MONTHLY MARKET UPDATE
October 2021

While there were ample cross currents for markets to navigate in October, things bounced back from September's long overdue correction with authority, with the S&P 500 posting four consecutive positive weeks. In fact, there have only been six months over the past ten years where the S&P 500 did as well in a single month, returning nearly 7%, leaving it up 22.6% for the year. Interest rates drifted higher in the shorter maturities (2yr, 5yr) and less so in the longer maturities (10yr, 30yr) posing a headwind to bonds while credit spreads didn't move notably either way.

Key drivers of the market right now include corporate earnings, high profile negotiations in D.C., China's struggling economy, and the delicate balance between inflation pressures and central bank (Fed) policies. Overall, we feel the economy remains on a clear recovery path from the Covid induced recession with more to come as the world slowly migrates back closer toward more 'pre-pandemic' economic behaviors.

Market Anecdotes

- The S&P 500 just posted its best performance through October since 2013 and found itself up over 20% for only the tenth time since 1928.
- The Value Line Index marked new record highs last month on the back of a notable improvement in overall market breadth following the September/early October soft patch.
- Third quarter earnings season kicked off in earnest last month, currently sitting at an impressive blended growth rate of 39.1% with beat rates and beat margins of 81% and 10.3% respectively. Bespoke noted S&P 500 aggregate earnings over the next twelve months are estimated to come in 24% higher than they were pre-Covid.
- One risk to corporate earnings looking forward into 2022 and 2023 is an increased likelihood of profit margin compression, currently at record highs, due to pandemic (supply chain disruptions, labor market distortions) and non-pandemic (tax and interest expense) related cost increases.
- The Senate passed a short-term debt ceiling deal in October estimated to keep the U.S. accounts payable department open though December 3rd. The House will take it up this week.
- House Democrats finally agreed to move forward with the $1.2t infrastructure spending package in early November while the reconciliation spending package remains in limbo.
- The OECD reached a deal on a global corporate tax of a minimum 15% with special provisions for profit sharing and digital services taxes. Each country, including the U.S. will seek adoption.
- The Fed firmly telegraphed the beginning of a tapering of their QE program throughout October and reminded markets that balance sheet policy is distinct from rate policy as things move forward. Bianco Research calculated the Fed's "footprint" in the U.S. bond market, noting nearly 30% of the U.S. fixed income market is on the Fed's balance sheet.
- Unemployment, labor force participation, wage growth, non-transitory inflation, and inflation expectations are the primary factors guiding Fed monetary policy. They seem to be balancing some runway on the former (unemployment) while threading a needle on the latter (inflation).
- The last few weeks have seen the market calling global central banks' bluff collectively as evidenced by the sharp move higher in short term interest rates alongside several central bank decisions to begin or continue with gradual rate hikes.
- Internal watchdog investigations of senior U.S. central bank officials are expected to translate to a more accelerated changing of the guard at the Fed but Chairman Powell is increasingly likely to be re-appointed as Fed Chair, despite increased focus on Board Governor Brainard.
- The delta variant fueled Covid surge has been in decline for weeks across case counts, positive test rates, hospitalizations, and deaths. The

combination of vaccination rates (75% one dose, 66% fully vaxxed) and earned immunity make another surge somewhat unlikely.

- 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 anytime since the 1960's and estimated yields averaging 2.5% or greater across maturities will change that narrative.

Economic Release Highlights

- The October Personal Income and Outlays report had September core and headline CPI at 4% and 5.4% annual rates respectively, in line with the consensus call. MoM inflation readings of 0.3% and 0.2% were also in line with expectations.
- Headline and core CPI readings for October YoY came in above expectations at 6.2% and 0.9%.
- The October jobs report came in better than expected with payrolls of 531,000, in excess of consensus calls for 450,000, and a headline unemployment rate of 4.6%.
- The August JOLTS report had consensus expecting further increases in openings to 11.013mm but showed a decrease instead to 10.439mm.
- September Retail Sales surpassed expectations on headline (0.7% vs -0.1%), ex/autos (0.8% vs 0.4%), and ex/autos & gas (0.7% vs 0.7%) basis.
- U.S. Q3 GDP slowed to a 2.0% QoQ annual rate of growth, below the 2.6% forecasted rate and down from a 6.7% clip in Q2.
- Eurozone Q3 GDP growth (3.7% YoY) increased over the prior quarter from 2% to 2.2%.
- Chinese Q3 GDP rose at a 0.2% annualized pace, 4.9% YoY with 2021 growth in the 2.0%-2.5% range, a remarkable slowdown driven by a tangible slowdown in industrial production.
- October's U.S. PMIs surprised on the upside with readings (C, M, S) of 57.3, 58.4, and 58.2.
- October's U.S. ISM Manufacturing Index came in at 60.8, generally in line with the consensus call of 60.3. ISM Services Index came in at 66.7, a record high and far beyond consensus of 61.9.
- October non-U.S. PMIs (C, M, S) were in line to slightly lower than consensus with the Eurozone at 54.3, 58.5, 54.7, Japan at 50.7, 53.0, 50.7, and the U.K. at 56.8, 57.7, 58.0.
- Conference Board's Consumer Confidence reading for October registered 113.8, well in excess of consensus call of 108 and a nice improvement from 109.8 last month.
- Final October UofM Consumer Sentiment was revised slightly higher to 71.7 from 71.4 (p).
- The Case-Shiller Home Price Index rose 1.4% MoM (19.8% YoY) in August, in line with consensus. September New (800k) and Existing (6.290mm) Home Sales both came in above forecasts while Pending Home Sales unexpectedly declined 2.3% (+1.7% forecasted).
- October's Housing Market Index moved higher to 80, well ahead of the consensus call for 75.

