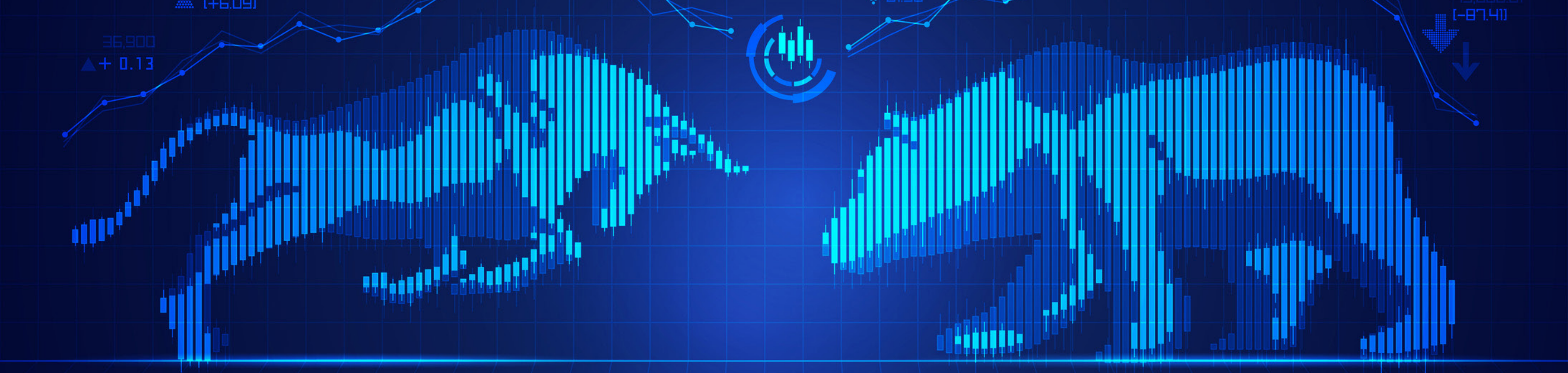


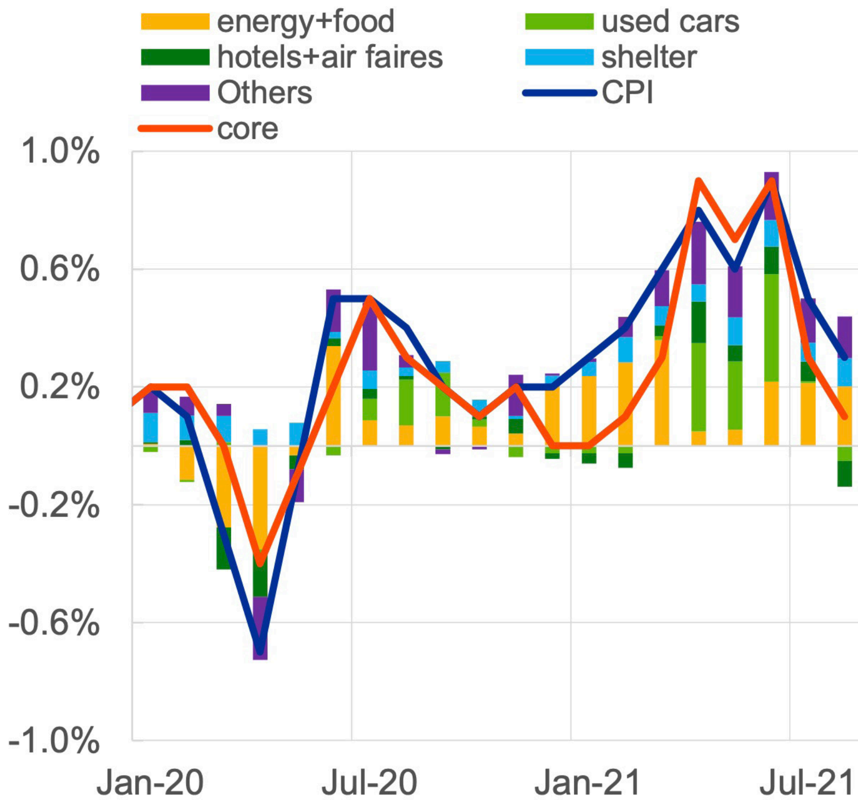
# Capital Market Review
## Third Quarter 2021

