MURRAY
INVESTMENT MANAGEMENT

3rd Quarter 2021 Update

Equity markets sold off during September but overall had mixed performance during the 3rd quarter as the Covid delta variant and inflation concerns weighed on the markets. The S&P 500 was up slightly at .58%, the Russell 2000 (small caps) was down -4.36% and the MSCI EAFE (International index) was down -.45% during the quarter. The broad markets are still showing solid gains for the year.

	3Q21	YTD
S&P 500 (large cap)	0.58%	15.92%
MSCI EAFE (International index net return)	-0.45%	8.35%
Rusell 2000 (small cap)	-4.36%	12.41%
Russell 3000 Growth	0.69%	13.49%
Russell 3000 Value	-0.93%	16.58%

As the Covid vaccine has become more widely available and economic activity has picked up, prices have started to rise, and inflation concerns have been dominating headlines. Rising demand and supply chain disruptions are pushing prices higher, which ultimately impacts consumer spending. Energy prices are of particular concern as they have risen significantly.

The U.S. Federal Reserve plays an active role in this inflation debate as one of the Fed's primary objectives is to keep prices in check. With the economy improving and prices rising, the Fed has indicated that they will likely raise interest rates and begin tapering bond purchases sooner than expected. Since the low interest rate environment has contributed to some of the market gains that we have seen, it will not be surprising if the market pulls back and becomes more volatile when the Fed becomes less accommodative. We experienced this volatility in September when the market pulled back around the time of the Fed's announcement.

Interest rates fell and then rose during the quarter but ended mostly unchanged. Interest rates remain at historically low levels, and as such, the fixed income space is somewhat limited as an investment opportunity. I am largely using cash in the fixed income allocation for most portfolios while continuing to look for better opportunities as rates rise.

The following 3 factors have helped drive equity markets higher and should continue to be positive influences for the remainder of the year:

1. Improving economic conditions as pent-up demand drives strong consumer spending
2. Additional fiscal stimulus from the federal government (Infrastructure Bill)
3. Extremely low interest rates that leave investors with few investment alternatives other than equities.

On the other hand, some areas of concern include inflation, less stimulus from the Fed, supply constraints (both product and worker supply), rising interest rates, equity valuations and the speculative behavior that we are seeing in some areas of the market.

The U.S. economy should continue to improve throughout the year, but we should expect more equity market volatility as the Fed becomes less accommodative. On a tactical basis, I like the international space which could benefit from the Covid vaccine becoming more universally available, the value investing style and small cap securities. Strategically, I am continuing to focus on longer-term trends and maintaining diversified, balanced portfolio that are constructed in a manner that is consistent with clients' risk tolerance and long-term goals and objectives.

Sources: Morningstar, Treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 9/30/2021. Except as noted, index returns are total returns.

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