



Market in a Minute

November 30, 2021

Index Performance: As of November 26, 2021

Index	Price	Last Week	YTD
S&P 500	4,594.62	-2.20%	24.16%
Dow Jones	34,899.34	-1.97%	15.47%
NASDAQ	15,491.66	-3.52%	22.00%
Russell 2000	11,608.56	-4.13%	16.39%
Russell 2000 Growth	10,845.18	-4.93%	5.62%
Russell 2000 Value	16,352.38	-3.30%	28.30%
Russell 1000 Value	3,020.71	-3.26%	26.58%
SPDR Gold Shares	166.85	-3.34%	-8.49%
GS Crude Oil Total Return	128	-	12.93%
Powershares US \$ Index	25.77	0.08%	6.22%
iShares EAFE Index	77.13	-4.00%	5.17%
iShares Barclays 20+ Yr Treasury Bond	150.53	1.46%	-4.45%
Utilities Select Sector ETF	66.76	-0.80%	9.23%
Vanguard REIT ETF	108	-1.30%	31.43%
iShares Mortgage Real Estate	36.28	-1.63%	17.45%
Alerian MLP ETF	33.18	0.27%	30.42%
iShares Global Telecom	83.53	-2.84%	13.46%
ETFMG Alternative Harvest ETF	12.68	-3.50%	-14.67%
Grayscale Bitcoin Trust	44.33	-5.96%	26.37%
Shanghai SE Index	3,564.09	0.10%	1.75%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of November 26, 2021

A Word on the Market

By: Patrick Adams, CFA



On Friday, the market was surprised by a new Covid variant dubbed **Omicron**, which we still don't know the effectiveness of the vaccine versus this variant. The stock market fell more than -2% due to this surprise and unknown risk. **The news is likely not as bad as the headline**, but the market was already concerned about **Austria (virtually no global economic significance) locking down and concerns about Europe's largest economy Germany doing something similar**. Omicron will need to be monitored but we are very skeptical that this will actually be anything similar to Corona. Just keep in mind, it is generally not the catalyst that starts a correction or bear market, but the underlying issues push the market lower. We would not expect a serious decline without a better fundamental catalyst, such as bond yields moving higher or a final parabolic move up in the stock market. **Our message, risk is high for both the stock and bond market, it is a long way down, have a plan. PVG's tactical and Loss Averse strategies are very appropriate for this kind of market.**

The underlying issues are a long list, but the key factors are valuations, similar to the tech bubble of 1999 and inflation is similar to the 1970's. **High stock valuations and high inflation cannot coexist very long.** The bond market has not yet adjusted yields to compensate for higher inflation, when this occurs the market will likely begin its decline. Perhaps inflation will magically disappear.

Below is the past 10 years of the forward P/E of the S&P 500, currently at about 21x. During Corona the P/E went as low as 13x, which would equate to a nearly -40% drop. We believe we could easily see the market 10% lower based on the Federal Reserve tapering. The expectations for next year are that interest rates will move higher, and earnings growth will slow significantly. This would imply a 19x multiple or the peak

Index	Price	Last Week	YTD
Information Technology	2,908.63	-3.23%	29.26%
Consumer Disc.	1,612.87	-3.61%	25.24%
Consumer Staples	748.44	-0.23%	8.68%
Health Care	1,534.35	-0.86%	16.51%
Financials	643.93	-0.60%	33.10%
Industrials	103.21	-2.38%	19.44%
Energy	418.74	1.66%	46.16%
Communications Services	265.98	-3.26%	21.69%
Utilities	337.32	-0.97%	8.55%
Materials	541.52	-2.26%	20.06%
Real Estate	298.36	-0.87%	35.37%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates			
Fed Fund	.25	5-Year	1.16
3-Month	0.06	10-Year	1.48
6-Month	0.10	30-Year	1.83
2-Year	0.50		

