

## Weekly Market Commentary September 13th, 2021

### Is It Time For A Whiff Of Caution?

#### Are markets ignoring the potential slowdown?

- Gauging market expectations and what's priced in is no easy feat, but we think that the sector leadership over the past month and cautious market undertone likely reflect, to a certain extent, the ongoing health uncertainties and deceleration in the pace of economic activity.
- Unlike the S&P 500, which has benefited from the outperformance of the mega-cap tech names, small-cap stocks have flatlined since February, and several economically sensitive industries, along with commodities, peaked in May. And since July, the very defensive utility sector has led the S&P 500 gains.
- Several U.S. airlines last week warned about a deceleration in bookings and an increase in cancellations due to the delta variant, and as a result, lowered their revenue and profit forecasts. Despite the guidance cuts, the airline stocks outperformed the same day, closing 2.5% - 5.6% higher. This pronounced divergence between headlines and price action likely indicates that investor expectations were already low heading into the announcements.

Performance of cyclical investments and yields reflect caution

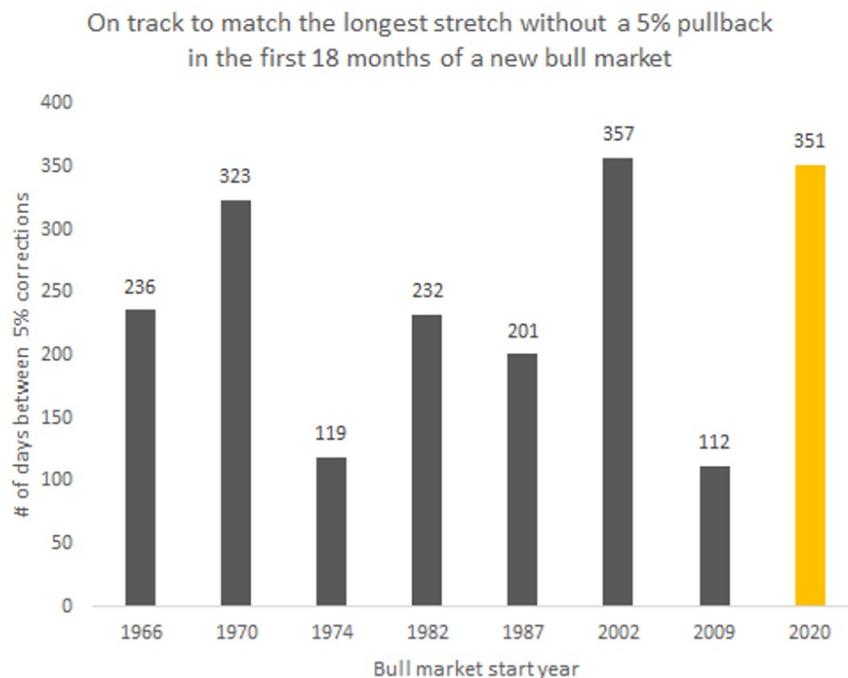
	Peak month	Off peak
Oil	July 2021	-9%
Copper	May 2021	-10%
Small-caps (Russell 2000)	March 2021	-5%
S&P 500 transportation index	May 2021	-11%
S&P 500 homebuilding index	May 2021	-11%
10-year Treasury yield	March 2021	-0.44%

Source: Bloomberg, as of close 9/9/21, past performance is not a guarantee of future results, the S&P 500 is an unmanaged index and cannot be invested indirectly

### What are the potential catalysts that could disrupt the market calm?

- Since the bear-market bottom last March (about 18 months ago) we have witnessed the best start to a bull market on record and the lack of downside volatility. Because of the largely uninterrupted uptrend, some complacency might be setting in. The last time the S&P 500 experienced a 5% or more pullback was about a year ago, in September 2020, when stocks declined 9.6% from the highs. Absent a sharp decline in the next few days, the current stretch (number of days without a 5% pullback) will be the longest in the first 18 months of a new bull market since 1965<sup>3</sup>.

