



WINTHROP
WEALTH

NOVEMBER 2021 MARKET RECAP

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The stock market decreased in November as the S&P 500 fell by -0.7%. Despite the drop, the market is still higher by +23.2% for the year. Most of the month was uneventful as the S&P 500 stayed close to all-time highs around the 4,700-price level (the all-time closing high of 4,705 was achieved on November 18th). However, the market suffered a post-Thanksgiving tryptophan hangover with a drop of -2.8% in the last three trading days of the month.

- **Style:** Growth (Russell 1000 Growth: +0.6%) exceeded Value (Russell 1000 Value: -3.5%).
- **Sector:** Only two were positive for the month with Technology (+4.4%) and Consumer Discretionary (+2.0%) as the leaders, and Communication Services (-5.2%) and Financials (-5.7%) as the laggards.
- **Yields:** The 10-Year Treasury decreased by 11 basis points to 1.44%.
- **Fixed Income:** The Bloomberg Barclays US Aggregate Bond index (Agg) increased by +0.3%.

The market weakness to end the month was caused by fears over the Omicron variant and the possibility the Fed may be forced to tighten monetary policy earlier than expected due to higher than anticipated inflation. We will continue to highlight that we have prepared for market volatility by taking profits and shifting portfolios more defensively. Moving into 2022, covid will remain an overhang while the markets and the economy will be forced to stand on their own, which means decreased levels of monetary and fiscal stimulus leading to decelerating rates of economic and corporate earnings growth. The removal of an unprecedented level of stimulus likely means higher volatility. Anticipating volatility does not mean that we are predicting a market crash. We are simply expecting the investment environment to get tougher as both volatility and market returns revert toward historical averages.

The markets have several critical events before the end of the year, including, the OPEC+ Meeting (12/1), US Government Funding Expiration (12/3), November Employment Report (12/3), Debt Ceiling Deadline (12/15, although Treasury can potentially utilize emergency measures to extend the date. Please see our [Client Question on the Debt Ceiling](#)), and the December FOMC Meeting (12/15 – an accelerated taper may be announced).

As we have done in the past, we will provide an update on the major factors driving the market:

Covid-19 - Omicron

The global battle against Covid-19 took a negative turn during the month as scientists discovered the Omicron variant. The World Health Organization (WHO) designated the strain a “variant of concern,” meaning that it could prove to be more contagious or lead to more serious illness than other known variants. Thus far, Omicron has been detected in South Africa, U.K., Italy, Australia, Belgium, Israel, and Hong Kong. Many countries have announced travel restrictions from South Africa, while Israel and Japan have banned the entry of all foreigners.

As of now, we are awaiting more information on the variant, including, transmissibility, severity, and effectiveness of the current vaccines. Regarding the efficacy of current vaccines, Pfizer CEO Albert Bourla stated, “I don’t think that the result will be the vaccines don’t protect, I think the result could be, which we don’t know yet, the vaccines protect less.” Both Pfizer and Moderna have stated that, if necessary, they can release an updated vaccine targeting Omicron within a few months. The United States markets will be very sensitive to the potential of any March 2020-style lockdowns, however, in our opinion this is unlikely as the country is now far better equipped to fight covid. Furthermore, President Biden publicly stated that “lockdowns are off the table.”

Monetary Policy

November contained two major monetary policy announcements: the start of tapering the quantitative easing program and the renomination of Jerome Powell as Fed Chair.

At the November 3rd meeting, the Fed announced they would begin tapering their quantitative easing program by \$15 billion per month. Prior to the meeting, the Fed was purchasing at least \$80 billion in Treasuries and \$40 billion in agency mortgage-backed securities per month. At the current pace, the Fed will stop purchasing bonds by the summer of 2022. However, the Fed is already considering accelerating the pace of the taper due to rising inflation.

Fed Chair Powell testified in front of a Senate Committee on November 30th and stated that “at this point, the economy is very strong and inflationary pressures are high, it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases perhaps a few months sooner. I expect that we will discuss that at our upcoming meeting.” Powell’s comments indicate that the FOMC may announce an accelerated taper at their December 15th meeting. We suspect that an accelerated taper in December depends on how much more is known about Omicron.

