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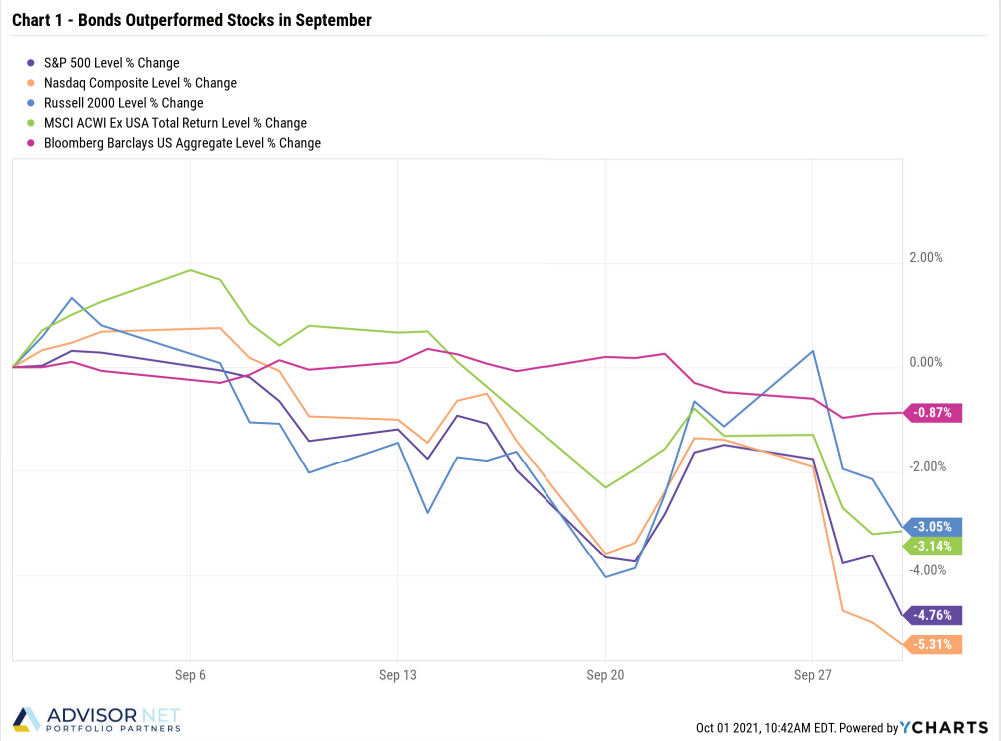
NEWSLETTER
OCTOBER 2021

COMMENTARY

September Proves Difficult

The month of September has a history of negative returns. As a matter of fact, recent research from BlackRock shows that the average return for US stocks during the month of September is -0.7% going back to 1926. Every other month averages a positive return. This month followed that historical patter of losses with the S&P 500 down -4.76%, the NASDAQ composite down -5.31%, the Russell 2000 down -3.05%, the MSCI ACWI ex-US down -3.14% and the Bloomberg Barclays US Aggregate index down a modest -0.87% (Chart 1). We think it is notable that, although bonds were negative during the month, bonds actually held up considerably better than stocks. In other words, bonds were down less than stocks, which helped provide some ballast to our allocation models during the month.



MARKET LEADERSHIP CONTINUES TO ROTATE

A common theme to stock market returns during 2021 has been the concept of rotation. This is stock market parlance for the movement of market performance leadership from one group to another. We often see the best performance aggregated to a certain group of stocks such as large cap/small cap or growth/value. For example, the year started with small cap stocks providing the best returns. The market then rotated to value stocks during February and March before switching to large cap stocks in April and oscillating for the remaining months with value stocks holding the lead for the full year. (Table 1).

S&P 500	**4,370.67**
DIJA	**34,467.98**
NASDAQ	**14,582.60**
OIL	**$73.43** /BARREL
GOLD	**$1,746.80** /OUNCE
10-YEAR TREASURY YIELD	**1.52%**
UNEMPLOYMENT	**5.20%**
GDP	**6.70%**
PPI	**8.27%** Year-Over-Year
CPI	**5.25%** Year-Over-Year

Source: ycharts.com

This rotation has created a situation that we have referred to as "the market killing us with kindness." The implication

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Table 1 – MARKET LEADERSHIP ROTATING IN 2021

	Jan	Feb	March	April	May	June	July	August	September	YTD
RLG - Russell 1000 Growth	-0.78	-0.11	1.65	6.76	-1.47	6.21	3.25	3.66	-5.66	13.65
RLV - Russell 1000 Value	-1.07	5.84	5.69	3.87	2.14	-1.30	0.65	1.79	-3.64	14.41
RUO - Russell 2000 Growth	4.81	3.27	3.2	2.17	-2.9	4.65	-3.66	1.78	-3.87	2.54
RUJ - Russell 2000 Value	5.21	9.24	5.04	1.97	2.97	-0.77	-3.64	2.51	-2.18	21.53
Market Leadership	Small	Value	Value	Large	Value	Growth	Large	Mixed	Value	Value

Source: www.ycharts.com and Portfolio Partners

here is that even though the broad indices continue to march higher, the rotation of leadership has made it feel like a grind while generating those positive returns. We expect this volatile rotation pattern to continue for the rest of the year as the market continues to grapple with the prospect of inflation and slowing growth offset by the accommodative support provided by the FED.

DEBT CEILING AND YIELDS

Legislation was first introduced in 1917 to give Congress greater ability to finance the costs of World War I as well as created a limit on total debt issued ("debt ceiling"). Republicans and Democrats have been using this as a political bargaining chip ever since. As we write this letter, the US Congress is bickering over an agreement to raise the debt ceiling. For reference, Congress passed legislation in August 2019 to suspend the debt ceiling until July 31, 2021. That deadline has now passed, and the US Treasury has been forced to use "extraordinary measures" to continue financing our past debt.

So why should investors care? Because it pushes up yields. And that impacts stocks and bonds. Recall that the current debt ceiling suspension expired on July 31, 2021. Look at Chart 2 and notice the

CHART 2

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	0.58%	30.00%	15.99%	16.90%
MSCI EAFE	-0.35%	26.29%	8.13%	9.33%
BAR AGG BOND	0.05%	-0.90%	5.36%	2.94%

Source: Morningstar Direct

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date of the near-term low on yield of 10-year US Treasury . . . ddddddrum roll, pleeeeeeeaaaaaaase . . . August 2, 2021 . . . the first day after the debt ceiling agreement expired!! (markets are so fascinating) Since that time, yields have increased from 1.24% to 1.52% at the end of September.

Our view is that rates may continue to gyrate at levels below the long-term downtrend depicted in red on Chart 3. We think the action below this trendline so far has been normal and has not yet indicated a significant change in direction for yields. This downtrend goes back to 1981 and we think a break ABOVE that trendline would be a more reliable indicator of a significant change in the direction of yields. If past is prologue, Congress will rectify the debt ceiling issue before "extraordinary measures" run out around mid- to late-October and that could help stabilize yields in the short term.

CHART 3

CHINA EVERGRANDE GROUP

Evergrande Group is the second largest property developer in China. It is also one of the most indebted companies in the world with over $300 billion of liabilities. The company made headlines during September when it missed interest payments on two large loans and indicated that it may be difficult to continue to finance further obligations. This news caused investors to worry about potential systemic risks to other financial institutions given its large size and was the likely catalyst for the stock market selloff that began in late September. We do not yet know the full impact this situation may have on broader financial institutions so we are watching closely and will update our clients as our thoughts evolve.

Thank you for your trust and support. Stay focused on your long-term objectives.

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The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.
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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

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