Quantitative Asset Management, LLC
Investment & Advisory Services

October 12, 2021

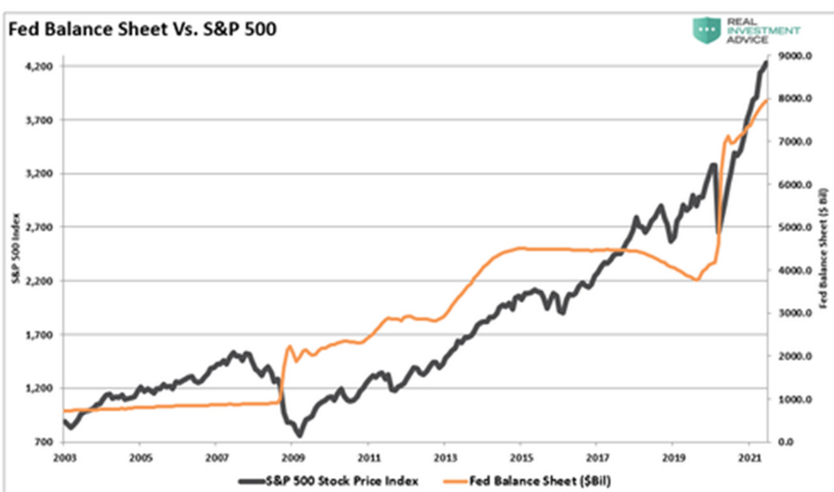
Quarter Ending September 30, 2021

Quarterly Performance	Q3 Index	Close
Dow Jones Industrial Average	-1.91%	33.834.24
NASDAQ Composite Price	-0.38%	14,447.64
Standard & Poor's Averages	0.23%	4,306.53

As we pointed out in our Q2 letter, we expected equity markets to experience some volatility heading into the third quarter. Late summer through early fall has historically been a volatile period for stocks, and this year was no different. After an impressive start to the year, the S&P 500 witnessed its first 5% pull-back since last October. This volatility stems from three things: financial issues coming out of China; politicians attempting to pass a funding bill to avoid a government shutdown; and concern that the central bank will signal its readiness to start pulling away monetary stimulus.

We have touched on this in previous letters, but we believe the Federal Reserve and its accommodative monetary policies have been a big reason why recent stock performance has been so strong. To support our point, the chart below compares the size of the Fed's balance sheet to the performance of the S&P 500. Rock bottom interest rates, monthly bond purchases, and government stimulus payments have created a title wave of liquidity. At the end of the day, all this cash and liquidity needs to find a home.

One does not need to look far to find out where some the liquidity is going. According to Goldman Sachs, as of September 10th, global equities have logged a massive $725 billion worth of inflows. That number grows to $1 trillion dollars when annualized! More importantly, 84% of those inflows have moved into passive investments like index funds. For the first time in history, U.S. passive fund assets under management now exceed actively managed fund assets under management. This leads us to believe investors are continuing to chase performance and not paying attention to fundamentals or valuations.



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We also wanted to point out a very interesting trend that has taken place over the last couple of years. In short, bad news for the economy has actually been good news for the stock market. Every time some adverse economic news comes out, investors feel confident in the fact that the Federal Reserve will continue their accommodative fiscal policies. We believe the Fed's easy money policies have been a huge boost to short-term stock market performance. This philosophy puts passive investors in a very difficult dilemma. If the above is true, one has to ask: what happens if and when we receive positive economic news? The thought process above is completely counter intuitive and continues to cause us concern.

We also wanted to provide some details on recent market performance. Back in February of 2020, stock markets were hitting all-time highs, economic data was very strong, and unemployment numbers were at record lows. The economic data justified a strong stock market. Then the unexpected happened. COVID hit and the world economy came to a standstill. 19 months later, life has slowly returned to a "new normal" and world economies have continued to reopen. The ironic part is that the S&P 500 is 28% higher now than it was pre-COVID. So… is the global economy and outlook in a better spot today than it was in February 2020?

At QAM, we continue to believe that certain areas of the stock market are very overvalued. As pointed out above, market valuations are being pushed by forces and philosophies that are not sustainable in the long-term. Short-term trends and momentum may continue; however, long-term investment success always comes back to fundamentals and valuation.

Moving forward, we anticipate that we will continue to see some significant market volatility. Global supply chain disruptions are contributing to higher input prices in select industries, which will impact future growth and corporate earnings. Concerns regarding the highly contagious Delta variant will continue to impact consumer confidence. And lastly, the biggest question is this: what will the Federal Reserve do with its accommodative policies? With the economic recovery under way and runaway inflation becoming a problem, the Federal Reserve will need to take its foot off the accelerator.

On short-term basis, economic data and stock market pricing will continue to change at a rapid pace. At QAM, we will continue to monitor these movements; however, we will continue to focus on managing our clients' assets based upon long-term goals and objectives.

We hope everyone has a great fall, getting ready for the winter to come!

Jeffrey L. Farni, Sr.

John C. Farni