

OBSERVATIONS

- Delta-wave Covid-19 cases have declined steadily since the 7-day average of cases per day peaked in early September at over 165,000 and now stands at about 100,000 cases per day on average over the past week.¹
- In Q3, the financial sector led the S&P 500 with a +2.3% gain, while industrials declined -4.6% during the quarter. The 6.9% in sector dispersion (difference between top and bottom performing sectors) in Q3 was the lowest since index sectors were first calculated in 1989, according to Bloomberg.²
- The S&P 500 recorded a -5% loss, for the first time since October 2020, from the beginning of September to Last Monday (4-Oct). Meanwhile bonds (Bloomberg Aggregate Bond Index) provided no relief with the index declining -0.8% over that stretch ([a year ago we pointed](#) out the difficulties of bonds providing a measure of protection for portfolios due to low yields and corresponding low coupon values).²
- The U.S. created 194,000 jobs in September—well below the consensus estimate of 500,000—and labor force participation dropped from August suggesting the labor market is losing momentum from this summer. The unemployment rate fell to 4.8% in September, while wages were up 4.6% year-over-year.³
- U.S. trade deficit increased to \$73 billion in August from \$70.3 billion in July. US exports increased 23% year-over-year while imports were up 21%. Meanwhile the backlog of container ships off the coast of southern California waiting to be unloaded has increased to over 80 due to shortages of space, workers, and truck drivers at the ports of LA and Long Beach.⁴
- Bitcoin surged to over \$54,000 last week after ending September below \$44,000 amid more regulatory scrutiny within the U.S. and last month's outright ban in China.⁵

EXPECTATIONS

- The S&P 500 gained +0.8% last week, capping off a volatile week, the focus begins to now shift towards earnings season — 19 companies are set to report results next week.^{1,6}
- Hotel occupancy was down -9.2% in the period 26-Sept to 2-Oct from the corresponding period in 2019 and only about 5% below the median occupancy for this period over the past 20 years. However, with summer travel over the hospitality sector is likely to experience several weeks of weakness as occupancy rates typically climb in the coming weeks primarily due business travel which remains depressed.⁷
- Natural gas prices eased -9% last week in Europe after spiking nearly 40% the week prior as Russian President Vladimir Putin indicated that Russia could increase supply as winter approaches. The International Energy Agency forecasts that Russia could increase gas exports to Europe by as much as +15% in the coming months, which should help avert rolling heating and electricity brown-out this winter.⁸

ONE MORE THOUGHT⁹ *Senate Averts Near-Term Debt Ceiling Induced Default*

The U.S. Senate voted last week along party lines—50 to 48—to raise the U.S. debt ceiling to last at least until early December. The vote occurred after 11 Republicans joined all 50 Democratic Senators to break the 60-vote filibuster

¹ <https://www.nytimes.com/interactive/2021/us/covid-cases.html>

² Bloomberg LP

³ <https://www.bls.gov/news.release/empsit.nr0.htm>

⁴ https://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf

⁵ <https://finance.yahoo.com/news/bitcoins-october-price-rise-suggests-near-term-crypto-bull-run-amid-regulation-191521695.html>

⁶ Factset Earnings Insight, as of 8-October

⁷ <https://www.costar.com/article/1970192611/str-us-hotel-performance-slides-in-latest-weekly-data>

⁸ <https://www.ft.com/content/82431e87-c8b9-435f-9bc6-482ed05ab535>

⁹ https://www.wsj.com/articles/schumer-says-deal-reached-on-short-term-debt-limit-extension-11633617347?mod=hp_lead_pos2

threshold. The bill now goes to the House Representatives who are likely to be called back from recess to act on the bill on 12-October. While the recent Senate vote averts any near-term risk of default, the issue will re-emerge in December. Democrats can raise the debt ceiling unilaterally via the reconciliation process—without any support or cooperation from Republicans—but this option may only be viable if Democrats have fully united around President Biden’s broader taxing and spending proposals. Stay tuned for more brinksmanship in Washington DC as we head into the winter holidays.

CHART OF THE WEEK

Federal Reserve Open Market Committee (FOMC)
Voting Members by Year

**More Dovish
FOMC Members**

Powell (Board of Governors, Chair)
Williams (New York, Vice Chair)
Bowman (Board of Governors)
Brainard (Board of Governors)
Clarida (Board of Governors)
Daly (San Francisco)
Evans (Chicago)

Powell/TBD (Board of Governors, Chair)
Williams (New York, Vice Chair)
Bowman (Board of Governors)
Brainard (Board of Governors)
Clarida (Board of Governors)

Powell/TBD (Board of Governors, Chair)
Williams (New York, Vice Chair)
Bowman (Board of Governors)
Brainard (Board of Governors)
Clarida (Board of Governors)
Evans (Chicago)
Kashkari (Minneapolis)



**More Hawkish
FOMC Members**

Quarles (Board of Governors)
Waller (Board of Governors)
Barkin (Richmond)
Bostic (Atlanta)

Quarles (Board of Governors)
Waller (Board of Governors)
Mester (Cleveland)
Bullard (St. Louis)
Rosengren/TBD (Boston)
George (Kansas City)

Quarles (Board of Governors)
Waller (Board of Governors)
Harker (Philadelphia)
Kaplan/TBD (Dallas)

Source: Clearstead, BofA Global Research, U.S. Federal Reserve, Hawks are policymakers that tend to focus on controlling inflation, Doves are policymakers that tend to be more focused on economic growth and job creation

The announced retirement/resignation of Eric Rosengren (Fed-Boston) and Robert Kaplan (Fed-Dallas) in the aftermath of the disclosure of their ethically questionable 2020 stock trading paves the way for more than expected changes in the Federal Reserve’s policy setting committee. Additionally, Federal Reserve Chair Powell’s term ends in February 2022 and will face reappointment, or a new chair nomination will be presented. Betting market PredictIt has Powell’s odds of retaining his Chairmanship at 69%.



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