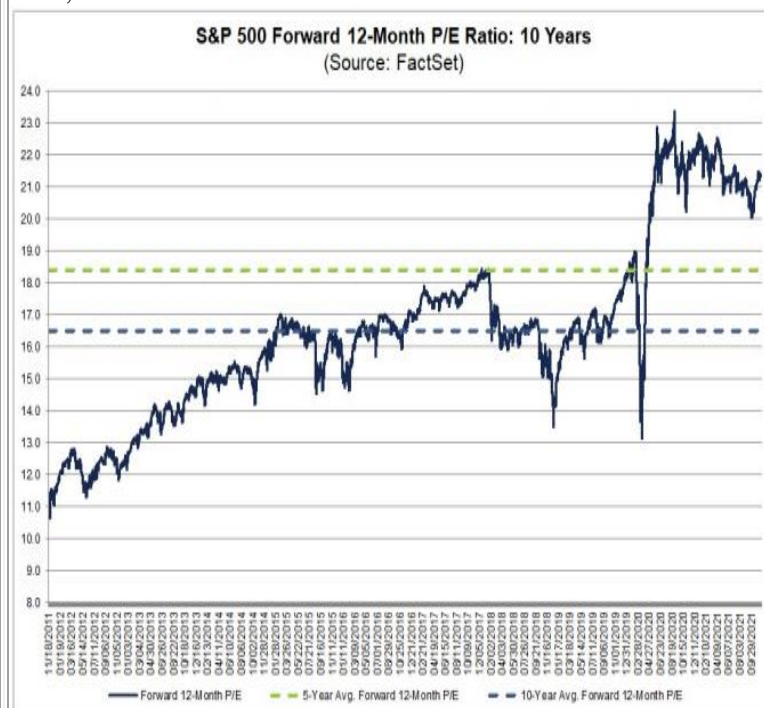
Source: Bloomberg.com

Economic Events This Week			
30-Nov	GDP m/m	0.0%	0.4%
1-Dec	ADP Non-Farm Employment Change	525K	571K
2-Dec	ISM Manufacturing PMI	59.9	60.8
3-Dec	Employment Change	39.5K	31.2K
3-Dec	Unemployment Rate	6.6%	6.7%
3-Dec	ISM Services PMI	64.9	66.7

Source: Briefing.com

Economic Events Last Week	
Date	Event

multiple under Trump before the virus hit. This seems like best case, and the market is in a best-case mode.



This week there are some important data points.

- 1) Omicron will likely be mapped out soon, likely next week and we will likely see how Germany/Europe react.
- 2) **On Tuesday the Case-Shiller home price index is reported**, it will be consistent with previous reports, up around 20% price increase year-over-year. This is important to inflation, the effect will hit the government CPI report in about 6 months, and on its own will cause the CPI to be up about 4.6%, (CPI is actually running up about 11%, not the latest report of 6.2%).
- 3) **OPEC will announce on Thursday any change in oil production policy** given Omicron and the release of 2.5 days of oil consumption from the Strategic Petroleum Reserve.
- 4) **The Employment Report on Friday** will likely be reasonably strong allowing the Fed to continue to taper.

As we discussed previously, the mega-cap technology stocks are such a large part of the indexes it will be difficult for these stocks to have any sort of significant move up. Liquidity needs to go somewhere, and it has been going into these stocks. What efficient markets generally do is move to the areas that are most attractive based on fundamentals and technicals, we would expect to see a rotation into small caps soon, but the technicals need to improve first.

Below are one-year charts of the S&P 500 and the Russell 2000, our support area for the S&P 500 is around 4530, which is also the 50-day moving average. The S&P 500 is working off an overbought condition and has lost a little momentum by breaking the 20-day moving average. We view the consolidation as healthy, but it needs to come down more in price or stay where it is for a longer period of time.

Existing-home sales have slight gains as demand for housing remains strong	22-Nov
Shortages remain, but the U.S. economy grows rapidly in November	23-Nov
U.S. economy grew at 2.1% in third quarter	24-Nov
U.S. consumer spending up big in October	24-Nov
Source: Briefing.com	

The Russell 2000 has been consolidating for about 10 months now and is beginning to show some signs of life after digesting a 136% move off the bottom of Corona in March 2020. If it holds the 200-day, it likely has a nice move into the New Year. Fundamentally, we like this area of the market, but it does have more risk.

S&P 500 Index 1-year Chart



Russell 2000 Index 1-year Chart

Russell 2000 (^RUT) ☆

Chicago Options - Chicago Options Delayed Price. Currency in USD

2,265.64 **+19.71 (+0.88%)**

As of 12:58PM EST. Market open.

⊕ Indicators ⊕ Comparison 1Y ▾

1D ▾ ↗ ▾



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