Great-West Investments Capital Markets Perspective

Week in Review: November 15th – 20th

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD	INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD
Dow Industrials	Lg. Cap Eq.	35,601.98	-1.38%	17.81%	FTSE 100	UK Equity	7,223.57	-1.69%	11.81%
S&P 500®	Lg. Cap Eq.	4,697.98	0.32%	25.94%	Nikkei 225	Japan Equity	29,745.87	0.46%	8.39%
NASDAQ Comp.	US Equity	16,057.44	1.24%	25.02%	EEM:US	Emkt. Equity	$50.92	-2.08%	-0.97%
S&P Midcap 400©	Mid-Cap Equity	2,870.72	-1.08%	24.46%	EFA:US	Non-US Equity	$80.34	-1.28%	10.05%
Russell 2000®	Sm. Cap Eq.	2,343.16	-2.84%	18.42%	UST 10y (yield)	US Treasury	1.55%	-0.02%	0.64%
Stoxx 50	Europe Eq.	4,356.47	-0.32%	21.96%	B/Barc AGG	Fixed Inc.	2,353.67	0.09%	-1.51%

Could it be? Is the mall *cool* again?!

If you spent your childhood in 1980s suburbia like I did, you were probably no stranger to the mall – after all, what's not to love about a place where you could get a pretzel dog, watch a movie and poke quarters into a *Galaga* machine until your fingers bled, all without even venturing outside? Without a doubt, the mall was the place to see and be seen. But that stopped being true about a decade and a half ago, when **online shopping began pushing malls out of our collective consciousness faster than a John Hughes movie on Oscars night**.

But if the Great American Mall is still in decline, **nobody bothered to tell some of their most recognizable tenants**: companies like Macy's, Victoria's Secret and Williams-Sonoma joined about a dozen and a half other retailers in **reporting earnings last week**, and results were **almost universally strong**. To be clear, that was true across almost the entire retail space, with all but one of the eighteen or so retailers that crossed the radar beating estimates easily. But one thing that stands out when you scan the results is how well the **market reacted to results from companies that have tended to maintain a big presence in shopping centers**: by my read, aside from the COVID-enhanced home improvement stores, that group seemed to fare better than just about any other sub-group of retailers in terms of post-results market performance[1].

Maybe that's a comment on our need to congregate in common spaces after a year and a half of relative isolation. Or maybe it's just coincidence. But either way, even beyond the fun-to-speculate-about tendency of mall-based retailers to outperform, **last week's retail earnings reports were sort of a microcosm of post-pandemic society**, ranging from the above-mentioned tendency of home improvement stores to absolutely crush it as we all struggle to finish our pandemic projects before hosting Thanksgiving dinner, to the drubbing handed US-listed Chinese firms that operate somewhere on the border between tech and retail as the policy environment in that country seems to darken further.

[1] Zacks.com, company reports, Bloomberg and GWI calculations

Another aspect of last week's market reaction to retail earnings that seems to capture COVID-related angst particularly well was the attention that investors seemed to pay to things like **improving margins** (companies that had them seemed to do pretty well post-results, those that didn't, didn't…) which is perhaps that's a clear statement on the ability to weather today's inflationary environment where the ability to pass through a greater percentage of higher costs onto customers could be a key determinant of success next year. Likewise for those few retailers that were able to credibly say that their **inventory situation might not be as dire** as some of their peers (a clear nod to continued supply chain stresses that we've all become so familiar with.)

Of course, that's a whole lot of reading into things that could just be coincidence. But when a bunch of notables in a single segment like retail all report results during the same week, it's only natural to look for connections to the overall environment. And **as a window into what's top of mind for markets, last week's retail earnings seemed to fit pretty well**.

So what else did we learn about retail spending last week? Well one thing's for sure, **the US consumer is still doing just fine.** Whether they chose to shop at the mall or from the comfort of their couches, US consumers spent 1.7% more during October than they did in September, with rising volumes across a wide swath of categories lifting sales significantly more than expected[2]. And it wasn't just gasoline, either: spending for things like electronics and appliances rose just as fast as spending for gas (even though that category was undoubtedly bloated by higher gas prices and a return-to-commuting for an ever-increasing portion of the nation's 9-to-5 warriors.) Looking forward**, the durability of that surge in spending will obviously depend on the extent to which it's in turn related to all the COVID-era liquidity that could begin to dry up in the near future**.

Regardless, that's probably a positive read on the state of the economy more generally, especially when viewed in the context of declining optimism as highlighted by previously released consumer confidence surveys from the University of Michigan and elsewhere**. Manufacturers, too, are feeling pretty good** despite wavering confidence – a trend evidenced by much-better-than-expected results from our two regional Fed reports last week, **Empire State[3] and Philly Fed[4].** Both reports continued to point out a few less-than-ideal things about the environment (including, from Philly, word that prices received were as high as they've been since the mid-1970s,) but were still **impressive on the whole**. Likewise for the Conference Board's index of leading economic indicators, where 8 of the index's 10 components were higher last month[5].

