



QUARTERLY MARKET OUTLOOK

CURRENT ECONOMIC OUTLOOK FOR TIMELY FINANCIAL PLANNING

October 15, 2021

Strong Corporate Earnings and Resilient Recovery Power Stocks to New Highs

The S&P 500 hit new all-time highs again in the third quarter as investors looked past a resurgence of COVID-19 cases in the U.S. and instead focused on the positive combination of a resilient economic recovery, ongoing historic support from the Federal Reserve, and strong corporate earnings. Market volatility did notably pick up during the final few weeks of September, however, reminding investors that the transition to a post-pandemic “new normal” isn’t always going to be smooth.

Stocks moved steadily higher to start the third quarter as the U.S. economy continued to return to pre-pandemic levels of activity while corporate earnings remained solid. To that point, second quarter earnings results, which were released in mid-to-late July, were stronger than expected and broadly did not show signs of the margin compression that some analysts feared might hurt corporate profitability. Additionally, at the July FOMC meeting, Fed Chair Powell reiterated that, despite economic progress, it was not yet time for the Fed to begin to reduce Quantitative Easing (QE), thereby ensuring the economy and markets would continue to enjoy full Fed support until late 2021. Those factors helped investors look past an increase in COVID-19 cases, especially across the Sunbelt, as the S&P 500 hit a new all-time high in late July.

That positive momentum for markets continued in August, powered by similar factors: Positive corporate commentary, solid economic activity, and continued supportive Fed rhetoric. Those forces again combined to help markets look past a further increase in COVID-19 cases. Unlike during the COVID-19 waves of 2020 and early 2021, government authorities did not re-impose economic restrictions or lockdowns in response to rising case counts. Instead, most policy responses centered around mask mandates, and as such, the economic headwinds from rising COVID-19 cases were mild compared to previous episodes. Meanwhile, politics once again became a focus of the markets in August. The Senate passed a \$3.5 trillion budget reconciliation bill that would be the framework for potential changes to tax rates, entitlements, and climate policy. But what passed in August merely set the stage for the looming policy battle once Congress returned from the summer recess. Given that, stocks were able to look past future policy risks and climb steadily higher throughout the month with the S&P 500 ending August essentially at all-time highs.

The market tone changed in September, however, as many of the positive factors that supported stocks earlier in the quarter began to fade. First, corporate commentary turned more cautious last month. Profit warnings that cited supply chain constraints and margin compression came from multiple industries, and that caused investors to become more concerned about the outlook for corporate earnings. Then, economic data from August showed that the rise in COVID-19 cases had weighed slightly on the economic recovery. Finally, after investors ignored the looming policy battle in August, politics once again became an influence on markets as Democrats unveiled new details on a \$3.5 trillion spending and tax plan that included increases to the corporate tax, personal income taxes for high earners, and changes to capital gains and inheritance taxes. Those factors weighed on markets initially in September, but the volatility was compounded by the news that the second-largest property developer in China, Evergrande, was likely going to default on debt payments. Fear of potential financial market contagion hit stocks in late September and the S&P 500 suffered its first 5% pullback in nearly a year. Markets remained volatile into the end of the quarter as the Federal Reserve confirmed market expectations that it will begin to reduce Quantitative Easing before year-end, while Washington approached the looming deadline of a government shutdown with no extension in sight, although that was avoided in the last few days of the quarter. The S&P 500 finished September with moderate losses although the index still logged a positive return for the third quarter.

In sum, the market remained resilient in the third quarter, but the final few weeks of September served as a reminder to investors that markets will face

the resolution of numerous macroeconomic unknowns in the fourth quarter, and while fundamentals remain decidedly positive, an increase in market volatility should be expected.

Fourth Quarter Market Outlook

Market performance in the third quarter reflected continued improvement in the macroeconomic outlook as a society, the economy, and risk assets showed resilience in the face of another wave of COVID-19, while corporate earnings were better than expected. However, that resilient performance should not be taken as a signal that risks no longer remain. In fact, the next three months will bring important clarity on several unknowns including future Federal Reserve policy, taxes, the pandemic, and inflation.

The Federal Reserve has communicated that it will begin to taper Quantitative Easing in the fourth quarter, but markets do not yet know when exactly the Fed will start to scale back those asset purchases or the pace at which they will be reduced. If the Fed starts to taper QE sooner than expected, or the pace of reductions is faster than the market has currently priced in, it will cause additional volatility.

Meanwhile, in the third quarter investors were reminded that politics can be a powerful influence on markets, and over the next several weeks we will learn whether the debt ceiling is extended and if there will be any significant tax increases. If policies from Washington are viewed as negative for corporate earnings or consumer spending, they will cause a rise in market volatility.

Regarding the still ongoing pandemic, COVID-19 remains a risk for the economy and the markets. Positively, effective vaccines have allowed policymakers to avoid re-implementing economic lockdowns that could hurt corporate earnings and the economy. But the risk remains that a new COVID-19 variant renders the vaccines less effective and that would put the economic recovery in jeopardy.

Finally, inflation remains elevated and at multi-decade highs, and that combined with continued supply chain disruptions, due to the ongoing pandemic, is starting to impact corporate margins and profitability. If an increasing number of companies warn about future profitability due to these factors during the upcoming third-quarter earnings season, it will negatively impact markets.

Yet while risks remain, as they always do, macroeconomic fundamentals are still decidedly positive and it is important to remember that a well-executed and diversified, long-term financial plan can overcome bouts of even intense volatility such as we've seen over the last two years.

At Alden Capital Management LLC, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively

navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced during the height of the pandemic are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The economic and medical progress achieved so far in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

RAYMOND JAMES[®]

ALDEN CAPITAL MANAGEMENT LLC

An Independent Registered Investment Adviser

310-120th Avenue N.E. // Suite 200 // Bellevue, WA 98005 // 425-451-8508



The information contained within this newsletter has been obtained from sources considered reliable, but we do not guarantee the foregoing material is accurate or complete.

© 2021 Raymond James Financial Services, Inc., member [FINRA](#) / [SIPC](#). Securities offered through Raymond James Financial Services, Inc., member [FINRA](#) / [SIPC](#). Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Alden Capital Management LLC is not a registered broker dealer and is independent of Raymond James Financial Services.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by email, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. Any information provided in this newsletter has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial Services and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in this newsletter
