MONTHLY MARKET UPDATE

September 2021

OPAL WEALTH ADVISORS

September stayed true to its reputation with nearly all financial assets giving back ground during the month. Contributing factors we are monitoring include: dysfunction in D.C., China's ongoing dance with autocracy, hawkish tones from some central banks, and growth/inflation dynamics as we continue on a path of economic recovery. Market moves last month were characterized by a selloff in U.S. Treasuries and some overdue consolidation across equity markets (worst month since March 2020). The broad U.S. stock market ended down approximately 4.5% for the month, offsetting gains from July and August, but solid double-digit gains for 2021 remained intact. Fixed income did not help matters in September with the U.S. bond market down 0.87%, leaving very little refuge for a 60/40 portfolio. Only oil, Japanese equities, and the U.S. dollar managed gains in September.

Market Anecdotes

- Equity market narratives transitioned from the large number of record closes, lengthy streak without a 5% correction, and top-heavy nature of the S&P 500 to old fashioned consolidation as the month came to a close.
- S&P 500 ended its streak of 229 days since it had experienced a 5% drop which was the 12th longest streak on record and returned 29.4% over that period.
- Key reminder is to maintain discipline through routine corrections and only seek risk mitigation if the likelihood of a prolonged downtrend is increasing. We believe slowing growth, pandemic dynamics, Fed tapering, higher taxes, and lofty valuations translate to the former, not the latter.
- Rising bond yields have resurfaced as a material consideration with global bonds on pace for their worst year since 1999. Implications on rate sensitive stocks, growth stocks, P/E multiples, and the USD all warrant consideration.
- A Bloomberg piece made note that the U.S. government's interest payments, as a percentage of GDP, over the next three years will be as low as any time since the 1960's and estimated yields averaging 2.5% or greater across maturities will change that narrative.
- A rare aspect of this expansion is the extreme low level of real rates as the recovery progresses. The current expansion's first 16 months averaged 10yr real rates of -0.87% versus +1.31% coming out of the last recession and +2.75% from the 2001 recession.
- September's FOMC meeting rolled out what sounded like a clear policy decision which is that both inflation and jobs conditions could be met by their next meeting in November where they expect to announce the tapering program to begin in December and conclude around mid-2022.
- Powell made clear the tapering program has no bearing on timing of rate hikes but did adjust market expectations on timing to include 1+ hikes in 2022 as a distinct possibility. Overall, markets conditioned the September meeting as fairly hawkish at the margin.
- Both base effect and supply chain issues are contributing to the surge in recent inflation. With the former rolling over, inflation readings rise in FOMC significance over the next several months.
- The U.S. consumer is healthy but in a bad mood. Balance sheets are robust, but sentiment measures (both investment and general economic) have been challenged.
- Federal unemployment benefits and mortgage forbearance programs were terminated beginning in September, setting the stage for economic incentives to begin to shape behaviors.
- The U.S. Congress again provided ample drama in September with the debt ceiling, infrastructure bill, funding approval, and spending package as fodder. As of early October, the debt ceiling was punted to December and infighting among Team D is holding up the large infrastructure and social spending bills.

- Angela Merkel ended sixteen years leading Germany and Europe with leadership there still uncertain. Japan's PM Suga is also out with an LDP party member the likely replacement.

- BCA noted China's focus on "common prosperity", hard line regulatory initiatives, and the lagged effect of any credit impulse warrant scrutiny with regard to China and emerging market allocations.

Economic Release Highlights

- The Personal Income and Outlays report showed headline monthly and annual PCE Price Index (inflation) of 0.4% and 4.3% respectively. Core readings were 0.3% and 3.6% respectively.

- The Personal Income and Outlays report showed higher M/M consumption and income with Personal Consumption at 0.8% vs 0.6% and Personal Income of 0.2% vs 0.3%.

- September U.S. PMI readings (C, M, S) of 54.5, 60.5, and 54.4 came in slightly below forecasts but again solidly in expansionary range. Eurozone readings also came in below estimates but still robust at 56.1, 58.7, 56.3. Global composite PMI rose in September to 53 from 52.5.

- September U.S. ISM Service (61.9) and Manufacturing (61.1) Indices both beat consensus, were solidly in expansionary territory, and improved sequentially over August levels.

- The most recent Retail Sales Report came in healthier than expected with MoM growth of 0.7% versus consensus estimates for -0.7%.

- September housing market data remained healthy with Case-Shiller Home Price Index +1.5% MoM and +19.7% YoY. New (740k), Existing (5.880mm) and Pending (+8.1%) Home Sales were at or well above consensus respectively. Starts (1.615mm) and Permits (1.728mm) also both came in well above expectations.

- September Consumer Confidence Index deteriorated slightly to 109.3 from the prior month while the UofM Consumer Sentiment reading was revised higher to 72.8 and above consensus.