Even **housing**, a critical sector of the economy that has clearly cooled off of late, **had some relatively good news** for us last week: The National Association of Home Builders' monthly survey of builder confidence was unexpectedly strong, reaching its highest level since February amid strength across three of its four geographical regions[6]. That's **not quite enough to sound the all clear**, however: current activity continues to outpace things like foot traffic and prospective sales, which could continue to signal slightly leaner times ahead. Besides, **housing starts and permits** – the other big housing-related data from last week – was a mild disappointment[7]. Of note within *that* release, the number of homes completed is now tracking around 8.4% below year-ago levels, suggesting **little relief in sight for still-stretched inventories** of available homes.

Finally, a few policy-related odds-and-ends are worth mentioning. First, **President Biden signed the $550b bi-partisan infrastructure bill** into law on Wednesday, helping the baton pass from monetary to fiscal stimulus just as the latter starts to wane[8]. But while it's hard to describe a half-trillion dollar spending program as "**small potatoes**," that's exactly what it feels like when you stand it up against the still-pending **Build Back Better** bill that could flood the US economy with another $1.75t in spending. The fate of that bill, which **passed the House on Friday**[9], now moves to the Senate where its **fate is far less certain**.

[2] https://www.census.gov/retail/marts/www/marts_current.pdf
[3] https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2021/esms_2021_11.pdf?la=en
[4] https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/mbos-2021-11
[5] https://www.conference-board.org/pdf_free/press/US%20LEI%20PRESS%20RELEASE%20-%20November%202021.pdf/
[6] https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index
[7] https://www.census.gov/construction/nrc/pdf/newresconst.pdf
[8] https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/11/17/remarks-by-president-biden-on-the-bipartisan-infrastructure-law-2/
[9] https://clerk.house.gov/Votes/2021385

And then there was this: the government of **Austria re-imposed strict lock-down for all citizens regardless of vaccination status** on Friday in a bid to stem a fourth wave of COVID infections. Germany was reportedly considering similar measures, and although the US seems to be holding in somewhat better than those two countries so far[10], analysts are watching infection and hospitalization rates closely as we enter the holiday shopping- and travel season in earnest.

After all, few things would make a trip to the mall seem less fun than a big upswing in COVID.

What to Watch This Week: November 22nd – 28th

Notable economic events (November 22nd – 26th)

Monday: Existing home sales, CFNAI

Tuesday: Flash PMIs, Richmond Fed

Wednesday: Weekly claims, 3Q GDP (update)

Thursday: *Thanksgiving (US), markets closed*

Friday: *Half-day closure (US)*

Thursday's Thanksgiving Day holiday in the US guarantees that it will be **a relatively light week on the data front**. Key releases are limited to Tuesday's **Flash Purchasing Managers' indices**, which are very likely to show the economy is continuing to resist significant cost- and labor-market pressures to power itself higher. Likewise for Tuesday's **Richmond Fed** regional manufacturing report, which will probably follow its sibling reports (Empire State and Philly) to show **a strong – albeit choppy – environment for area manufacturers** despite continued cost pressures and a disconnected labor market.

That's not to suggest that the holiday-shortened week will be entirely without drama, however. Case-in-point: as I'm writing this, **markets are digesting the nomination of Jerome Powell for another term as Fed Chair**[11]. That's probably the best outcome for markets from a continuity perspective, but it also might disappoint some who had hoped for a more dovish touch like that expected to have been on offer had Lael Brainard (currently a member of the Fed's Board of Governors,) won the nomination. As it stands, **the doves will have to settle for Brainard as Vice-Chair**.

Finally, those on the lookout for a potential Holiday-stealing Grinch will be paying attention to find any progress at all on the **looming debt ceiling debate**, which seems to have been utterly ignored amid all the horse-trading surrounding the twin infrastructure bills making their way back and forth across the Capitol. The latest **"X-date"** (the day when the US Treasury could feasibly run out of cash,) **could be as early as December 15th.** With the holiday season now in full swing (and the big infrastructure bill still sucking all the air out of Washington DC,) progress on the debt ceiling **may not be high on the agenda**.

US bond and stock **markets are closed on Thursday and will trade only during the morning session on Friday** in observance of the Thanksgiving Day holiday.

Source for index data: Bloomberg.com; GWI calculations.

[10] https://coronavirus.jhu.edu/data/new-cases
[11] https://www.whitehouse.gov/briefing-room/statements-releases/2021/11/22/president-biden-nominates-jerome-powell-to-serve-as-chair-of-the-federal-reserve-dr-lael-brainard-to-serve-as-vice-chair/