

Sept. 30, 2021

September Market Review

Markets prefer clarity – or at least as close a facsimile as they can get. Since the start of the pandemic, we’ve seen how markets can push through uncertainty, up to a certain point.

September, however, brought a stack of compounding uncertainties, combining to end the S&P 500’s seven-month streak. To understand what caused this downward tilt, look to these four Cs:

- China: The potential default of Evergrande, the Chinese real estate giant
- Congress: Brinkmanship over the federal debt ceiling and pending legislation
- Commodities: The rapid oil price hike to values not seen since 2018
- COVID-19: The continuing surge, even as global lockdowns are at a low point

These and other issues have led Federal Reserve officials and most economists to slightly lower their expectations for 2021 gross domestic product growth.

“Supply chain difficulties have lasted longer and have been more severe than anticipated and will likely continue into the early part of 2023,” Raymond James Chief Economist Scott Brown said. “Inflation forecasts for 2021 have moved higher, though Federal Reserve officials still view much of the increase as transitory. Needless to say, there is a high level of uncertainty in the economic outlook.”

Still, there are good reasons to see the strength underneath this September dip and to consider it in context, Chief Investment Officer Larry Adam said.

“Market performance highlights the underlying strength and resiliency of this bull market as indices bounced back from their worst day since May and are about 5% from recent record highs,” Adam said. “Fundamentals continue to provide support for this young bull, even as we recommend caution in the short term given the uncertain environment.”

Let’s see where we’re at as we enter the last quarter of the year.

| | 12/31/20 Close | 9/30/21 Close | Change Year to Date | % Gain/Loss Year to Date |
|-----------|----------------|---------------|---------------------|--------------------------|
| DJIA | 30,606.48 | 33,843.92 | +3,237.44 | +10.58% |
| NASDAQ | 12,888.28 | 14,448.58 | +1,560.30 | +12.11% |
| S&P 500 | 3,756.07 | 4,307.54 | +551.47 | +14.68% |
| MSCI EAFE | 2,147.53 | 2,281.47 | +133.94 | +6.24% |

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|--------------------------|----------|----------|---------|---------|
| Russell 2000 | 1,974.86 | 2,204.37 | +229.51 | +11.62% |
| Bloomberg Aggregate Bond | 2,392.02 | 2,354.38 | -37.64 | -1.57% |

Performance reflects price returns as of market close on September 30, 2021. MSCI EAFE and the Bloomberg Aggregate Bond figures reflect September 29, 2021, closing values.

And here's a look at some other ongoing and related issues here and abroad:

Federal Reserve may start drawdown of pandemic policies

The Federal Reserve's Federal Open Market Committee (FOMC) may slow down its \$120 billion per month purchases of long-term securities – a pandemic response – if the economy continues to grow as expected. A plan to taper the purchases through the middle of 2022 could be announced at its November policy meeting, Chair Jerome Powell said. Notably, Federal Reserve officials are not debating when to raise short-term interest rates, but most have moved their preferred timeline forward. They are now evenly split on whether an initial rate hike will occur next year.

Treasuries feed on Fed news

Treasuries sold off following the FOMC meeting, pushing yields higher across the curve. The belly of the curve has seen the most movement, emphasizing that opportunity still exists in high-quality corporate bonds around four to eight years in maturity. Municipal yields have inched higher alongside Treasuries, with the benchmark 10-year, AAA bond yield topping 1.10% for the first time since March.

Congress brings clarity and opacity

This month, we got the first glimpse of details in the much-debated budget reconciliation bill. Things remain hazy – we can expect more details through October. Here's what we know, with an understanding it's in flux.

Proposed tax policy changes include:

- The introduction of a progressive corporate tax rate
- An increase in the top individual income tax rate to 39.6%
- A 3% surcharge for individuals with income over \$5 million a year
- An increase of investment taxes to 25%
- A number of changes to high-balance IRAs and restrictions on Roth IRA conversions

Also being discussed are lower estate tax exclusions, increased IRS enforcement and changes to international taxes. Overall, the known provisions are trending more moderate than those initially proposed by President Biden.

While the Senate and House passed a bill ensuring government funding through early December, a looming debt ceiling showdown is making the future murkier for the markets. Congress will need to act within an October to November time frame to avoid a default.

The world report

Improvements in job creation numbers didn't keep European markets from falling modestly through September. Energy prices also pushed higher on a round of fuel panic buying in the U.K. and an unrelated fire that interrupted transmissions with continental Europe. Moving forward, key focuses include third-quarter corporate earnings and the formation of Germany's next coalition government.

The Chinese and Hong Kong markets were volatile throughout the month on the heels of Evergrande's debt uncertainty and the continued evolution of corporate policy in China. In the energy space, Chinese authorities have cracked down on carbon-intensive activities, including cryptocurrency mining and some manufacturing operations.

And while COVID-19 inoculations have continued to build across the emerging markets, rising inflation levels were apparent in many countries, which has led to tighter monetary policy at a number of central banks.

The bottom line

The events that led to September's retreat are unfortunate, but they by no means indicate the end of a momentous period of growth. We continue to see resiliency in the market as investors have been quick to "buy the pullback" in this low-rate environment. Further:

- The cure for uncertainty is often time. As issues are resolved – or their effects clearly known – the future-focused markets find confidence again.
- The underlying market fundamentals remain strong. We see continuing growth despite new issues emerging and old ones hanging on longer than expected.

Thank you for your ongoing trust. We are steadfastly committed to you and your economic well-being and eager to answer any question you may have about this monthly market update, your investments or your financial plan. Please do not hesitate to reach out.

Sincerely,

Planned Results, Inc.

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