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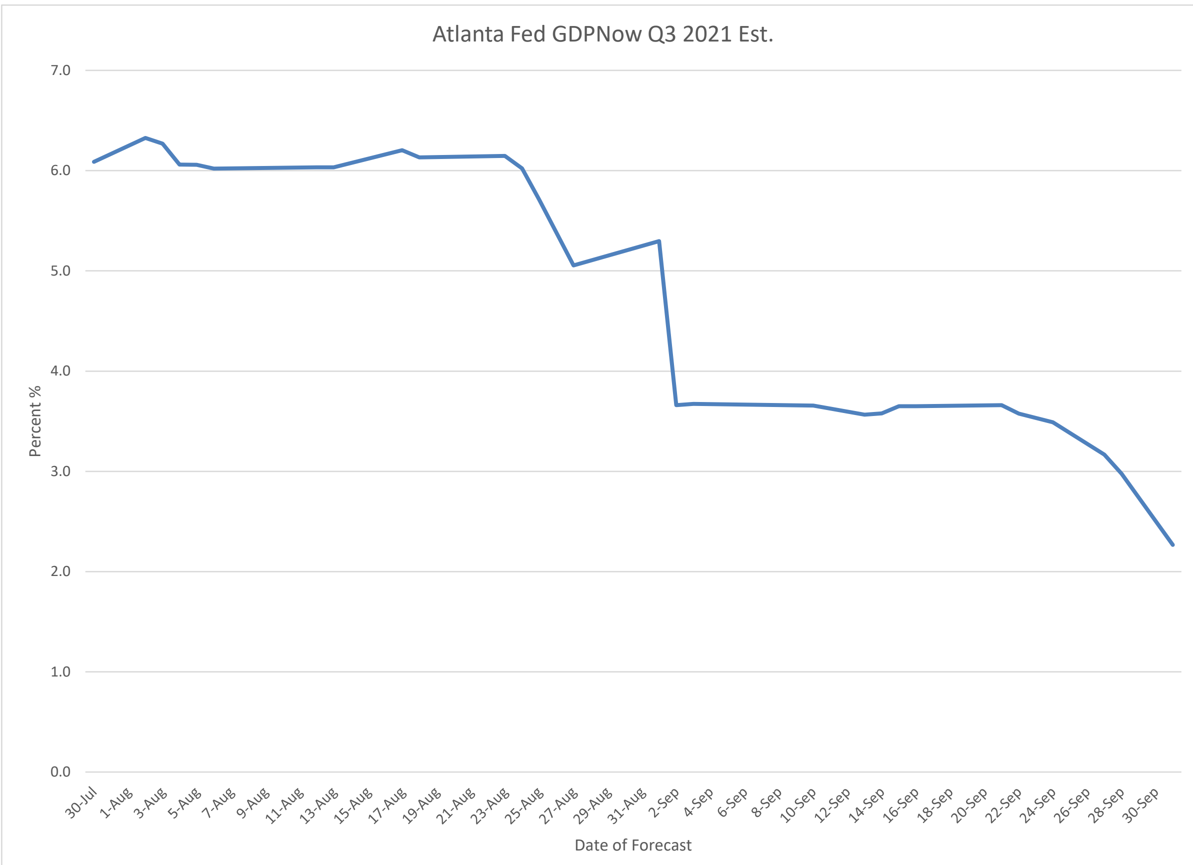
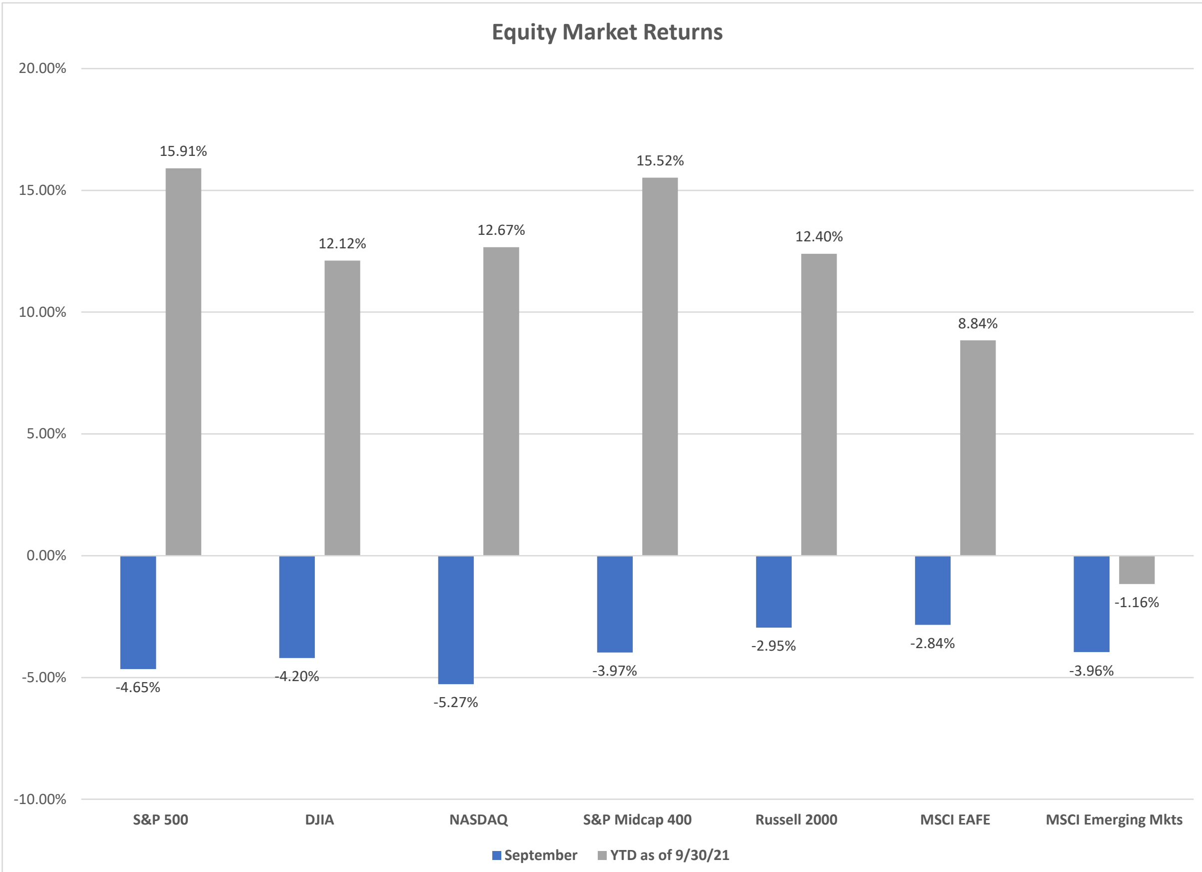
September Market Recap
By Dan F

