



# PENSION & WEALTH MANAGEMENT ADVISORS

IMPROVING FINANCIAL SECURITY

800 SOUTH STREET SUITE 160 WALTHAM MA 02453 t 781.398.0077

## Q3 2021 - Market Commentary<sup>1</sup>

- The C-19 Delta variant wave, elevated inflation, slowing China growth, and the pending change to the U.S. Federal Reserve's Quantitative Easing policy all weighed on global financial markets during the third quarter. Most global stock indices were negative and bonds produced limited returns.
- At its September meeting, Chairman Powell said the Fed plans to taper its bond buying under its Quantitative Easing policy by the end of the year and finish by mid-2022. This important policy change reflects the ongoing progress of the U.S. economic recovery and labor markets since the Covid-19 pandemic began. Interest rate increases remain on hold, but the timing could be pulled forward if inflation levels remain elevated above the Fed's 2.0% target as is the case today.
- The broad U.S. stock market hit an all-time high in early September but retreated and finished close to flat for the third quarter. The Russell 3000 Index returned -0.1% while midcap and small cap U.S. stocks generated worse returns. The S&P 500 Index, which captures large cap stock returns, finished modestly higher during the third quarter and is the best performing asset class year to date.
- Non-U.S. stocks trailed U.S. stocks as the C-19 Delta variant, negative headlines out of China, and a strengthening U.S. dollar negatively impacted returns, especially in emerging markets. China unleashed a broad array of Common Prosperity policy initiatives, which targeted numerous industries and companies and roiled global investors. A debt default by a major Chinese real estate development company added to investor concerns.
- The MSCI ACWI Ex U.S. Index returned -3.0% and the MSCI Emerging Markets Index returned -8.1%, the worst performing asset class during the third quarter.
- Bond yields moved lower for most of the third quarter until experiencing a rapid increase at the end of September as persistent inflation and the announcement by the Fed of QE tapering eventually weighed on bond markets. For the third quarter, bond yields barely changed as the 10-year U.S. Treasury yield ended the quarter at 1.50%, up modestly from 1.47% on June 30th. The BB Aggregate Bond Index was barely positive while high yield bonds as measured by the BofA ML High Yield Index returned +1.0%. Investment grade bond returns are negative year to date.
- Oil prices remained elevated despite the Delta variant causing a slowdown in global economic activity. OPEC and U.S. energy companies remained disciplined on supply and Europe, the U.K., and China are experiencing energy shortages. U.S. natural gas prices exploded higher by over 80% as a hot summer globally combined with constrained production depleted inventories ahead of the winter heating season. Natural gas price increases in Europe were even more severe, forcing shutdowns of manufacturing and chemical plants.
- Cryptocurrencies recovered from their large declines during the second quarter and despite negative headline news that China had banned the use of cryptocurrencies. Bitcoin jumped 26% and Ethereum increased 34%. Both digital currencies have gained over 50% year to date. Balanced portfolios produced negative returns during the third quarter. Year to date, the balanced portfolio average return was 8.8%.

### Performance Table<sup>1</sup>

	3Q21		2021YTD		2020		2019		2018	
S&P 500 Index (U.S. large/mega cap stocks)	0.6%	↑	15.9%	↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑	-4.4%	↓
Russell 2000 Index (U.S. small cap stocks)	-4.4%	↓	12.4%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑	-11.0%	↓↓↓
MSCI EAFE Index (large cap developed markets int'l stocks)	-0.5%	↓	8.4%	↑↑	7.8%	↑↑	22.0%	↑↑↑	-13.8%	↓↓↓
MSCI EM Index (emerging markets stocks)	-8.1%	↓↓	-1.3%	↓	18.3%	↑↑↑	18.4%	↑↑↑	-14.6%	↓↓↓
MSCI All Countries World Index (global stocks)	-1.1%	↓	11.1%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑	-9.4%	↓↓
Bloomberg Barclays Aggregate Bond (inv. grade bonds)	0.1%	↔	-1.6%	↓	7.5%	↑↑	8.7%	↑↑	0.0%	↔
BofA ML High Yield (below inv. t. grade bonds)	1.0%	↑	4.7%	↑	7.1%	↑↑	14.3%	↑↑↑	-2.1%	↓
Bloomberg Barclays Short-term Treasury (cash)	0.0%	↔	0.0%	↔	1.0%	↑	2.5%	↑	1.9%	↑
Bloomberg Barclays Municipal Bond Index	-0.2%	↓	0.8%	↑	5.2%	↑↑	7.5%	↑↑	1.3%	↑
Gold	-0.8%	↓	-7.6%	↓↓	25.1%	↑↑↑↑	18.4%	↑↑↑	-2.9%	↓
Oil (West Texas Intermediate Crude)	2.1%	↑	54.9%	↑↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑	-25.0%	↓↓↓
Bitcoin	26.4%	↑↑↑↑	51.0%	↑↑↑↑↑	303.7%	↑↑↑↑↑	90.3%	↑↑↑↑↑	-75%	↓↓↓
Morningstar Balanced Funds Average (50% to 70% stocks)	-0.7%	↓	8.8%	↑↑	11.7%	↑↑↑	19.2%	↑↑↑	-5.8%	↓

<sup>1</sup> Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.