



Passage Wealth

QUARTERLY THEMES – Q3 2021

October 2021

Quarter Recap

Capital Market Update

After continually reaching new highs, the S&P 500, along with many other broad equity market benchmarks, retreated in the last month of the quarter. Fears stemmed over higher interest rates, which impacted high growth areas, like technology, more significantly. Despite the September volatility, US markets still increased over the quarter.

Volatility Returns

- Evergrande, a major Chinese real estate company, provoked market concerns over missing debt payments and a potential default. China's central bank helped calm initial fears by injecting capital into the market.
- Exacerbating September's market weakness was the market updating their expectations around rising interest rates with the Fed signaling it was close to beginning tapering (see right section), impacting growth assumptions.

Market Total Returns ¹		Jul	Aug	Sep	Q3
	US Stocks	2.4%	3.0%	-4.7%	0.6%
	US Bonds	1.1%	-0.2%	-0.9%	0.1%
	Global Stocks	0.7%	2.5%	-4.1%	-1.1%
	Global Bonds	1.3%	-0.4%	-1.8%	-0.9%

Economic News and Developments

During the quarter, Delta fears and global supply chain disruptions sent ripples throughout the economy, seeming to slow down, but not reverse, broad-based economic gains over the year. Inflation continued to be a major topic of conversation, though showing some early signs of cooling, as well as updated expectations around the Fed and the path to a more normal monetary policy.

The Fed's Updated Schedule

- Following their September meeting, the Fed indicated they would be ready to begin reducing asset purchases later this year, which would likely continue well into 2022 and be followed by rate policy tightening in 2022 and 2023.

Inflation Update

- While yearly inflation was still elevated in August's report, the monthly change in Core CPI rose less than economists had expected according to a survey by Bloomberg. Categories that helped drive prior months' gains, including airfares, hotels, and used cars, finally began to decline.

Key Figures



1. US Stocks represented by the S&P 500 Index; US Bonds by the Bloomberg Barclays US Aggregate Bond Index; Global Stocks by the MSCI ACWI; Global Bonds by the Bloomberg Barclays Global Aggregate Index.

All data latest as of 09/30/21

Source: Bloomberg, Federal Reserve, US Bureau of Labor Statistics, Helios Quantitative Research

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Volatility Returns to Equity Markets

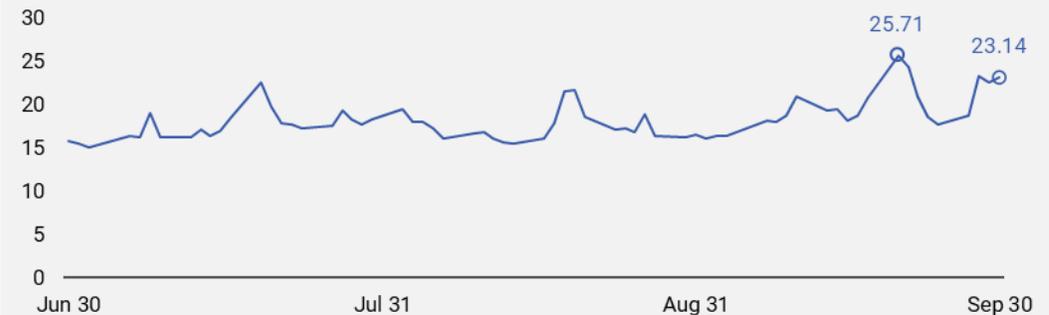


EVERGRANDE, RISING RATES, AND THE FED

- Evergrande was the initial catalyst in September to trigger significant short-term volatility expectations, as measured by the VIX Index, over fears of contagion if there was a widespread default on their \$300 billion worth of amassed liabilities.
- The Fed, and fears of rising interest rates, quickly followed late in the month, with the Fed signaling asset purchases would slow later this year, and the market quickly pushing the 10-year yield briefly above 1.5%, from 1.3% on September 22nd.
- In late September, the S&P 500 had two of its biggest down days since May, losing 2.04% on the 28th and 1.70% on the 20th.
- Despite the volatile end of the quarter, the S&P 500 remained positive for the quarter, highlighting how short-term moves can overshadow the bigger picture.

