

# THE ECONOMY AT A GLANCE

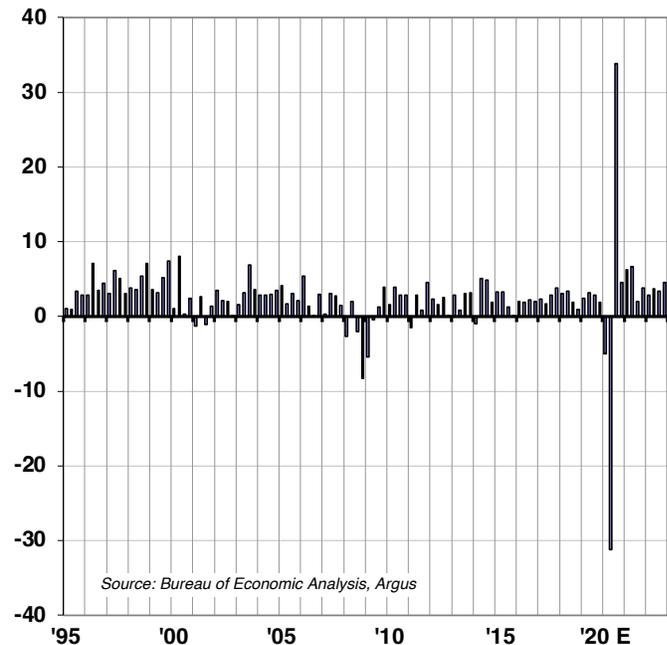
## ECONOMIC HIGHLIGHTS

November 8, 2021  
 Vol. 88, No. 158

### GDP GROWTH SLOWS IN 3Q

The U.S. GDP growth rate decelerated sharply in 3Q21 to an annualized 2.0% (below Street estimates that were generally in the 3.0%-4.0% range). First-half GDP growth averaged 6.5%. There were a few pockets of strength in 3Q, including investments in intellectual property products (up 12.2%), personal consumption expenditures on services (up 7.9%), and state and local spending (up 4.4%). These were offset by a 26.2% decline in personal consumption expenditures on durable goods, a 7.7% decline in residential investment, and a 5.1% decline in exports of goods. Inventories again fell sharply. Much of the weakness can be attributed to supply-chain challenges that have depleted auto lots (impacting spending on durable goods) and higher commodity prices (impacting residential investment). The Delta variant, which surged early in 3Q, did not help overall growth in personal consumption expenditures, which fell to just 1.6%. Of course, the GDP report is backward-looking and not the only data point the market considers. Elsewhere, the Labor Department reported that initial weekly unemployment claims fell to their lowest level since the start of the pandemic. We look for GDP growth to rebound in the quarters ahead.

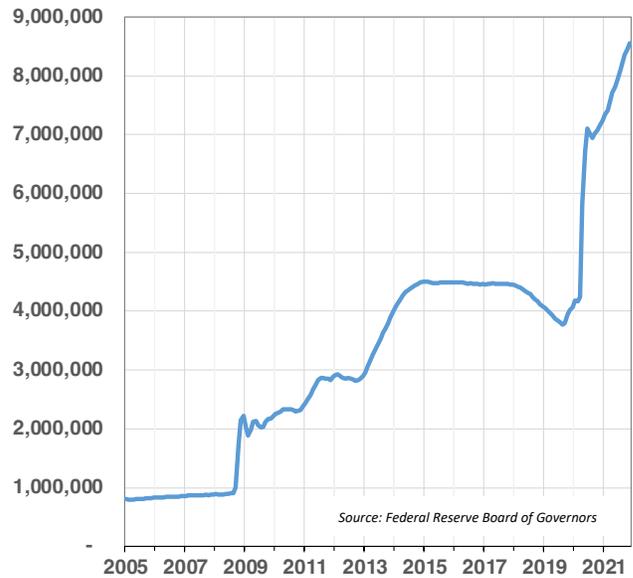
REAL GDP (% GROWTH/QTR)



## TIME TO TAPER

As expected, the Federal Reserve will start to pull back on some of the accommodative steps it used to guide the economy through the pandemic. Fed Chair Jerome Powell said that the central bank would begin to reduce monthly net asset purchases in November. This does not mean the Fed is slamming on the brakes. It has been purchasing \$120 billion in Treasury and mortgage-backed bonds each month to help keep long-term interest rates low, and expects to reduce that total by \$15 billion per month until the program winds down next summer. Mr. Powell has not given any indication that a hike in the fed funds rate is near; we continue to expect the first increase later next year (the Fed’s dot-plot forecasts call for as many as six or seven rate hikes by the end of 2024). Mr. Powell said that it was time to taper because of the “substantial further progress the economy has made.” Notably, he did refer to inflation as “elevated” rather than as “transitory.” His term as Fed chair ends in February. It is not clear whether he will still be in the job to see if inflation does indeed come under control.

