Capital Market Review

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The Week Ending October 1, 2021

The last four trading days of September proved to be a culmination of investor anxieties. From various economic data to continued supply chain constraints, all were front and center as the third quarter came to a close. The one economic factor that has not been much of a topic as of late is interest rates, but the last two weeks of September changed that as the 10-Year U.S. Treasury rose about 20 basis points to end the quarter at 1.52%.

While the 10-Year Treasury is still at an incredibly low rate relative to recent history, the 20-basis point increase does mark a meaningful rise. In August 2020, the 10-year yield bottomed at 0.52% and climbed to a recent high of 1.74% in March 2021. During that time, value stocks found life and outperformed their growth counterparts, a rare feat since the 2008 Global Financial Crisis. Although a very short time frame, growth stocks underperformed value stocks last week by over 2.5%, allowing value companies to regain their year-to-date lead.

When value stocks began their outperformance last year, investors pointed to the reopening trade and rising rates as the primary catalysts. Rates were rising as investors became more confident in the recovery, therefore selling safer bonds and buying lower-quality bonds or stocks. However, another reason for bond yields to increase is the market's response to ward off inflation. As most are aware, inflation has been a top story over the past few months as investors balance the transitive vs. secular narrative. Causing additional discussions around this topic is the continued supply chain backlog as ships wait outside ports to unload their goods. As we move into the fourth quarter and holiday shopping season, demand for many of these goods will be increasing as supply is struggling to keep up, pushing prices higher. While much of the inflation story very well could be transitive, this is not something that will sort itself out in just a few months, and investors will have to be patient to understand the primary catalyst for this round of rising rates.

As market forecasters post their fourth-quarter views that will transition into their 2022 outlooks, we are reminded that the only certainty in investing is uncertainty. As much as people want to say they know what will happen with inflation, interest rates, or the best sector to invest in, no one is consistently correct. Maintaining a long-term mindset, especially during a downturn, is the best plan for your portfolio to meet its long-term objectives.

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