*By: Jim Rambo, CFA*

The broadening global COVID-19 recovery faced headwinds leading to mixed asset class results in the third quarter. The S&P 500 (large U.S. stocks) returned 0.58% for the quarter, while the Russell 2000 (small U.S. stocks) was down -4.36%. Emerging market stocks underperformed, driven by economic and regulatory concerns from China. The Evergrande Group, a massive Chinese property developer and one of the largest companies in the world, defaulted on a debt payment, sparking worries of larger systemic issues. Commodities, including gas and oil, lead the quarter, with the Bloomberg Commodity index returning 6.59%. Rising energy prices and the fear of rising inflation were the primary contributors. Bond returns were near flat for the quarter.

## *Market Review at a Glance - As of September 30, 2021*

| Benchmark Index Returns (%) | 3 mo. | 6 mo. | 9 mo. | 12 mo. |
|---|---|---|---|---|
| USTREAS TBill 3-Month | 0.01 | 0.01 | 0.04 | 0.07 |
| BBgBarc US Govt/Credit 1-5 YR | 0.05 | 0.32 | -0.25 | 0.08 |
| BBgBarc Municipal Bond 3 YR | 0.09 | 0.35 | 0.50 | 0.83 |
| BBgBarc US Aggregate Bond | 0.05 | 1.88 | -1.55 | -0.90 |
| BBgBarc Municipal Bond | -0.27 | 1.15 | 0.79 | 2.63 |
| BBgBarc Corp High Yield | 0.89 | 3.65 | 4.53 | 11.28 |
| FTSE WGBI Non-USD | -1.97 | -1.53 | -7.86 | -3.41 |
| S&P 500 | 0.58 | 9.18 | 15.92 | 30.00 |
| DJ Industrial Average | -1.46 | 3.54 | 12.12 | 24.15 |
| Russell 2000 | -4.36 | -0.25 | 12.41 | 47.68 |
| MSCI ACWI | -1.05 | 6.26 | 11.12 | 27.44 |
| MSCI EAFE | -0.45 | 4.70 | 8.35 | 25.73 |
| MSCI EM | -8.09 | -3.45 | -1.25 | 18.20 |
| DJ US Select REIT | 1.25 | 13.16 | 24.48 | 40.56 |
| Bloomberg Commodity | 6.59 | 20.77 | 29.13 | 42.29 |



