



# Capital Market Review

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## *The Week Ending September 24, 2021*

Although the week ended with a trivial gain in the S&P 500 Index, it was not exactly boring. The markets had plenty of news to trade around, first with Chinese property developer Evergrande's expected miss of an interest payment to bondholders, followed by the global central banks offering guidance on their tapering plans. While none of these issues were solved, or even materially changed for that matter, stocks found some confidence mid-week to end the week in the green.

It was not so much that markets were caught off guard by Evergrande's potential interest payment miss, then the uncertainty about what it would mean for global markets. Investors wondered, is this China's "Lehman moment," referring to the collapse of Lehman Brothers during the Global Financial Crisis. Or does a default from Evergrande impact China's GDP growth, which could impact global GDP growth? While these, plus other concerns, were on investors' minds to begin last week, they began to subside as it became clearer that China would not allow a hard landing to happen, and local governments would step in if Evergrande does not manage its affairs in an "orderly fashion." Evergrande still has about thirty days to make the interest payment before they default on their debt, so expect to see this story continue, but hopefully in a less market-impacting fashion.

As Evergrande's uncertainty became clearer, the Federal Reserve offered guidance resulting in a surprisingly positive reaction. Although the Fed was somewhat "hawkish" (less stimulative monetary policy), markets took it as a vote of confidence for the recovery. The Fed has been a significant factor in the stock market's COVID recovery. Therefore, a positive reaction to some loose policies being reduced was not expected to be a positive catalyst. However, the Fed has learned from the 2013 Taper Tantrum, when a surprise announcement of tightening monetary policy led to a market sell-off and resulted in loose policies remaining even longer. This time around, the Fed has been very transparent in their thinking, leading to a positive reaction from stocks as less stimulus from the Fed means the economy is improving and companies can grow without the additional support.

As economic news continues to be primarily positive, headlines about how September is the worst month for stocks have turned into October will be the most volatile month of the year. With three trading days left in September, the S&P 500 Index is down -1.4%, which is not much of "worst" month. Patterns can be found in almost anything, and typically the negative ones draw the most attention. Instead of focusing on a theme for the month, focus on your investment horizon and how even negative months can be nothing more than a buying opportunity to help you achieve long-term goals.



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