

Mid-Month Market Update

September 2021



Sections:

- Commentary.
- The three Es.
- On the horizon.
- Asset class performance.



Commentary:

Three questions



▪ What impacted markets over the last month?

- The big macro story over the last month revolves around reduced growth expectations for the third quarter, with U.S. GDP now expected to grow by 5.0% (on a quarter over quarter, seasonally adjusted and annualized basis). At the beginning of September, Q3 GDP growth was expected to be 6.8% (the median estimate across 66 economists polled monthly by Bloomberg).

▪ How were diversified portfolios affected?

- Large Growth stocks were the only area of the U.S. equity market to make noise over the last month, and they are closing in on Small Value stocks for leadership in 2021. The percentage of companies contributing to market momentum has been trending lower; as of mid-September, only 43% of Nasdaq Composite, 50% of S&P Small Cap 600, and 75% of S&P 500 constituents are trading above their 200-day moving average.
- Globally, Pacific Stocks continue to trail European Stocks year-to-date but have narrowed the gap thanks to strong performance out of Japan. The country's Nikkei 225 index is up more than 10% over the last month. The gains were driven primarily by a spike in performance that came after the nation's current, and decidedly unpopular, Prime Minister announced he would be resigning after a year in office.
- The last month was largely a wash as far as bond returns are concerned, outside of long-duration U.S. Treasuries which were up 1.4%. Yields on 30-year U.S. Treasuries have held under 2% since mid-July.

▪ What's on the horizon?

- **9/22** → Markets are eager for additional insight into the anticipated tapering of monthly asset purchases as the FOMC (Federal Open Market Committee) meets.
- **10/1** → Demand for vehicles rebounded sharply from pandemic lows but has since pulled back by a decent margin. A global shortage in semiconductors is also impacting production levels, so the latest report on vehicle sales will be of interest.

The three Es:

- Economy
- Earnings
- Employment

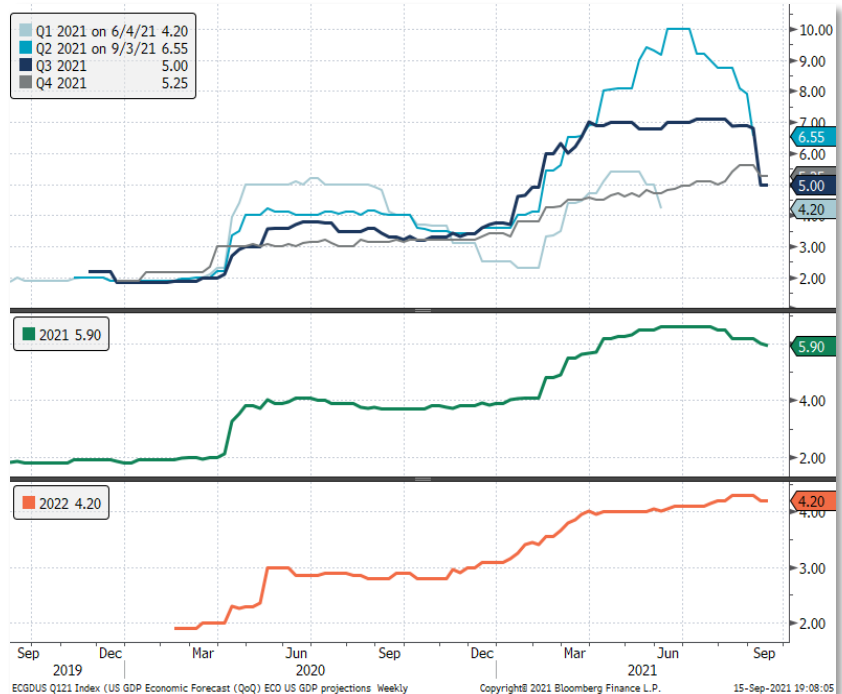


The three Es: Economy, Earnings, Employment



As the chart illustrates, U.S. economic growth in the first and second quarters ultimately came in lower than expected and Q3 projections are following a similar path. Bloomberg Economics lowered its forecast to 5.0%, in line with current consensus expectations, due to its outlook on weaker consumer spending. Their thesis behind that line of thinking relates to the impact from the delta variant on in-person activities as well as vehicle sales weighing down goods spending. In Q2, personal consumption was up 7.8%, and along with positive non-residential investment, made up for negative contributions in residential investment, inventories, net exports and government consumption.