- However, it will not be the passage of time that has the potential to disrupt the current market tranquility, but a shift in fundamentals relative to expectations. Sources of potential volatility in the coming months include
  - A dip in corporate earnings estimates, driven by profitability challenges tied to input-cost and wage pressures, as well as the possibility of higher corporate taxes. Last quarter's profit margin (profitability level) for the S&P 500 companies hit a record high, as revenue has been rising faster than costs<sup>1</sup>. An economic slowdown and tightness in the labor market, with employers having to pay up to attract qualified labor, could change that equation.
  - The possibility of further delays in the economic reopening triggered by new virus variants, together with fading government stimulus, that would result in a greater slowdown than anticipated.
  - A further jump in inflation expectations, or a Fed policy mistake, would lead to a sharp rise in bond yields. Longer-lasting inflationary pressures would benefit cyclical stocks but could also hurt growth stocks, which carry a large weight in major indexes (Apple, Microsoft, Amazon, Facebook, and Alphabet make up 23% of the S&P 500).



Source: Bloomberg, past performance is not a guarantee of future results, the S&P 500 is an unmanaged index and cannot be invested indirectly

The graph shows that the S&P 500 has not experienced a 5% or more pullback in almost a year, which is on track to match the longest stretch in the first 18 months of a new bull market going back to 1966.

(source: oXYGen & Jones)

### Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,607	-2.15%
S&P 500 Index	4,458	-1.70%
NASDAQ	15,115	-1.61%
MSCI EAFE	2,374	-.46%
10-yr Treasury Yield	1.33%	3.10%
Gold	\$1,791	-2.18%
Bonds	\$115.87	0%

Source: Reuters/Wall Street Journal

## Can My Employer Make Me Get Vaccinated?

Major American companies including Disney, Google, and Netflix are asking their employees to get a COVID-19 vaccination as the delta variant spreads across the U.S.

This begs the question; can my employer make me get vaccinated? The short answer is yes. And here's why.

The government-run U.S. Equal Employment Opportunity Commission has stated that it is legal under federal law for companies to require their workers to get the COVID-19 vaccine, with a few exceptions related to other health complications, pregnancy, religious beliefs, and other reasonable accommodations.

And over the past few weeks, a growing number of companies including United, and the Alphabet-owned Google have asked their employees to get vaccinated before returning to work. This applies to many positions that require employees to show up in person, although that isn't always the case.

Walmart has asked all corporate employees to get vaccinated, for example, but store cashiers are not currently required to get the shots.

Other companies mandating that some of their in-person workers get vaccinated include Disney, Facebook, Netflix, and Walgreens.

In response, some employees have filed lawsuits against their companies for making them get vaccinated. But such contentions are "not very strong legal arguments," Allison Hoffman, a law professor at the University of Pennsylvania, recently claimed.

And that's because companies and government organizations have been requiring various vaccinations for years, dating back to the 1905 Supreme Court Ruling *Jacobson v. Massachusetts*. U.S. school boards, as well as U.S. military members, can also require various vaccinations in order to participate.

In fact, if an employee is fired over not complying with their company's COVID-19 vaccine policy — such as the three CNN employees who were let go last week — they may not be able to collect unemployment.

It's also worth noting that an employer asking about vaccination status or/and

mandating vaccinations is not a violation of HIPAA (the Health Insurance Portability and Accountability Act of 1996). "If an employer asks an employee to provide proof that they have been vaccinated, that is not a HIPAA violation, and employees may decide whether to provide that information to their employer," according to the U.S. Department of Health and Human Services.

## **Market News, Corporate Earnings, and News & Notes**

(source: CNBC)

### **Grocery Stores Getting Hit With Higher Prices And Theft**

Kroger on Friday said shoppers filled up large baskets of groceries in the fiscal second quarter. They bought bigger items, such as 24-packs of toilet paper. And they replenished fridges frequently, as they cooked more meals at home.

The company's same-store sales, a key industry metric, were down 0.6% in the three-month period — nearly matching the heightened level of grocery sales during the year-ago period. It raised its outlook for the rest of the year.

Yet shares of Kroger — the country's largest supermarket operator — fell about 7% on Friday as investors worried about a less favorable trend: Shrinking profits and squeezed margins.

CEO Rodney McMullen said on an earnings call that "food-at-home trends remain sticky." He said sales grew year over year in the produce, floral, deli, and bakery departments, even as it went up against challenging comparisons.

But the company is under pressure from higher supply chain costs, rising levels of theft, and increasing food prices, according to Kroger Chief Financial Officer Gary Millerchip. He said the grocer must pay more for transportation and warehouse space. He said that will continue in the second half of the year.

Plus, the grocer is facing inflation. Like other retailers, Kroger has had to debate when to increase prices for customers and when to eat the cost.

Millerchip said the grocer has discounted products selectively to attract shoppers.

In a research note, J.P. Morgan analyst Ken Goldman questioned that approach. He said Kroger should pass on more of those costs to shoppers, who have gotten used to seeing higher prices everywhere and shown they aren't scared away by them.

