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In this week's recap: The Fed unveils tapering plans; investor optimism rises.

Weekly Economic Update

Presented by Ed Papier, October 18, 2021

THE WEEK ON WALL STREET

A strong opening to the third-quarter earnings season sparked a late week, broad-based rally that helped stocks finish the week with solid gains.

The Dow Jones Industrial Average rose 1.58%, while the Standard & Poor's 500 added 1.82%. The Nasdaq Composite index led, gaining 2.18% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, was up 1.37%. [1,2,3]

INVESTOR OPTIMISM RETURNS

After beginning the week on a lackluster note, stocks turned higher on Wednesday as companies kicked off a new earnings season and details about the Fed's taper plans emerged. Investor enthusiasm shifted into high gear the following day on positive economic data and earnings reports that exceeded investor expectations. Buying continued through Friday on fresh earnings surprises and a better-than-expected retail sales report.

The economic data allayed some concerns about inflationary pressures and economic deceleration, while early earnings results provided hope that companies had weathered the surge in summer Covid infections. Nevertheless, worries about how supply-chain disruption and higher prices may impact corporate earnings guidance haven't gone away.

LET THE TAPERING BEGIN

Minutes from September's Federal Open Market Committee released last week provided detail around the Fed's plans to taper its $120 billion monthly bond purchase program. The Fed expects to reduce its purchases by $15 billion each month, beginning in mid-November/December and ending in June 2022.[4]

This tapering schedule is somewhat faster than what investors were anticipating, reflecting the Fed's concern that inflation has been somewhat higher and more persistent than it had anticipated, with continuing supply-chain bottlenecks raising that risk level. Fed Chair Powell's commitment to transparency and advanced signaling of policy changes appeared to have worked, as markets greeted the news calmly. In fact, stocks rallied strongly the following day as yields moved lower.

THE WEEK AHEAD: KEY ECONOMIC DATA

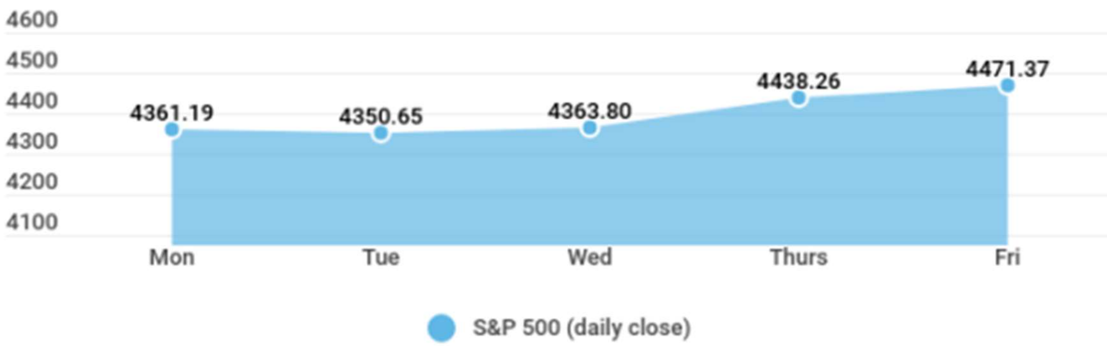
Monday: Industrial Production.
Tuesday: Housing Starts.
Thursday: Jobless Claims. Existing Home Sales. Index of Leading Economic Indicators.
Friday: PMI (Purchasing Managers' Index) Composite Flash.

QUOTE OF THE WEEK

"I have always strenuously supported the right of every man to his own opinion, however different that opinion might be to mine. He who denies to another this right, makes a slave of himself to his present opinion, because he precludes himself the right of changing it."

