

## Market Commentary—Third Quarter of 2021

Third quarter returns for the major market indices had mixed results as September closed with a whimper. Year-to-date returns are notably strong with all the major U.S. Equity Indexes posting double-digit gains. The table below shows year to date and third quarter returns as of 9/30/2021 (amounts are for total returns):

Time Period	Dow Jones Industrial	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Year To Date	12.1	15.9	12.1	-1.6
Third Quarter	-1.5	0.6	-0.4	0.1

### The financial markets are currently experiencing volatility, how long will it continue?

The S&P 500 index made an all-time high on September 2<sup>nd</sup> and ended the quarter with total return of 0.6%. But, from the day of that new high to the end of month the index lost 5.1% ending the streak of 211 trading days without at least a 5% pullback and having its worst month since March 2020. Leading S&P sectors for the quarter were financials, communication services, information technology, health care and utilities, with the growth category of stocks outperforming value stocks. The market (benchmark S&P 500) has been seen as being resilient this year. However, the underlying stocks have been categorically weak with more than 90% of the S&P 500 constituents having had at least a 10% correction from their highs.

Historically, September is the worst month for the stock market, and this year certainly followed that trend. As interest rates and corresponding bond yields ticked up at the end of the quarter, investors quickly fled from the high growth tech companies into other sectors. Recently, many economists have lowered their forecasts of the growth of Gross Domestic Product (GDP) as consumers spending has noticeably slowed though mostly attributable to the highly contagious Delta virus variant thus resulting to a slowdown in the reopening of businesses. A multitude of industries are experiencing higher material and labor costs, and significant product supply chain issues putting pressure on margins and increasing prices to consumers. However, very recent data appear more favorable and usually the holiday season brings higher levels of consumer engagement and spending.

### Fourth Quarter and Beyond

Historically, stocks tend to do their best in the fourth quarter. For the S&P 500, the fourth quarter average returns since 1995 have been superior to all other quarters. As stated above, the market will be sensitive to Fed Reserve Policy changes, significant tax changes, the impending Federal debt ceiling, pandemic, and inflation. If policy changes are viewed as negative for corporate earnings or for consumer spending, the market's recent volatility will most likely continue.

Inflation has continued into the third quarter, with year-over-year inflation rate of 5.3% (change in CPI) is at multi-decade highs. We do not anticipate this subsiding with increased government spending, supply chain issues and labor shortages. The debt ceiling is making recent headlines with the current level over \$28 trillion. Congress has raised or suspended the debt ceiling 78 times since 1960, avoiding default with little drama. However, the 2011 fight over the debt limit (which ultimately led to Standard & Poor's downgrading the U.S. credit rating) has led to the use of the debt ceiling as a political bargaining chip for concessions from the other party. What used to be a routine bit of governance has now become a recurring drama in Washington. When these uncertainties are resolved, usually the stock market has already reacted positively.

We appreciate the risks of investing during times of market uncertainty and an ever-changing economy. We are not market timers but do take opportunities as they arise to make needed changes and put money to work accordingly. We stress the importance of being diversified among different sectors and large and small cap companies while being focused upon your long-term goals. We thank you for your ongoing confidence and trust. Please contact us if you would like to discuss your portfolio in more detail. We look forward to connecting soon with you via a live meeting, voice, or video call.