On November 22nd, President Biden announced that he would nominate Jerome Powell to a second term as Fed Chair. Despite some pushback from Progressives, Powell should be confirmed by the Senate with little trouble (Powell received 84 Senate votes in favor for his first term in 2018). In our opinion, Chair Powell deserves a lot of credit for taking forceful action during the early days of the pandemic and helping the country avoid a major economic recession and stock market crash. Now he faces a different challenge as the economy continues to recover and inflation has reached its highest level in decades. However, Powell has proven that he is a more-than-capable Fed Chair and deserves another term.

Inflation

Inflation readings continue to run at their highest levels in decades due to supply chain bottlenecks, surging energy prices, and pent-up demand. At a recent Senate Committee hearing, Fed Chair Powell finally admitted that it is time to “retire the word transitory” as it relates to inflation. The Fed’s preferred inflation measure (Core PCE inflation) increased by +4.1% Y/Y in October, well above the target of about 2%. The FOMC also acknowledged that the “risks around the inflation projection were skewed to the upside,” and they would be willing to complete the taper early and/or raise interest rates quicker than currently anticipated if necessary. The FOMC projections from September showed inflation ending the year at +3.7% before falling to +2.3% in 2022. The next FOMC projections will be released on December 15th, and we are curious to see what the new 2022 inflation projection will look like. Please see our Client Question on Inflation that details how the data is calculated, why the Fed cares about and targets inflation, and the impact it has on various asset classes (cash, fixed income, and equities).

Fiscal Update

President Biden signed the \$1 trillion infrastructure bill that includes about \$550 billion in new spending. The House passed the bill on November 5th after the Senate voted in favor in August. The bill includes funding for roads, bridges, public transit, power grids, drinking water, and broadband internet.

The House passed their version of the \$2 trillion Build Back Better budget reconciliation bill on November 19th. The measure includes spending for climate initiatives, prekindergarten, childcare, eldercare, paid leave, and immigration. To pay for the initiatives, the House bill contains a 15% corporate minimum tax rate, a 1% tax on corporate stock buybacks, a 5% surtax on individual adjusted gross income above \$10 million and an additional 3% on above \$25 million, and increasing the IRS workforce with a goal of tougher enforcement of tax laws. The Congressional Budget Office calculated that the House Reconciliation bill would contribute \$367 billion to the deficit over 10 years (this number does not include increased tax collection from a larger IRS workforce). The Senate still needs to pass their version of the bill, which will likely look different than what the House passed. Senate Majority Leader Chuck Schumer (D; New York) is targeting the week of December 13th for the vote, while Senator Joe Manchin (D; West Virginia) has expressed some hesitation to support another spending package in the face of rising inflation. If Senate Republicans unanimously oppose the bill, Democrats cannot afford to lose any votes.

Economic Data

Real GDP is still estimated to increase by +5.5% in 2021 and +3.9% in 2022. Labor Market: The labor market continues to exhibit signs of recovery as the latest Bureau of Labor and Statistics Employment report showed an increase of +531,000 jobs in October. Since the start of the pandemic, the labor force has lost about 4.2 million jobs, while the latest Job Openings and Labor Turnover Survey (JOLTS- September) reported over 10.4 million job openings. The November employment report, which will be released on December 3rd, is forecasted to add +550,000 jobs with the unemployment rate falling to 4.5%. Going Forward: While inflation, supply chain issues, covid, and fading stimulus will remain an overhang, the economy is on solid ground supported by a recovering labor market and strong consumer.