THOMAS PAINE

Market Index	Close	Week	Y-T-D
DJIA	35,294.76	+1.58%	+15.32%
NASDAQ	14,897.34	+2.18%	+15.59%
MSCI-EAFE	2,300.97	+1.37%	+7.14%
S&P 500	4,471.37	+1.82%	+19.04%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.59%	-0.02%	+0.66%

Sources: The Wall Street Journal, October 15, 2021; Treasury.gov, October 15, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, October 8, to Friday, October 15, close. Weekly performance for the MSCI-EAFE is measured from Friday, October 8, open to Thursday, October 14, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

The sustainability trend is growing as the world is more and more aware of different situations in the environmental, social, and governance areas (ESG). Wall Street is now promoting a new set of standards for public companies to investors. Environmental criteria consider how a company affects the nature and environment. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance assesses the company's leadership, executive pay, audits, internal controls, and shareholder rights. This trend aims to raise investor and company awareness toward sustainability. Companies receive the coveted ESG-compliant badge, which is awarded after passing an ESG scoring process that is above and beyond standard due diligence.

Whether these funds actually outperform traditional mutual funds and ETFs has become a battleground for investment experts. Many wonder whether the promotion of ESG investments is an attempt by money managers (many now publicly traded companies) to capitalize on the generational transfer of wealth underway to concerned youths. Larry Fink, the head of the world's largest money manager BlackRock, has often highlighted how he expects ESG-focused ETFs will see $400 billion of inflows by 2028, up from $25 billion last year. To capitalize on this trend, BlackRock is planning to dramatically increase the number of ESG oriented ETFs it offers investors as a way to boost its income.

But as ESG's popularity grows so, too, do its critics, not least because scoring a company on ESG metrics is inherently subjective. In some cases it can be used as a marketing ploy and a way for companies to get free money. "If you paint yourself as ESG in Europe, you can essentially borrow money from the ECB at negative rates," according to Social Capital founder and CEO Chamath Palihapitiya. [5]

One popular socially responsible fund, Generation Investments, is run by former Vice President Al Gore. His website suggests they invest in "sustainable" companies that do things "consistent with a low-carbon, prosperous, equitable, healthy and safe society."

"I've had a lot of experience looking at these types of investments," says Thomas Hogan, a senior research fellow at the American Institute for Economic Research. "They don't actually accomplish the goals of being environmentally or socially responsible." Take Generations Investments, for example. "They're not really making socially conscious investments," says Hogan. "Their No. 1 holding is Alphabet, the parent company of Google. They're just buying, basically, regular companies."

So, why do people invest? "It makes people feel good," says Hogan. Some "green" investment funds did well lately because oil prices dropped. But most will give you lower returns because they charge higher fees. A Pacific Research Institute report found that their fees average 0.7 percent per year, which meant, over 10 years, the "green" portfolio was worth about 40 percent less than what you would have gained had you bought an S&P 500 index fund.

BlackRock's socially "aware" fund brags that it gives you 2.62% more exposure to gender-diverse boards while simultaneously investing in Chevron and Exxon. Worse, some of today's "environmentally responsible" funds probably harm the environment. For example, most "green" funds wouldn't invest in the Keystone pipeline, but pipelines are much better for the environment than the alternative: hauling oil by train and truck. The ugly truth is that most so-called responsible investment funds charge more to sell feel-good concepts that do little to improve ESG.

This isn't the first, nor will it be the last time a popular stock market fad drove investing strategies. With Millennials driving ESG popularity, and they represent the future wealth holders, investment funds are bound to dream up ways to get their hands on that wealth. To a large degree, the clamor over ESG investing may be nothing more than a marketing ploy. The question is whether an ESG investment philosophy shortchanges Millennials when they will need the money to support their retirements. [6]

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Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, October 15, 2021
2. The Wall Street Journal, October 15, 2021
3. The Wall Street Journal, October 15, 2021
4. The Wall Street Journal, October 13, 2021
5.cnbc.com/2020/02/26/chamath-palihapitiya-esg-investing-is-a-complete-fraud.html
6. climatechangedispatch.com/esg-the-socially-responsible-investment-scam/