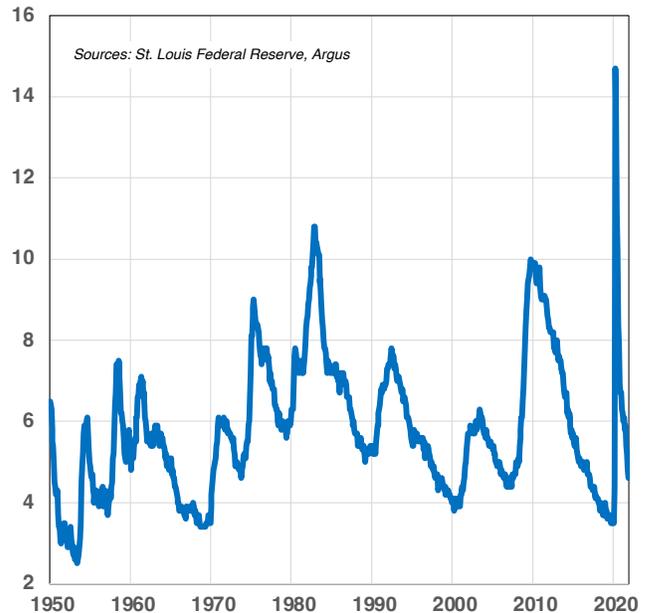
**FEDERAL RESERVE BALANCE SHEET  
(FED ASSETS, \$ MIL)**



## JOBS GROWTH PICKED UP IN OCTOBER

The U.S. economy improved in October, creating 531,000 new payroll jobs. That’s above the September total of 312,000, as the fourth wave of the pandemic continued to ease. In other positive news, the unemployment rate dropped two-tenths of a percent to 4.6%; nonfarm payrolls for August were revised up by 117,000, to 483,000; and September’s total was raised by 118,000. The number of unemployed persons fell to 7.4 million in October -- still about 30% above pre-pandemic levels. Nonfarm employment has risen by 18.2 million from the trough in April 2020, but is down by 4.2 million, or 3%, from the pre-pandemic level in February 2020. In October, job gains occurred in leisure and hospitality, professional and business services, manufacturing, construction, and retail. Looking ahead, we expect to see continued strong hiring as new COVID cases decline (the seven-day average is now 71K, compared to 150K two months ago).

