*PlanWiser Financial*
*201 E Las Animas St., Suite 101*
*Colorado Springs, CO 80903*

*719-822-0808*
*info@planwiser.com*
*www.planwiser.com*

# Monthly Market Commentary: September 2021

Inflation remains the topic du jour after a lower-than-expected August Consumer CPI report of 0.1% (vs an expected 0.3%). Will inflation start falling or remain stubbornly high? Our expectations are inflation will continue to grow into 2022 before leveling off and falling back to a 2.5% annualized number later in the year. Of course, that assumes supply chains, the Delta variant, and labor all begin to normalize this quarter.

On the business side of things, the Producer Price Index (PPI) also showed increasing prices. Some (if not all) of these pricing increases will reach consumers. Some data continues to befuddle economists, with August retail sales growing 0.7% (vs an expected -0.6%), driven by furniture and general merchandise items. On the other hand, used cars fell by more than 3% as pricing fell off their June/July highs. The Fed is keeping a close eye here to determine what measures may be needed to slow down demand.

The labor market has also been a focus of the Fed and part of their reluctance to ease monetary policy. In August, the number of new jobs significantly – and surprisingly - missed estimates, with the US economy only adding 235,000 new jobs[1]. On the bright side, July's report was revised upwards to just over 1 million. Unfortunately, it appears the Delta variant is slowing down hiring as we head into the Fall, with leisure and hospitality jobs that have been big contributors to the past month's gains grinding to an abrupt halt. With the revisions and underwhelming new jobs numbers, the unemployment rate dropped to 5.2%. It's worth noting average hourly earnings rose 0.6% (vs. an expected 0.3%).

Together, the jobs report and a slightly cooling inflation picture may give the Fed a little more breathing room as they discuss near-term monetary policy changes. The market is currently anticipating the Fed's interest rate policy to remain steady through the end of the year and potentially through to early 2023 as well[2]. However, we're expecting the Fed to reduce its influence in the bond market by beginning to reduce asset purchases that help keep interest rates low in late 2021 or early 2022. We expect this to create a potential (but temporary) spike in market volatility.

The speed of the economic recovery remains hampered by supply chain issues, though still advancing. Surveys of manufacturing managers still indicate the sector is expanding[3] , with manufacturing activity in August rising slightly (0.2%)[4]. Most economists expected a bigger number here, but at least auto manufacturing wasn't the main culprit of the miss this time. Reports still indicate that supply chain disruptions are holding back activity, but these impacts do appear to be improving for certain components such as lumber.

---

[1] Srouce: US Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
[2] Source: CME FedWatch as of September 16, 2021
[3] August ISM Manufacturing PMI and Markit US Manufacturing PMI readings above 50
[4] Source: Federal Reserve

**The bottom line:** Economic data and current market trends look good. However, fear is creeping into the markets about how the Fed is going to manage inflation as we close out 2020. Be prepared for more nervous headlines around the Delta variant and potential market volatility in the next month.