U.S. GDP Growth Projections

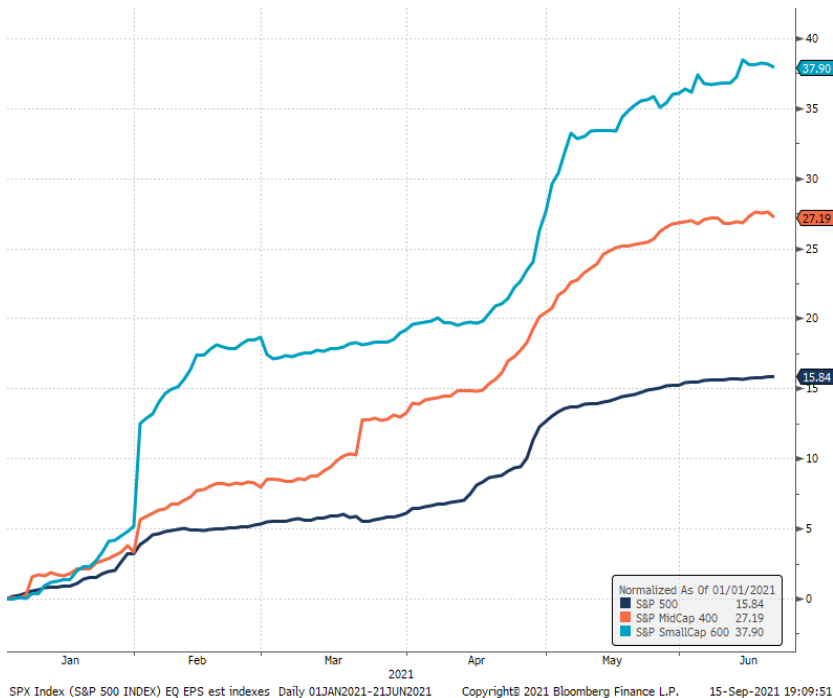


Source: Bloomberg, as of 9/15/2021. NOTES: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



Forward Earnings by Market Cap



Forward earnings estimates have improved for all U.S. indices this year, regardless of market cap size. However, small caps have enjoyed the largest improvement in earnings estimates with 37.9% growth since the beginning of the year. Over the last three months, small-cap companies in the energy, consumer discretionary, real estate, and industrials sectors have seen their year-ahead earnings estimates improve by 15% or more. Despite that momentum in earnings estimates, small caps (+20.1%) are now underperforming large caps (+20.5%) year-to-date.

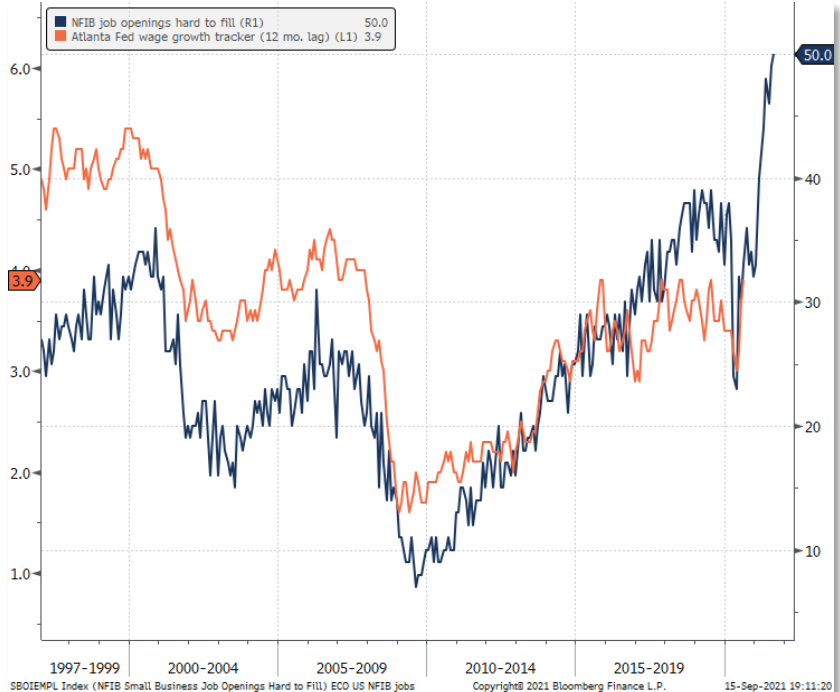
Source: Bloomberg, as of 9/15/2021. NOTE: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