**U.S. UNEMPLOYMENT RATE (%)**

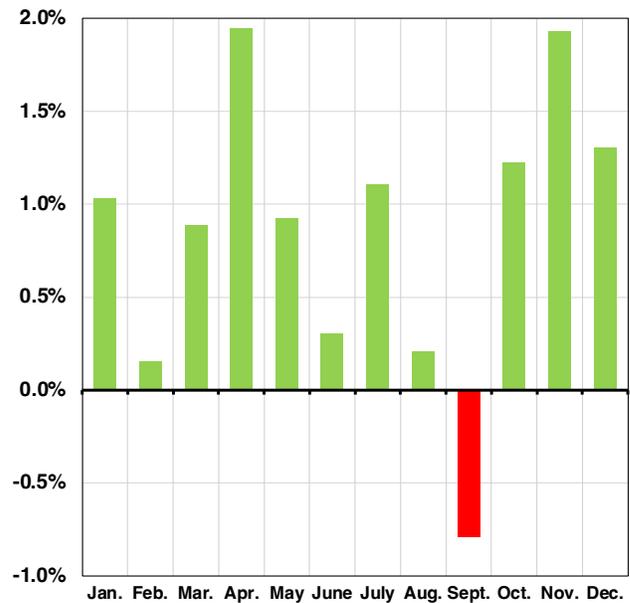


# FINANCIAL MARKET HIGHLIGHTS

## INVESTORS LIKE NOVEMBER

The U.S. stock market tends to rise. This long-term upward trajectory has its foundation in the country's democratic political system and its market-based, capitalist economic system. In theory, the stock market efficiently allocates the nation's capital to generate solid investment returns. Theory typically turns into reality in November, which since 1980 has been the second-best month for equity performance, with an average 1.93% gain, narrowly trailing April (+1.95%) but ahead of December (+1.3%), July (1.1%), and January (+1.0%). November's batting average is high as well: stocks rise during the month 73% of the time. The best Novembers have been 1980 (+10.2%), 2001 (+7.5%), 1996 (+7.3%), 1985 (+6.5%), and 1998 (+5.9%). There have been some clunkers: 2000 (-8%), 2008 (-7.5%), and 1987 (-5.9%). The month usually starts fast, as some companies are still reporting earnings, nonfarm payrolls are reported, and IPOs are launched before the holiday season. At times -- this November being one -- the Fed meets. Had the central bank been too aggressive in its tapering plan, it might have created a tall hurdle for the market to overcome in this historically strong month for stocks.

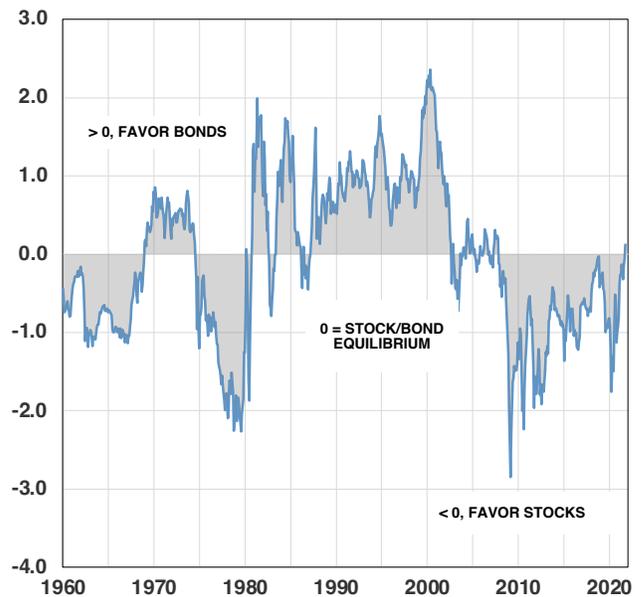
### AVERAGE MONTHLY STOCK MARKET APPRECIATION



## STOCKS, BONDS BOTH OVERVALUED

Our bond/stock asset-allocation model indicates that stocks and bonds -- both of which are overvalued against their own metrics -- are near fair value against each other. Our model takes into account current levels and forecasts of short-term and long-term fixed-income yields, inflation, stock prices, GDP, and earnings. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks of 0.15 sigma, with a standard deviation of 1.0. The current valuation level is a 0.12 sigma premium for stocks. The model has done a good job of highlighting asset-class value. Stocks were very attractive compared to bonds in the late 1970s, when benchmark Treasury rates were in the high teens. The model indicated that stocks were at a sharp premium compared to bonds prior to the "dot-com" crash of 2001 and also at a premium prior to the Great Recession. In 2009, the model favored stocks over bonds -- another good call. Markets can manage with premiums and discounts for extended periods. But the current high valuation on stocks leaves little room for disappointment.

### BOND V STOCK BAROMETER (STANDARD DEVIATIONS)



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Nov	PPI Final Demand	October	0.5%	0.5%	0.6%	NA
	PPI ex-Food & Energy	October	0.2%	0.3%	0.5%	NA
10-Nov	Consumer Price Index	October	0.4%	0.4%	0.5%	NA
	CPI ex-Food & Energy	October	0.2%	0.2%	0.3%	NA
	Wholesale Inventories	September	1.1%	1.3%	1.1%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
22-Nov	Existing Home Sales	October	6.29 M	NA	NA	NA
24-Nov	Real GDP	3Q	2.0%	NA	NA	NA
	Durable Goods Orders	October	-0.4%	NA	NA	NA
	Personal Income	October	-1.0%	NA	NA	NA
	Personal Spending	October	0.6%	NA	NA	NA
	New Home Sales	October	800000	NA	NA	NA
	GDP Price Index	3Q	5.7%	NA	NA	NA

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

