QUARTERLY MARKET COMMENTARY: 2021-Q3

WRITTEN BY: DAVID Y. SUN, CFA

After contently watching domestic equity markets hover near all-time highs during most of the third quarter, markets eventually succumbed to rotating concerns resulting in the S&P 500 pullback of 4.76% during the last month of September. As we remain confident in market levels supported by fundamentals, we reiterate that such a minor pullback is healthy for overall markets as we continue forward with our post pandemic recovery. As expected, the Dow Jones Industrial Average has stayed within a recent trading range of 34,000 to 35,500 absent a major catalyst to drive a breakout in either direction. We continue to observe consistent patterns of respective buying and selling at both ends of the support & resistance spectrum.

Energy and Financial sectors continue to lead overall markets during 2021, meeting our expectations, with Real Estate rounding out the top three. The Utility sector remains a disappointment relative to our outlook for this year. After recently reaching double digit year to date (YTD) returns, the Utility sector gave up a good portion of its gains when bond markets reacted negatively to further hawkish Fed feedback and inflation red flags. Even though 2021 YTD total return results for the Utility sector remain unimpressive, it still serves a role as an attractive income generating vehicle with defensive characteristics. Also note that during the downturn in September, Value oriented companies held up better than Growth stocks, -3%+ versus -5%+, respectively.

As discussions regarding proposed tax law changes and the infrastructure spending bill blur into the D.C. background, inflation fought its way back to the spotlight with support from significantly higher oil prices. With inflation taking the lead role, we saw the yield on the 10-year Treasury rise over 1.5%, recently touching 1.6% before pulling back. Inflation sustainability remains a question due to trendless economic reports, especially employment data.

Understanding employment reports today is likened to understanding why your keys are always in the pocket on the side where you are holding bags. Note: there is a sub-conscious answer to this mystery. A combination of job creation reports, filing of new unemployment claims and labor shortage issues presents a challenging new environment for analysis. I just do not recall any continuing education curriculum within our industry that covers “making logic out of illogical results.” Another persistent contributing factor to inflation is the existing global supply issue. We believe supply constraints should slowly resolve itself through 2022 via increased manufacturing and resolution of labor shortages in the transportation sector.

Please note that our next Virtual Round Table Discussion (RTD) has been scheduled for November 10th from 3:00 PM - 4:00 PM. We will be holding in-depth discussions regarding inflation, interest rates, impact of Evergrande as another contagion from overseas, the national labor shortage/strike, updates on proposed tax law changes/infrastructure bill and other topics. RTD attendance details are currently being sent out to individuals on our invitee list. If you are interested in participating, please contact your adviser or Katelyn Baehrle in our main office at 484-320-6300 to be included. Finally, please be sure to reach out to your adviser should you have any questions pertaining to your personal financial plan or investment portfolio.