FOURTH STREET PERFORMANCE PARTNERS

Independent Investment Consultants

September 2021: Market Review

Equities experienced broad declines and increased volatility in September as inflation fears, potential Federal Reserve tapering, and lingering supply chain disruptions have weighed on valuations. Additionally, the U.S. government debt ceiling, tax policy, and infrastructure and entitlement spending dominated headlines in the second half of the month as the Treasury announced the U.S. could run out of money by mid-October if the debt ceiling is not raised. Consequently, the S&P 500 Index declined -4.7% in September but remains up +15.9% year-to-date. The Dow Jones Industrial Average fell -4.2% during the month although the index has appreciated +12.1% so far this year. The NASDAQ Composite had the worst performance in the month (-5.3%) but has gained +12.7% in 2021.

The unemployment rate fell to 5.2% in August despite job additions (235,000) that were below expectations as the increase in coronavirus infections caused some employers to halt hiring for the time being. Job openings rose to another record level in July to 10.9 million openings, revealing there are significant hiring challenges for businesses. The rise in the Consumer Price Index modestly slowed to 5.3% in August but remains elevated due to supply chain constraints, a persistent labor shortage, and comparisons to depressed pandemic output from last summer.

Within domestic equities, value stocks outperformed growth stocks across all capitalization sizes. The Russell 1000 Value Index fell -3.5% while the Russell 1000 Growth Index technically "corrected" -5.6%. The Russell Midcap Value Index declined -3.7% versus a drop of -4.8% from the Russell Midcap Growth Index. The Russell 2000 Value Index was down -2.0% while the Russell 2000 Growth Index lost -3.8%. Within commodities, WTI crude oil ended the month at $75, up from $69 at the end of August. Gold closed the month at $1,755 per ounce, a decline of 3.3%.

Major international equity indices posted declines in September as rising energy prices, supply chain issues, and more hawkish central banks weighed down returns. The MSCI ACWI ex-U.S. Index declined -3.2% this month while the MSCI EAFE Index was down -2.9%. Emerging markets underperformed this month as the second largest Chinese real estate developer, Evergrande, is at risk of defaulting on their loans, which contributed to a selloff in Chinese equities during the month (-5.2%) as investors considered the potential spillover effects of a default. Accordingly, the MSCI Emerging Markets Index sank -4.0% in September. Other detractors include Brazil (-14.6%) and South Korea (-6.7%).

U.S. fixed income markets posted losses during the month as the Federal Reserve announced their intention to begin tapering asset purchases as soon as November, with purchases coming to an end in the middle of next year. In addition, the Fed released its forward interest rate projections, which showed officials are expecting rate increases earlier than previously anticipated. As such, the yield on the 10-year Treasury ended the month at 1.52%, higher than its August close of 1.30%. The Bloomberg U.S. Aggregate Bond Index fell -0.9% while the Bloomberg Treasury 20+ Year Index declined -3.0% over the month. The Bloomberg Corporate High Yield Bond Index (-0.0%) was broadly unchanged during the month.

As seems often to happen in September, global equities encountered a setback as elevated inflation levels and a shift to less accommodative central bank policies weighed on market sentiment. Further, the potential for the U.S. federal government to shut-down or default on its debt while simultaneously considering significant tax and spending increases also seems to have increased market angst. Nevertheless, despite these uncertainties, the intermediate-term outlook for the U.S. economy remains strong.