Stocks Climb Higher on Strong Earnings, Reduced Tax Concerns

The major domestic equity indices climbed steadily through October, a confident step forward from September's stumble even as supply issues created intermittent voids on supermarket shelves and broad patches of uncovered tarmac at car dealerships.

Strong corporate earnings reports set the stage at the start of the month, and the release of a low gross domestic product (GDP) growth estimate at the end of the month did not blunt the markets' upward march. The S&P 500 and Dow Jones Industrial Average both set new record highs in October, and the NASDAQ Composite was not far behind.

September was the first equity market decline in eight months, and the worst month for the S&P 500 since March 2020, but fears cooled. As a result, October rode optimism from the aforementioned earnings reports, the diminishing of a threat of onerous tax hikes and early signs that inflation and supply chain concerns have peaked.

Economic growth, however, remains harried by some lingering concerns. Supply chain difficulties and a tight labor market may continue to restrain economic growth and add to near-term inflation pressures.

But growth appears to be regaining momentum as COVID-19 cases decline. The demand for goods increased throughout the pandemic and, counter to expectations, has remained strong, amplifying supply issues.

Let's see where the headline indices stand for the year.

	12/31/20 Close	10/29/21 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	30,606.48	35,819.56	+5,213.08	+17.03%
NASDAQ	12,888.28	15,498.39	+2,610.11	+20.25%
S&P 500	3,756.07	4,605.38	+849.31	+22.61%
MSCI EAFE	2,147.53	2,335.53	+188.00	+8.75%
Russell 2000	1,974.86	2,297.19	+322.33	+16.32%
Bloomberg Aggregate Bond	2,392.02	2,354.21	-37.81	-1.58%

Performance reflects price returns as of market close on October 29, 2021.

Now onto the specifics:

Shaping the big bill

October saw the acceleration of negotiations on a reconciliation bill in Congress, with momentum shifting toward a package slightly below $2 trillion with lessened overall tax impact. Key lawmakers' opposition to heightened corporate and individual tax rates means we are less likely to see them included in the deal, but the negotiations are still producing market volatility over some policy details. These will not likely be resolved until the bill is finalized.

An up October across the world

As in the U.S., European equity markets had a strong October, reversing some of September's losses. Most equity markets in Asia and emerging economies also grew through the month. China continues to face significant levels of uncertainty over the scope of ongoing government policy changes, including unknowns about the impact on its property market.

Bond matters

Yields for 2-year and 10-year Treasuries moved closer together, creating a potential sweet spot for adding incremental yield while keeping duration risk in check – an appealing balance amid historically low rates.

There was very little spread change in either the investment-grade space or the high-yield space, which is trading with very narrow spreads compared to historical averages. This continues the trend that investors are not getting paid to take on credit risk or duration risk.

Climate questions

The 2021 United Nations Climate Change Conference, or COP26, started on Oct. 31 and runs through Nov. 12. This gathering, the largest climate conference in six years, is expected to drive news and market movement, particularly in light of different climate change targets between developed and emerging markets.

A rally for the average stock

A consistent theme in the pandemic era has been that steadily growing indices created somewhat of a false front to the cyclical churn below the surface. There were the big gainers driving the pushes and – in various degrees – everyone else. October's rally, however, saw broader participation in these gains and the "average stock" reached new record highs.

The bottom line

October demonstrated how the climb can be filled with obstacles but still reach new heights. In brief:

- No new major concerns emerged in October, though we have more information on the ones we've been watching.
- Supply chain disruptions have continued longer than expected – blunting GDP growth – and will likely last into 2022.
- Inflation may lead the U.S. Federal Reserve and other central banks to raise short-term interest rates earlier than expected, though nothing conclusive has been announced.

Unequivocally, October was a strong month for domestic equities, reflecting generally improving conditions and confidence as we deal with the long and winding tail of the COVID-19 pandemic.

Obstacles are always present, but thoughtful investors take inventory, challenge their assumptions and continue to plan out their next move.

As always, we will keep you up to date with news and events important to your investments and financial plan. If you have any questions about this market recap, or anything else, please reach out at your earliest convenience.

We are grateful for your continued trust and for the opportunity to help you pursue your financial goals and well-being.