October 2021

PWM

Piedmont Wealth Management

Client Newsletter

To Our Clients

We hope you had a great summer and are looking forward to the crisp fall weather and the upcoming holiday season.

We are now using the Advyzon portfolio reporting system and invitations to the new client portal were sent by email in July. If you signed up, your Schwab monthly statements and tax forms are available from your Vault under the tab titled *Custodian Documents*; while invoices and reports generated by our firm are located under *Shared Documents*. Each time a document is posted to your vault, you should receive an email with a link to the new client portal login page.

Please be aware that Advyzon replaces Morningstar and a system-generated password is required for first-time access to the new client portal. If you need us to resend the welcome email, please call our office at 540-317-5372 or send a request by email to info@piedmontwm.com.

Third Quarter Market Review

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 continuing resilient economic recovery, historic support from the Federal Reserve, and strong corporate earnings. Market volatility did notably pick up during the final few weeks of September, 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.

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

Third Quarter Market Review *(continued)*

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.

Third Quarter Performance Review

The last few days of the third quarter had a substantial impact on quarterly index returns. For the majority of the third quarter, the Nasdaq had solidly outperformed both the S&P 500 and the Dow Jones Industrial Average as investors continued a trend from the second quarter by moving to less economically sensitive large-cap tech shares. However, during the last week of the quarter, as global bond yields rose, there was heavy selling in tech shares as investors rotated into other market sectors. The Nasdaq still slightly outperformed the S&P 500 while the Dow Jones Industrial Average produced a negative return for the third quarter thanks to the late September sell-off.

US Equity Indexes	Q3 Return	YTD
S&P 500	0.58%	15.92%
DJ Industrial Average	-1.46%	12.12%
NASDAQ 100	1.09%	14.58%
S&P MidCap 400	-1.85%	15.21%
Russell 2000	-4.36%	12.41%

Source: YCharts

International Equity Indexes	Q3 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	-0.35%	8.79%
MSCI EM TR USD (Emerging Markets)	-7.97%	-0.99%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-2.88%	6.29%

Source: YCharts

Internationally, foreign markets declined in the third quarter. Emerging markets dropped sharply, initially on concerns that rising COVID-19 cases would derail the global recovery, but late in the quarter, emerging markets fell even further on Chinese growth worries that stemmed from the Evergrande debt issues. Foreign developed markets, meanwhile, declined modestly during the final few weeks of the quarter on general global growth concerns combined with potentially higher global interest rates.

Commodities posted strong gains for the fourth quarter in a row and again outperformed the S&P 500 over the past three months. Major commodity indices were led higher by a late-quarter rally in oil prices as members of "OPEC+" maintained a historically high compliance rate to self-imposed production targets while easing COVID-19 cases around the globe in September bolstered the demand outlook for refined petroleum products. Additionally, there was no progress on nuclear negotiations between the U.S. and Iran, and sanctions remained in place preventing Iran from selling oil on the global market. Meanwhile, gold posted a small loss in the third quarter as a firming dollar and rising interest rates helped offset still stubbornly elevated inflation metrics.

Commodity Indexes	Q3 Return	YTD
S&P GSCI (Broad-Based Commodities)	5.22%	38.27%
S&P GSCI Crude Oil	1.21%	55.18%
GLD Gold Price	-0.39%	-7.73%

Source: YCharts

US Bond Indexes	Q3 Return	YTD
BBgBarc US Agg Bond	0.05%	-1.55%
BBgBarc US T-Bill 1-3 Mon	0.01%	0.03%
ICE US T-Bond 7-10 Year	-0.21%	3.50%
BBgBarc US MBS (Mortgage-backed)	0.10%	-0.67%
BBgBarc Municipal	-0.27%	0.79%
BBgBarc US Corporate Invest Grade	0.00%	-1.27%
BBgBarc US Corporate High Yield	0.89%	4.53%

Source: YCharts

Switching to fixed income markets, most bond classes were little changed in the third quarter. The majority of bond indices were solidly higher through mid-September as investors rotated to safety following the rise in COVID-19 cases in July and August. But in late September, the Federal Reserve confirmed tapering of Quantitative Easing will begin this year. That, combined with still-high inflation statistics, weighed on fixed income markets during the final few days of the third quarter which erased most of the quarter-to-date returns for many bond indices.

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 yet again 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.

COVID-19 remains a risk for the economy and the markets. Effective vaccines and potential new treatment options have allowed policymakers to avoid re-implementing economic lockdowns that could hurt corporate earnings and the economy. The risk remains that a new COVID-19 variant renders the vaccines less effective and that would put the economic recovery in jeopardy.

To continue the recovery, we need workers to reduce the number of openings. Federal unemployment benefits have expired and in coming months most state benefits will expire. Faced with no income, we hope a significant number of the unemployed will find new jobs. Wages created by these jobs will contribute to the economic recovery, mitigate the potential for foreclosures and evictions and add to the social security trust fund.

As we enter the final quarter of 2021, we need to look at third quarter earnings reports and future guidance. If earnings are positive and companies have a positive guidance for the future, the markets should continue to be positive. As a country we face a number of challenges, especially with supply chain issues and unfilled job openings. We believe the supply chain issues will ultimately work themselves out, but heightened volatility may continue to be in the meantime.

Finally, inflation remains elevated and at multi-decade highs. 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. 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. The economic and medical progress achieved so far in 2021 notwithstanding, we continue to recommend staying fully invested in your asset allocation while we remain vigilant toward risks to portfolios and the economy.

We appreciate your ongoing trust and confidence in our services. Please do not hesitate to contact us with any questions, comments, or to schedule a meeting.

Quintin & Ella

Piedmont Wealth Management
131 W. Davis Street
Culpeper VA 22701

Holidays and Office Closures

2021

Thursday & Friday, November 25 & 26
Thanksgiving

Friday, December 24
Christmas Day (observed)

2022

Friday, December 31
New Year's Day (observed)

Monday, January 17
Martin Luther King, Jr. Day

Monday, February 21
Washington's Birthday

OFFICE HOURS

Monday—Friday, 9:00am—5:00pm

CONTACT US

540-317-5372 | info@piedmontwm.com