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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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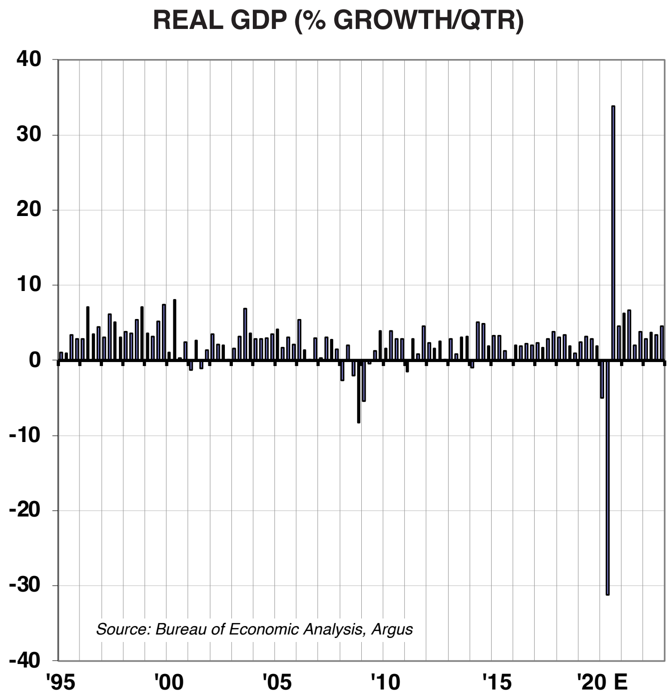
GDP GROWTH SLOWS IN 3Q

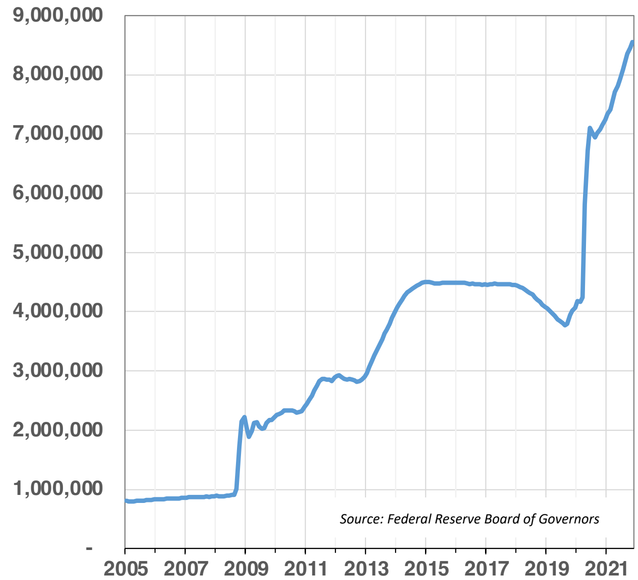
The U.S. GDP growth rate decelerated sharply in 3Q21 to an annualized 2.0% (below Street estimates that were generally in the 3.0%-4.0% range). First-half GDP growth averaged 6.5%. There were a few pockets of strength in 3Q, including investments in intellectual property products (up 12.2%), personal 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.



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.

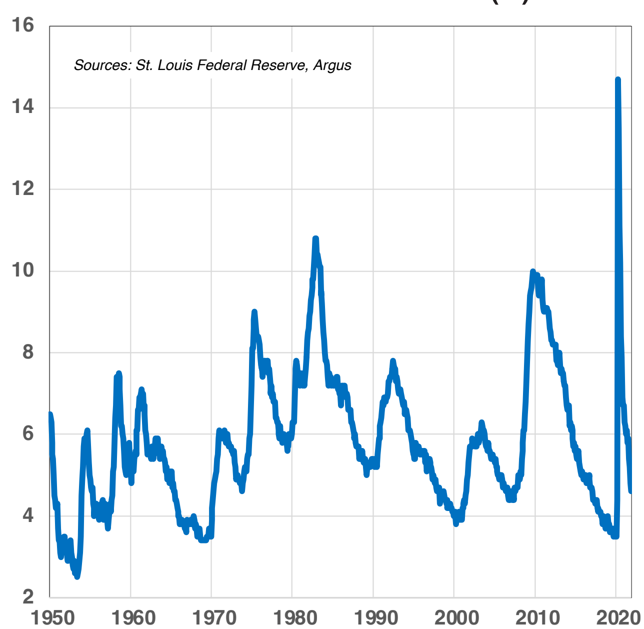
FEDERAL RESERVE BALANCE SHEET
(FED ASSETS, $ MIL)



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 (%)

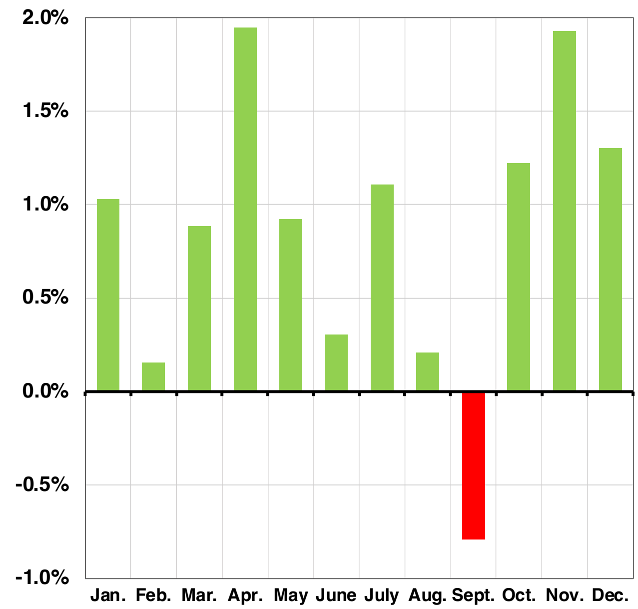


FINANCIAL MARKET HIGHLIGHTS

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.

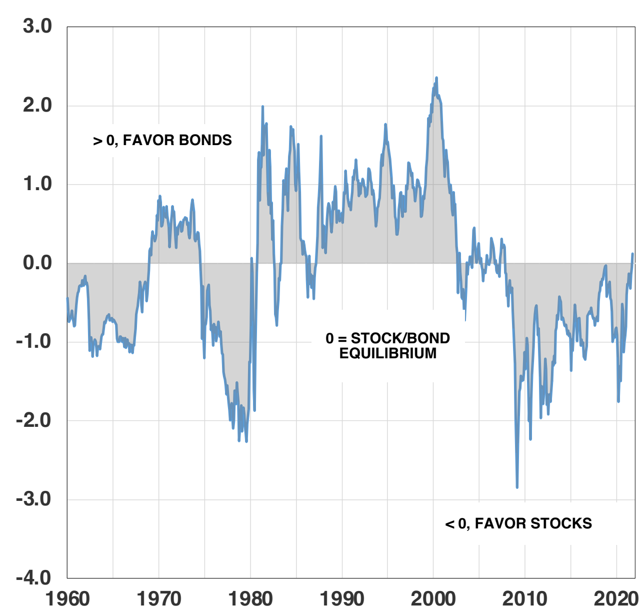
AVERAGE MONTHLY STOCK MARKET APPRECIATION



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