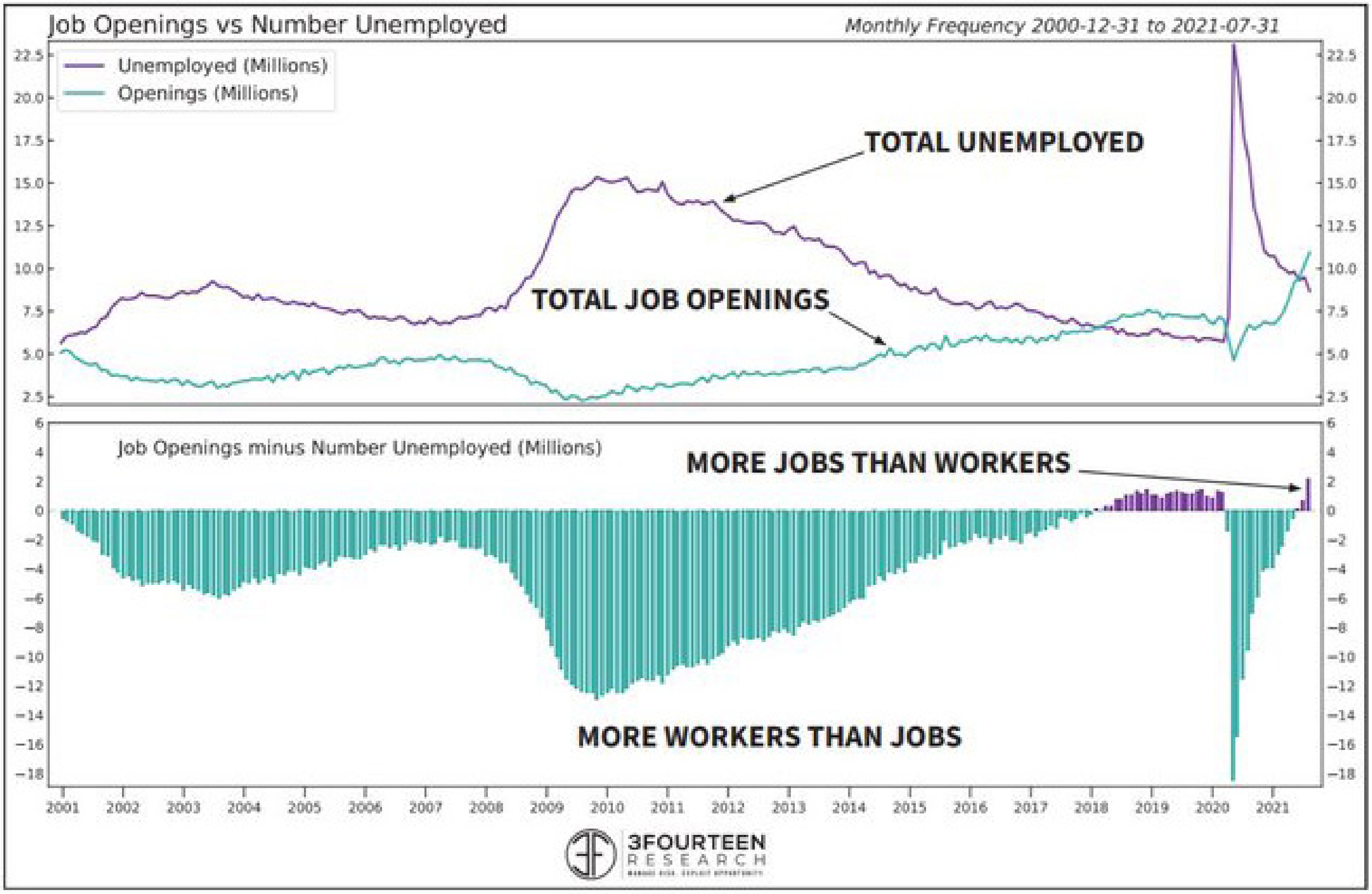

*Source: Voxeu.org*

Rising inflation and the effect on the market persist as a leading concern of investors. The Consumer Price Index (CPI) has steadily increased by 5.4% over the last 12 months. For context, CPI has averaged under 2% per year in the post-Global Financial Crisis recovery (2010-2020) and hasn't been above 5% for a calendar year since 1990.

On a headline basis, we are indeed experiencing inflation at levels that we have not seen in many years. But the question remains how much of it is 'transitory' from the disruption of COVID-19 still working its way through the economy, and will it eventually subside? Moreover, how much may be permanent from drivers such as money creation or imbalances in fiscal policy?