The most recent release of the National Federation of Independent Business (NFIB) Small Business Optimism Index showed another increase in respondents who are having a tough time filling open positions. Job vacancies hit a record high for the series, 28% of respondents said quality of labor was the single most important issue facing their business, while 41% of respondents stated they raised pay to attract workers. The chart to the right tracks NFIB member companies stating jobs openings are hard to fill alongside the Atlanta Fed wage growth tracker. It suggests further wage growth may be in store as businesses try to attract new employees to fill openings.

Job Openings Hard to Fill & Wage Growth



Source: Department of Labor, Bloomberg, as of 8/31/2021. This material is incomplete without the accompanying disclosure document.

On the horizon

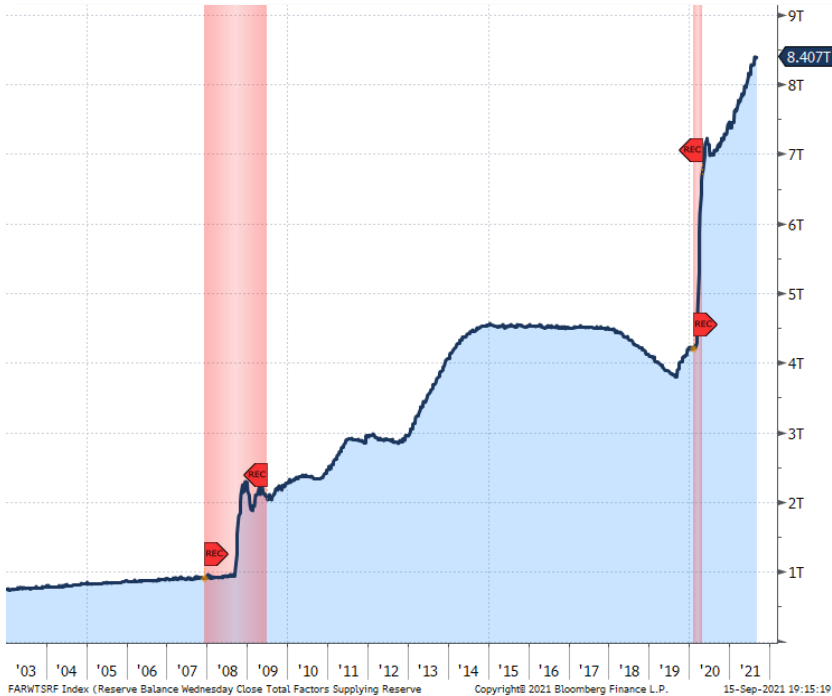


- **9/22** → FOMC meeting
- **10/1** → Vehicle sales

On the horizon: FOMC meeting



Fed balance sheet assets



The Federal Reserve stepped in quickly and substantially in response to the economic shutdown in early 2020; opening many lines of support for various bond markets, bolstering the Small Business Administration's Paycheck Protection Program and doubling the amount of assets on its balance sheet (from \$4.2T to \$8.41T) between the end of Feb. 2020 and the most recent release. Now the time has seemingly come for the Fed to take its foot off the gas in what it hopes will be a slow and steady manner. The first step, as markets are anticipating, may be a statement on tapering monthly asset purchases at the September meeting.