Positioning

Despite near term consolidation across global equity markets, we are maintaining a constructive view of global equity markets thanks to successful vaccination campaigns/Covid trends, peaking but still healthy levels of global growth, less but still accommodative monetary policy, and rising but still well below average interest rates. Additionally, despite an August/September pandemic related lull in U.S. job creation, we expect payrolls to reaccelerate later this year bolstering already very healthy consumer balance sheets which should be very supportive for consumer spending. Lastly, we are in the early innings of the market's response to pandemic related supply chain issues which we expect will be resolved in the coming quarters through increased capex across energy, semiconductors, and global transportation sectors among others.

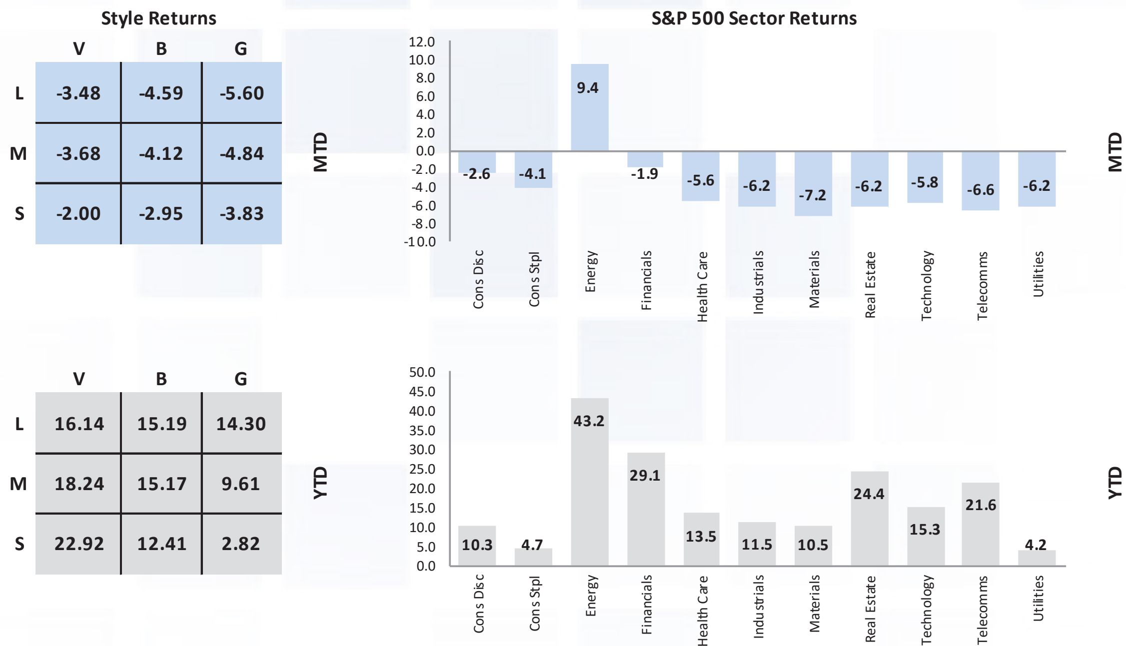
Ultimately, we expect risk assets to outperform fixed income going forward as global growth momentum shifts from the US to the rest of the world. Within equity markets, we are favoring developed international equity markets, particularly Europe, relative to the U.S., over a 12-18 month horizon and feel fixed income investors should maintain a modestly short duration and remain neutral on credit sectors.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	33844	(4.25)	(1.46)	12.12	24.15	11.00
NASDAQ	14449	(5.30)	(0.23)	12.66	30.26	22.67
S&P 500	4308	(4.77)	0.58	15.92	30.01	15.99
Russell 1000 Growth		(5.87)	1.16	14.30	27.32	22.00
Russell 1000 Value		(3.53)	(0.78)	16.14	35.01	10.07
Russell 2000		(2.60)	(4.36)	12.41	47.68	10.54
Russell 3000		(4.62)	(0.10)	14.99	31.88	16.00
MSCI EAFE		(2.90)	(0.35)	8.79	26.29	8.13
MSCI Emg Mkts		(2.19)	(7.97)	(0.99)	18.58	8.96
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	1.84	(0.00)	(0.11)	(0.31)	(0.49)	(0.67)
High Yield	4.44	(0.02)	(0.21)	(0.67)	(1.06)	(0.98)
Municipal	1.81	0.00	(0.04)	(0.10)	(0.20)	(0.44)

Commodities	9/30/21	7/31/21	4/30/21	1/31/21
Oil (WTI)	77.68	73.93	63.50	52.16
Gold	1742.80	1825.80	1767.70	1863.80

Currencies	9/30/21	7/31/21	4/30/21	1/31/21
USD/Euro ($/€)	1.16	1.19	1.21	1.21
USD/GBP ($/£)	1.35	1.39	1.38	1.37
Yen/USD (¥/$)	111.50	109.70	109.33	104.64

Treasury Rates	9/30/21	7/31/21	4/30/21	1/31/21
3 Month	0.04	0.06	0.01	0.06
2 Year	0.28	0.19	0.16	0.11
5 Year	0.98	0.69	0.86	0.45
10 Year	1.52	1.24	1.65	1.11
30 Year	2.08	1.89	2.30	1.87



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