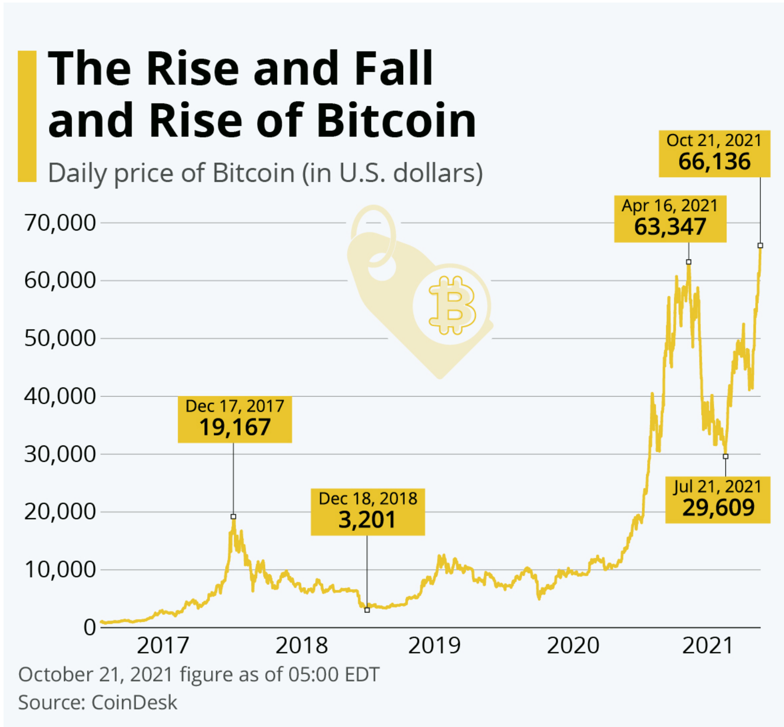
Looking more closely at the components that comprise CPI provides insightful detail. The Energy segments are the most significant contributors, with the cost of gasoline and other fuels over 40% higher. However, much of this is the recovery of energy prices, which dropped precipitously in the abrupt global economic shutdown in response to COVID-19. Vehicle prices are the other notably high areas driving inflation. New car prices are 8.7% higher and used Car prices are 24% higher. New cars are underproduced due to microchip shortages and used vehicles are in higher demand while there are less available.

### *Labor Market Tighter Than Unemployment Rate Suggests*




*Source: [3Fourteen Research - Twitter]*

The unemployment rate continues to fall as more-and-more Americans go back to work. At the beginning the year, the unemployment rate was above 6%; as of September, the rate is just 4.8%. While we've made considerable strides in job recoveries, the rate is still well above the 3.5% pre-pandemic level. But what is more notable is the record labor shortages that we're also experiencing. There are now more job openings than unemployed individuals in the United States. Businesses are offering sign-on bonuses, enriched benefit packages, and increased wages to compete for workers. Factors including enhanced unemployment benefits (which ended in September), COVID-19 health risks, early retirements, lack of childcare availability, and uncertainty surrounding a vaccine mandate contribute to the mismatch. While it is uncommon to have more job openings than unemployed individuals, it is not unheard of. In the two years leading up to the COVID-19 pandemic, we had a record low unemployment rate with excess job openings.




*Source: Statista.com*

After falling more than 50% during the second quarter, Bitcoin has rallied strongly, more than doubling since July and reaching a new all-time high of $66,974. Experienced crypto investors have grown accustomed to the wild price swings and the accompanying emotional roller coaster that comes with them. Sparking the sell-off in May, Elon Musk announced Tesla would no longer accept Bitcoin for payment due to the extreme amounts of fossil fuels consumed to mine it. Next, China released a series of restrictions, first banning mining and then making all crypto-related transactions illegal. In August, the price again began to recover as financial institutions such as Mastercard, Bank of America, and U.S. Bank, announced plans and services to support and invest in cryptocurrencies. Finally in October, Proshares launched the long-awaited first U.S. Bitcoin ETF attracting more than $1 billion of assets under management in just the first two days. While this is a significant milestone, it's important to understand that the ETF does not own Bitcoin directly. The ETF invests in Bitcoin futures contracts, which can be expected to move in the same direction as Bitcoin, but not track the spot price directly.



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