NOVEMBER MARKET RETURNS

US Equity											
Index	November	YTD 2021	2020	2019	2018	2017		3-Year	5-Year	10-Year	20-Year
S&P 500	-0.70%	23.17%	18.39%	31.48%	-4.39%	21.82%		20.37%	17.88%	16.16%	9.32%
Russell 3000	-1.52%	20.88%	20.88%	31.01%	-5.25%	21.12%		20.19%	17.49%	15.96%	9.57%
Dow Jones Industrial Average	-3.50%	14.61%	9.72%	25.34%	-3.48%	28.11%		12.95%	15.04%	13.79%	9.08%
Nasdaq	0.34%	21.31%	45.05%	36.74%	-2.81%	29.73%		29.67%	25.13%	20.87%	12.16%
S&P 400	-2.95%	18.71%	13.65%	26.17%	-11.10%	16.23%		14.71%	12.43%	13.63%	10.54%
Russell 2000	-4.19%	12.28%	19.93%	25.49%	-11.03%	14.63%		14.19%	12.11%	13.14%	9.54%
Russell 1000 Growth	0.61%	24.95%	38.49%	36.39%	-1.51%	30.21%		29.21%	25.09%	19.48%	10.72%
Russell 1000 Value	-3.53%	17.71%	2.78%	26.52%	-8.28%	13.64%		11.43%	10.33%	12.54%	8.11%
International Equity											
MSCI Index	November	YTD 2021	2020	2019	2018	2017		3-Year	5-Year	10-Year	20-Year
EAFE	-4.65%	5.84%	7.82%	22.01%	-13.79%	25.03%		9.83%	9.19%	7.35%	6.10%
Europe	-5.93%	7.09%	7.89%	23.20%	-16.90%	28.07%		10.59%	10.00%	7.69%	5.48%
Japan	-2.47%	-0.18%	14.48%	19.61%	-12.88%	23.99%		8.45%	8.31%	8.05%	5.16%
China	-5.97%	-19.17%	29.49%	23.46%	-18.88%	54.07%		6.68%	9.14%	7.07%	11.24%
Emerging Markets	-4.08%	-4.34%	18.31%	18.42%	-14.57%	37.28%		9.27%	9.51%	4.82%	9.90%
ACWI ex US	-4.50%	3.54%	10.65%	21.51%	-14.20%	27.19%		9.95%	9.27%	6.63%	6.64%
US Fixed Income											
Bloomberg Barclays Index	November	YTD 2021	2020	2019	2018	2017		3-Year	5-Year	10-Year	20-Year
Aggregate	0.30%	-1.29%	7.51%	8.72%	0.01%	3.54%		5.52%	3.65%	3.05%	4.31%
Treasury Bills	0.00%	0.04%	0.54%	2.21%	1.83%	0.81%		0.99%	1.09%	0.58%	1.22%
Corporates	0.06%	-0.96%	9.89%	14.54%	-2.51%	6.42%		8.15%	5.42%	4.95%	5.49%
Securitized MBS/ABS/CMBS	-0.10%	-0.95%	4.18%	6.44%	0.99%	2.51%		3.79%	2.60%	2.45%	
High Yield	-0.97%	3.34%	7.11%	14.32%	-2.08%	7.50%		7.39%	6.29%	6.87%	7.71%
Munis	0.85%	1.35%	5.21%	7.54%	1.28%	5.45%		5.09%	4.38%	3.90%	4.49%
US Equity Sectors											
Index	November	YTD 2021	2020	2019	2018	2017		3-Year	5-Year	10-Year	20-Year
Technology	4.35%	30.12%	43.88%	50.29%	-0.29%	38.83%		37.08%	31.64%	23.40%	12.29%
Real Estate	-0.85%	32.58%	-2.17%	29.00%	-2.23%	10.85%		15.71%	13.60%	10.92%	
Industrials	-3.50%	14.98%	11.05%	29.32%	-13.32%	21.01%		13.81%	11.72%	13.73%	8.48%
Energy	-5.16%	49.78%	-33.68%	11.81%	-18.10%	-1.01%		-1.01%	-1.70%	0.84%	6.43%
Consumer Discretionary	1.97%	24.75%	33.30%	27.94%	0.82%	22.98%		24.92%	21.41%	19.73%	11.56%
Communication Services	-5.16%	18.57%	23.61%	32.69%	-12.53%	-1.25%		21.71%	12.67%	11.76%	6.40%
Consumer Staples	-1.10%	7.56%	10.75%	27.61%	-8.39%	13.49%		11.38%	10.27%	11.47%	9.11%
Utilities	-1.65%	7.33%	0.52%	26.35%	4.11%	12.10%		9.37%	10.79%	10.43%	8.35%
Materials	-0.49%	18.33%	20.73%	24.58%	-14.70%	23.84%		18.33%	13.48%	11.81%	9.39%
Financials	-5.68%	30.59%	-1.76%	32.09%	-13.04%	22.14%		14.56%	13.32%	16.20%	5.25%
Health Care	-3.00%	15.74%	13.45%	20.82%	6.47%	22.08%		13.18%	15.73%	16.50%	8.81%
Calendar Year Returns							Annualized Returns				

SOURCE: Bloomberg

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The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.