea for Congress to take action.

On Wednesday, the "Job Openings and Labor Turnover Survey" data reported that there were close to 11 million positions waiting to be filled in July, much higher than expected. Finally, inflation worries may have weighed Wall Street down too, as the Labor Department reported that producer prices rose 0.7% in August, much worse than consensus expectations for a 0.6% increase.

JOLTS Report Shows 11M Openings

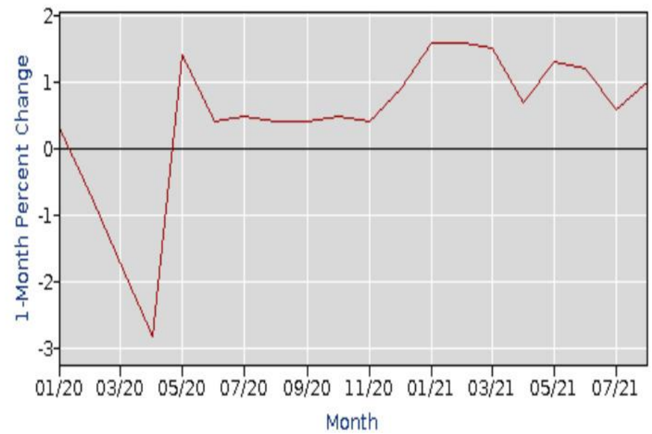
On Wednesday, the U.S. Bureau of Labor Statistics reported that the number of job openings increased to a series high of 10.9 million on the last business day of July.



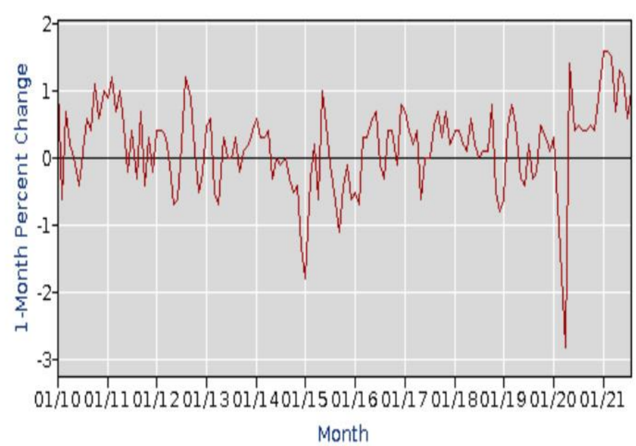
"On the last business day of July, the number and rate of job openings increased to series highs of 10.9 million (+749,000) and 6.9 percent, respectively. Job openings increased in several industries, with the largest increases in health care and social assistance (+294,000); finance and insurance (+116,000); and accommodation and food services (+115,000). The number of job openings increased in the Northeast, South, and West regions."

Inflation Rises Again

On Friday, the U.S. Bureau of Labor Statistics reported that the Producer Price Index for final demand increased 0.7% in August and final demand prices moved up 1.0% in July, the same as in June.



In addition, on an unadjusted basis, the final demand index rose 8.3% for the 12 months ended in August, the largest advance since 12-month data were first calculated in November 2010.



"Prices for final demand services moved up 0.7 percent in August, the eighth consecutive advance. Two-thirds of the broad-based increase in August can be traced to the index for final demand trade services, which rose 1.5 percent. (Trade indexes measure changes in margins received by wholesalers and retailers.) Prices for final demand transportation and warehousing services and for final demand services less trade, transportation, and warehousing climbed 2.8 percent and 0.1 percent, respectively."

"Over 30 percent of the August increase in prices for final demand services can be traced to a 7.8-percent rise in margins for health, beauty, and optical goods retailing. The indexes for transportation of passengers (partial), chemicals and allied products wholesaling, bundled wired telecommunications access services, machinery and equipment parts and supplies wholesaling, and traveler accommodation services also moved higher. Conversely, prices for hospital outpatient care fell 1.5 percent. The indexes for hardware, building materials, and supplies retailing and for securities brokerage, dealing, investment advice, and related services also decreased."

Mortgage Applications Decline

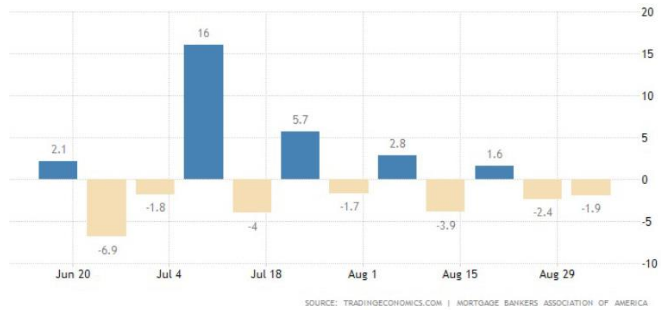
The Mortgage Bankers Association releases a survey that covers over 75 percent of all U.S. retail residential mortgage applications and has done so every week since 1990. Wall Street pays attention to this survey because it provides a gauge for housing demand and the overall economic climate. Look at it this way: when people feel confident enough to buy a house, it is very likely that they are more confident in their own financial situation.
But the housing market has a direct impact on so many other aspects of the economy too. Housing impacts construction jobs as well as consumer spending on items like refrigerators, washers, dryers and furniture.

Lowest Level Since July

On September 8th, the Mortgage Bankers Association reported that its Market Composite Index, a measure of mortgage loan application volume, decreased 1.9% from the previous week. This is after a 2.4% drop the week before. Further:

- The Refinance Index decreased 3% from the previous week and was 4% lower than the same week one year ago.
- The seasonally adjusted Purchase Index decreased 0.2% from one week earlier.
- The unadjusted Purchase Index decreased 3% compared with the previous week and was 18% lower than the same week one year ago.

"Mortgage application volume fell last week to its lowest level since mid-July, as mortgage rates have stayed just above 3% for several weeks. Refinance volume has been moderating, while purchase volume continues to be lower than expected given the lack of homes on the market."



"Economic data has sent mixed signals, with slower job growth but a further drop in the unemployment rate in August. We expect that further improvements will lead to a tapering of Fed MBS purchases by the end of the year, which should put some upward pressure on mortgage rates."

Mortgage Interest Rates Remain Low

- The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($548,250 or less) remained unchanged at 3.03 percent, with points decreasing to 0.33 from 0.34 (including the origination fee) for 80 percent loan-to-value ratio (LTV) loans. The effective rate decreased from last week.
- The average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $548,250) increased to 3.14 percent from 3.13 percent, with points increasing to 0.30 from 0.26 (including the origination fee) for 80 percent LTV loans. The effective rate increased from last week.
- The average contract interest rate for 15-year fixed-rate mortgages decreased to 2.37 percent from 2.39 percent, with points decreasing to 0.26 from 0.30 (including the origination fee) for 80 percent LTV loans. The effective rate decreased from last week.
- The average contract interest rate for 5/1 ARMs decreased to 2.56 percent from 2.80 percent, with points increasing to 0.17 from 0.13 (including the origination fee) for 80 percent LTV loans. The effective rate decreased from last week.

Sources: mba.org; bls.gov; conference_board.org; msci.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com