Positioning

We remain constructive on risk assets as we approach year end as we look at corporate fundamentals, the global economic growth landscape, Covid trajectory, and overall monetary/fiscal policy backdrop. Financial assets are attempting to handicap the extreme current capacity constraints with the prospect that these constraints and the resulting input cost pressures will ease over time. We don't think this is a binary yes/no outcome but rather one where most supply chain issues will prove transitory, some will fade before others, and others still may prove to be less transitory (wages?). Key risks we are monitoring include the potential for a Fed policy mistake and also concerns surrounding the Chinese economy.

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	35820	4.24	2.56	18.77	36.92	16.14
NASDAQ	15498	6.82	5.04	20.88	39.49	31.22
S&P 500	4605	5.74	4.57	24.04	41.20	22.55
Russell 1000 Growth		7.86	5.63	24.20	39.74	30.84
Russell 1000 Value		3.52	3.05	22.03	43.58	14.72
Russell 2000		3.28	2.81	17.19	48.58	17.36
Russell 3000		5.60	4.29	22.77	41.96	22.71
MSCI EAFE		2.49	0.45	11.49	34.08	12.70
MSCI Emg Mkts		1.15	(1.75)	(0.00)	15.59	13.54
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	1.82	(0.02)	(0.05)	(0.32)	(0.48)	(0.73)
High Yield	4.41	(0.03)	(0.15)	(0.70)	(1.06)	(1.20)
Municipal	1.79	(0.02)	(0.03)	(0.12)	(0.21)	(0.49)

Commodities	10/31/21	8/31/21	5/31/21	2/28/21
Oil (WTI)	81.96	68.43	66.31	61.55
Gold	1769.20	1814.90	1900.00	1742.90

Currencies	10/31/21	8/31/21	5/31/21	2/28/21
USD/Euro ($/€)	1.16	1.18	1.22	1.21
USD/GBP ($/£)	1.37	1.37	1.42	1.39
Yen/USD (¥/$)	114.03	110.05	109.83	106.64

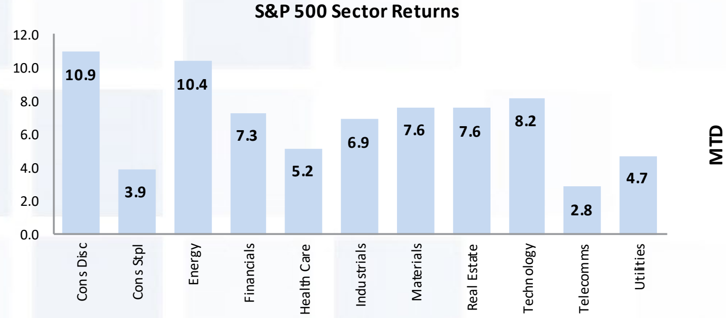
Treasury Rates	10/31/21	8/31/21	5/31/21	2/28/21
3 Month	0.05	0.04	0.01	0.04
2 Year	0.48	0.20	0.14	0.14
5 Year	1.18	0.77	0.79	0.75
10 Year	1.55	1.30	1.58	1.44
30 Year	1.93	1.92	2.26	2.17

Style Returns

MTD

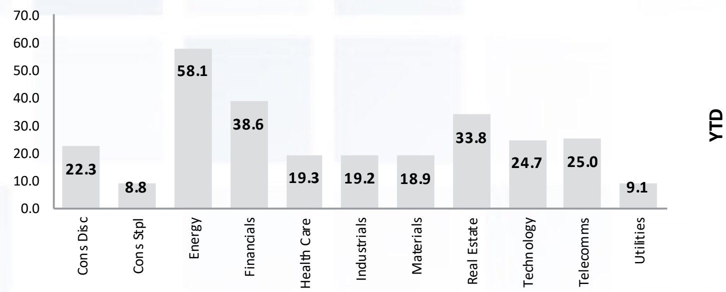
	V	B	G
L	5.08	6.94	8.66
M	5.32	5.95	7.01
S	3.81	4.25	4.68

S&P 500 Sector Returns



YTD

	V	B	G
L	22.03	23.18	24.20
M	24.54	22.02	17.29
S	27.60	17.19	7.64



OPAL WEALTH ADVISORS

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**