A confluence of supply chain bottlenecks, fears over the Chinese real estate sector, less accommodative monetary policy, and stickier inflation assumptions are all weighing on growth. As a result, GDP growth expectations have been marked down for the recent quarter. The Atlanta Fed's tracking estimate for 3Q GDP has been steadily declining and now stands at 2.3% vs. 6.1% at the end of July.



However, the demand side of the economy remains strong, which would point to growth having been pushed out into the future due to the recent Delta-fueled surge in Covid cases and current supply chain constraints. As some of these issues begin to subside the base case of sustainable economic recovery remains viable.

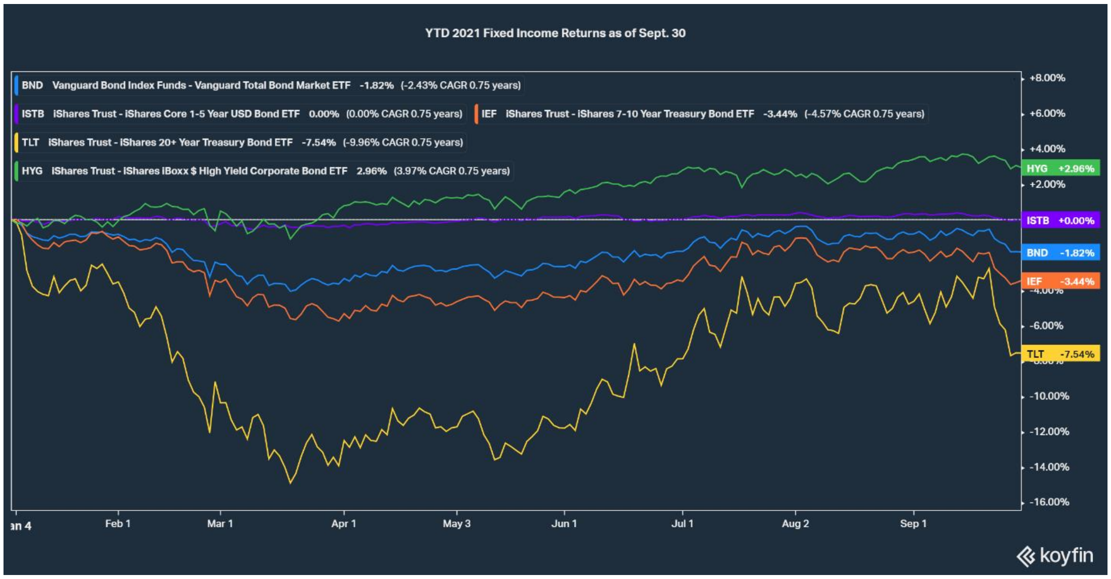
The Stock Market



According to data from Yardeni Research September has historically been the worst month of the year for the market. Going back to 1928 the S&P 500 declines 51% of the time in the month of September and in the years when it does fall the average decline is 4.6%. The S&P lived up to its reputation again this year. After posting its 54th record high closing price for 2021 to begin the month, the large cap benchmark index went on to post a decline of 4.76% in September. The NASDAQ index fell slightly more, finishing down 5.27% while small-cap and foreign stocks were off by just under 3%.

While a down month is an unpleasant occurrence, especially when we've become somewhat accustomed to a trend that is "up and to the right" it's important to keep things in context. The S&P 500 is still up nearly 16% so far in 2021, even with the recent pullback. Additionally, this is only the second time so far this year that we've seen a down month, and it brings the peak-to-trough drawdown to 5%. Over the past 41 calendar years, the market has averaged intra-year declines of 14.3%, so a 5% pullback is not unexpected and well within the range of what we would normally expect to see in any given year.

Fixed Income



The bond bull market that began in 1981 celebrated its 40th birthday. On September 30th of that year, the 10-year Treasury note yielded a record high of 15.82% amid double-digit inflation and rising unemployment. Today the 10-year Treasury yield hovers at less than a tenth of that level, inflation is heating up to the highest levels seen in three decades and job openings outnumber the total number of unemployed Americans by over 2 million. So far in 2021, bond market returns have been flat or negative, except for high yield, which is up about 3%. With the Federal Reserve and other central banks beginning to lean towards tightening and away from accommodation the trend towards higher interest rates seems likely to gain momentum, so long as the post-Covid economic recovery remains intact.

Conclusion

Markets have undoubtedly marked-up some of the fears investors are facing today. However, investing in the markets always has and always will involve facing whatever set of risks are pertinent at the moment. Some will matter, most will not. History remains on the side of remaining invested for the long-run and looking past whatever might seem ominous at any given moment in time.