Plus, Goldman said, Kroger's stock price may be due for a sell-off. It has already run up significantly during the pandemic and hit a record high of \$47.99 last week. Shares are up about 34% this year.

McMullen said inflation has had at least one silver lining for the retailer: As shoppers see the price of some consumer-packaged goods increase, some are buying similar snacks, food, or beverages from Kroger's private labels.

Kroger expects it will earn \$3.25 to \$3.35 per share, after adjustments, in fiscal 2021, up from an earlier forecast of \$2.95 to \$3.10 per share. In the latest quarter, Kroger earned \$467 million, or 61 cents per share, on revenue of \$31.68 billion. Adjusted earnings of 80 cents a share topped estimates.

## **Earnings Highlights This Week**

(source: CNBC)

**GameStop-** GameStop stock fell more than 7% in extended trading Wednesday even after the retailer posted a narrower loss than last year. The company reported a rise in sales during the quarter. The SEC requested additional documents from GameStop in the agency's investigation of trading activity in GameStop and other companies.

**Lululemon-** Based on its current forecast, Lululemon is now on track to surpass its 2023 revenue target by the end of this year, two years ahead of schedule. In its fiscal second quarter, sales in North America rose 63% year over year and were up 49% internationally.

**Boston Beer-** Boston Beer, the parent of alcoholic beverage brands like Samuel Adams and Angry Orchard, pulled its earnings guidance Wednesday amid a big slowdown in sales of its hard seltzer brand Truly.

At the end of July, the company pointed to "decelerating growth trends" in hard seltzer sales to justify its weaker than expected quarterly earnings and revenue for the second quarter, which sent its stock tumbling 26% at the time. Those results also led the company to cut its full-year forecast, lowering its expected adjusted earnings to between \$18 per share and \$22 per share for 2021. Its prior outlook was for a profit between \$22 per share and \$26 per share.

**Affirm-** Affirm reported better-than-expected revenue for the fourth quarter after the bell Thursday and gave strong guidance for the current quarter. The stock soared more than 20% in extended trading following the report. The blockbuster earnings report comes after Affirm last month announced its teaming up with Amazon to launch the e-commerce giant's first partnership with an installment payment player.

## **News and Notes:**

### **We Always Remember....We Never Forget How Has The Airline Industry Changed In 20 Years Since 9/11?**

#### **What was it like before 9/11 for airline travel?**

- Passengers and families could walk to the gate together
- No photo ID is necessary and you could keep your shoes on through the checkpoint.
- Private contractors oversaw screening, not the Government.
- You had complete and utter privacy.

#### **What inventions came out of 9/11 that have changed airports or airline safety?**

- Airport Body Scanners- use millimeter wave technology software to recognize metallic, non-metallic items hiding under clothing.
- Remote Control Airline Technology- the ability to take over a cockpit from a remote location to fly a plane.
- CT Scanners- much like the medical field, can give TSA agents a 3-D version of what's in your bag including explosives.

#### **9/11 even created new industries and businesses within the airport?**

- CLEAR (2010): was known for being the Disney Fast Pass for travelers through TSA, but now is doing a CLEAR Health Pass.
- TSA PreCheck: started in 2011, allowed people to not have to remove shoes, belts, laptops out of bags.
- The rise of the airport mall...almost a \$100 billion dollar business today. What do you do for 1 hour or more once you pass the checkpoint?

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.

---

Securities offered as Registered Representatives through Purshe Kaplan Sterling Investments, Member FINRA/SIPC Purshe Kaplan Sterling Investments and J M Brown Financial Partners are not affiliated companies 80 State Street, Albany, NY 12207 Tele (800) 801-6851

Investments through PKS or RIA are: NOT FDIC INSURED/NOT BANK GUARANTEED MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL NOT INSURED BY ANY STATE OR FEDERAL AGENCY

These views are those of Hyperchat Social, and not the presenting Representative or the Representative's Broker/Dealer and should not be construed as investment advice. This newsletter was prepared by Hyperchat Social. Hyperchat Social is not affiliated with the named firm or broker/dealer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index. All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

You cannot invest directly in an index. The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998. The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Past performance does not guarantee future results. Investing involves risk, including loss of principal. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete. There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Asset allocation does not ensure a profit or protect against a loss. Consult your financial professional before making any investment decision. To unsubscribe from our Weekly Market Commentary hit the unsubscribe button.