Volatility Returns to Equity Markets

VIX Index, June 30, 2021 to September 30, 2021



Despite a Rocky Start and End, Markets Still Moved Up

S&P 500 Cumulative Total Return, June 30, 2021 to September 30, 2021



All data latest as of 09/30/21

Source: Bloomberg, Helios Quantitative Research

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Inflation Picture Improves, Still High



INITIAL SIGNS OF COOLING ARE WELCOME

- Inflation has been a major topic over the last several months, with annual inflation figures at 5% or higher since May. Thankfully, CPI slightly ticked down in August.
- Categories that have been more sensitive to the economic reopening, such as airfares, rental and used cars, and hotels, have been a significant driver of this summer's inflation reports.
- However, August's report showed some of these categories are finally starting to retreat and the monthly Core CPI, which excludes food and energy, was below expectations.
- Going further out, economists surveyed by Bloomberg largely expect inflation to cool down in the spring and summer of next year, though remaining elevated until then.

Inflation Pressures

Year-over-Year CPI, December 2016 to August 2021



Economists Expectations

Bloomberg Survey of Economists, Annual Inflation Expectations



All data latest as of 09/30/21

Source: Bloomberg, US Bureau of Labor Statistics, Helios Quantitative Research

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Fed Signals Tapering is Coming

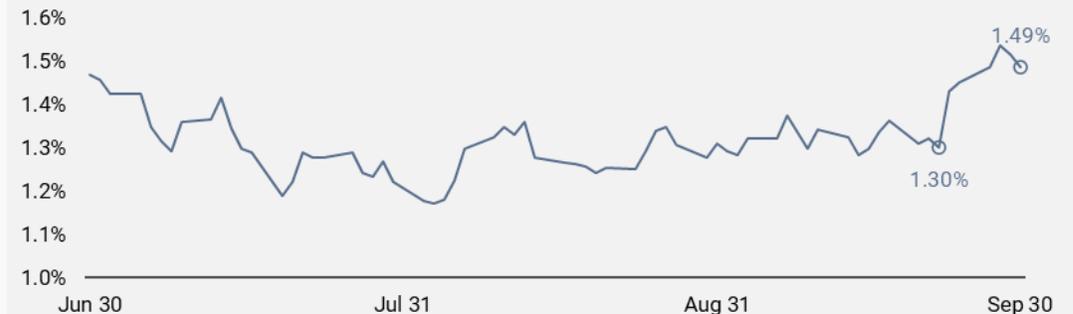


CONCERNS OVER THE LABOR MARKET REMAIN

- Following the September Fed meeting, Fed Chair Powell announced they are ready to begin slowing asset purchases, perhaps following the next meeting in early November. These actions may help combat inflationary pressures by increasing bond yields.
- The normalization of monetary policy, while being widely expected, quickly pushed yields higher on government bonds, with the yield on 10-year US government bonds rising over 20 basis points to briefly above 1.5% over a little more than a week.
- The Fed has consistently brought up the labor market as a concern, not wanting to tighten policy until more jobs had returned. Currently, the US economy is approximately 5.3 million jobs short when compared to February 2020. The upcoming jobs reports will be important in the Fed's calculations.

Government Yields Quickly Rise

US Government 10-Year Yield, June 30, 2021 to September 30, 2021



Labor Market Improves, but has More to Go

Total Nonfarm Payrolls, January 2020 to August 2021



All data latest as of 09/30/21

Source: Bloomberg, US Bureau of Labor Statistics, Helios Quantitative Research

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Notable Mentions

OTHER EVENTS DURING THE QUARTER



Supply Chain

Issues in supply chains continued throughout the quarter, which has been a big story not only in likely slowing down the economic recovery over the last six months, but also its hand in rising prices in various goods, contributing to the inflation reports.

Previously, it was rare for two ships to wait to enter LA ports, which handle 40% of incoming cargo ships, and in September the backlog had grown to 65 ships. Retailers have warned consumers should expect delays, especially heading into the holiday season.

Record backlog of cargo ships at California ports

By Daniel Thomas
Business reporter, New York

Debt Ceiling

Congress scrambled at the end of September to avert a government shutdown and raise the debt ceiling.

We have seen this movie too many times before, but it seemingly always temporarily spooks markets, before miraculously resolving itself in the ninth hour, as law makers jawbone and jockey for airtime and influence as they play chicken with the US economy.



Natural Gas

Stockpiles of natural gas have been depleted by the economic recovery and there may be a shortage as Europe heads into winter and demand rises significantly.

Likely to be much more acute in Europe, which largely relies on Russia for gas imports, the impacts will likely be global as the shortage pushes prices up around the world. The lack of fuel may worsen the supply chain crisis as officials have warned about closures of factories in Europe.

Europe's Energy Crisis Is Coming for the Rest of the World, Too

All data latest as of 09/30/21
Source: BBC News, CNBC, Bloomberg

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