At Passage Wealth, it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

Inflation is still the topic du jour with the latest Consumer Price Index (CPI) rising 0.4%[1] in September. The bulk of the increase was food and energy – especially natural gas. In previous months we saw sectors such as used cars, airlines and hotels had pushed prices higher, but those prices have begun to normalize. The Fed has communicated measures to combat inflation likely beginning in November with the reduction in bond purchases that will naturally raise interest rates. As rates increase, it is hoped that inflation will begin to ease. The last time the Fed tapered bond purchases was 2013 and the market experienced a period of short-term volatility. We believe it is likely we see a similar effect in 2021.

Labor is the other big story making headlines as the economy struggles to return to pre-COVID employment levels. The September report showed a pitiful 194,000 new jobs were created[2] vs. almost 500,000 expected by a Bloomberg survey. The good news is the report revised July and August's numbers up by 169,000 and showed the unemployment rate fell from 5.2% to 4.8%. It's also worth noting wage gains continued to be strong with average hourly earnings increasing for the sixth straight month[3]. We consider the lack of recovery in the job market to pre-COVID levels a risk to the long-run health of the economy, but it may be years before the full impact is known to labor markets.

Despite rising prices, the average consumer appears to be on solid footing with retail sales rising 0.7% in September[4]. The report was the second straight month that came in well above economist's expectations, which were expecting a slight drop[5]. With the Delta variant in the headlines, consumers flipped back to preferring goods over services. Overall, the strength of the consumer is a welcome sign, though the shift back to goods - even if temporary - will only add further stress to already strained supply chains. FWIW, you may want to start holiday shopping early this year! The supply chain issue (coupled with inflation) remains our largest concern to the health of equity markets.

The bottom line: The market has been choppier lately, with volatility measurements a bit higher than what we've typically seen this year so far. Unease over inflation and the Fed plotting the correct course seems to be fueling much of this, but after a fairly strong year in equity markets thus far, short-term

[1] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
[2] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
[3] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
[4] US Census Bureau, https://www.census.gov/retail/marts/www/marts_current.pdf
[5] Source: Bloomberg

pullbacks shouldn’t be terribly surprising. Broad-based measures of economic growth continue to be robust and early signs of third quarter corporate earnings look positive.

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The Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.

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