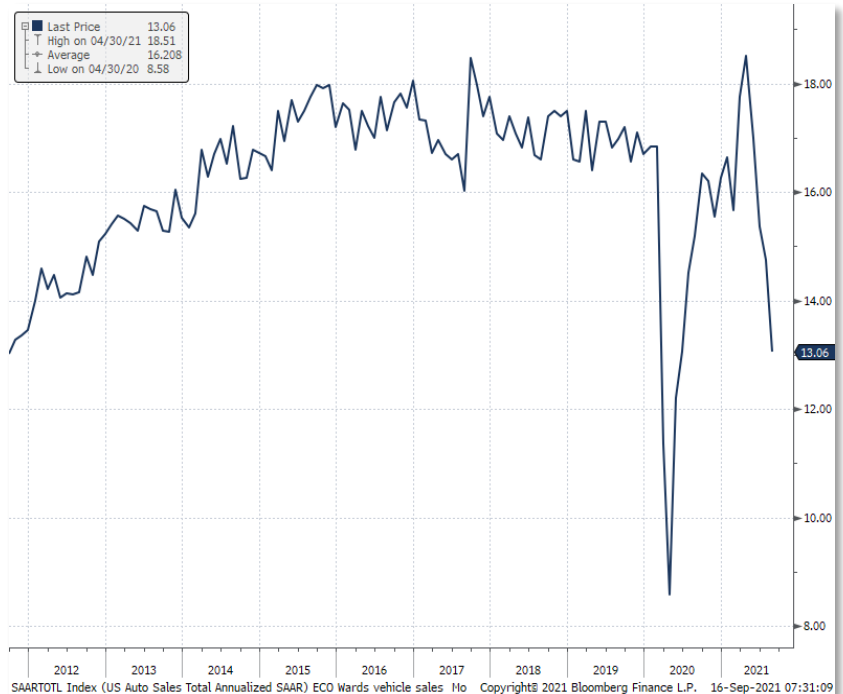
Source: Federal Reserve, Bloomberg, as of 9/8/2021. NOTE: Top panel charts index; bottom panel shows monthly change in index level. This material is incomplete without the accompanying disclosure document.

On the horizon: Vehicle sales



Total vehicle sales (light trucks and automobiles) plummeted during the initial wave of the pandemic, only to swiftly recover as areas of the U.S. economy opened back up. As of late, however, vehicle sales have dropped considerably. Total light vehicle sales in August 2021 came in at 1.09 million which was actually less than the 1.32 million vehicles sold in August 2020. Reuters reports that “tight inventories are unlikely to meaningfully improve in September as ongoing supply chain issues and recent announcements of further production cuts by several manufacturers continue to weigh.”

Total U.S. Auto Sales



Source: WARD's Automotive Group, Bloomberg, as of 8/31/2021. NOTE: This material is incomplete without the accompanying disclosure document.

Asset class performance:



- Annual periodic table
- Year-to-date asset class performance
- Style and region performance

Asset class performance:

Annual returns



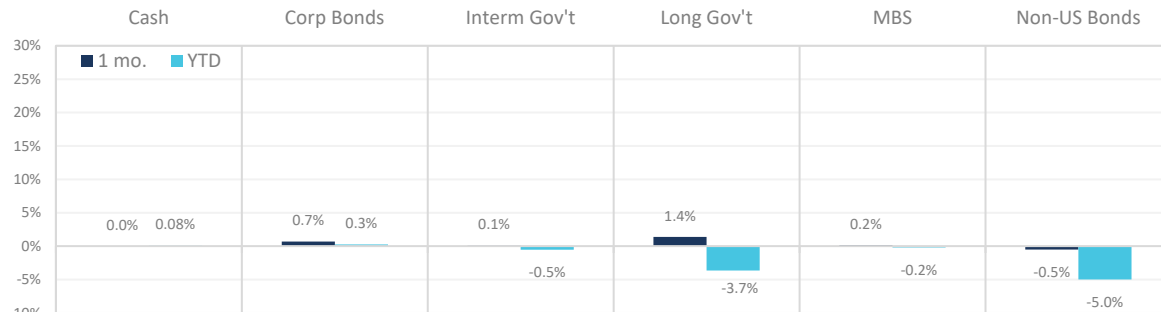
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best ↑	Long Gov't 29.1%	Europe Stocks 19.1%	Small Growth 42.7%	Long Gov't 24.7%	Large Growth 5.5%	Small Value 31.3%	Emg Markets 37.3%	Cash 1.5%	Large Value 31.9%	Large Growth 33.5%	Small Value 23.7%
	Corp Bonds 8.1%	Mid Value 18.5%	Small Value 40.0%	Large Growth 14.9%	Pacific Stocks 3.0%	Mid Value 26.5%	Large Growth 27.4%	Intern Gov't 1.4%	Large Growth 31.1%	Mid Growth 22.8%	Large Growth 22.8%
	MBS 6.2%	Emg Markets 18.2%	Mid Value 34.3%	Large Value 12.4%	Small Growth 2.8%	Small Growth 22.2%	Europe Stocks 25.5%	MBS 1.0%	Mid Growth 26.3%	Small Growth 19.6%	Mid Value 22.7%
	Intern Gov't 6.1%	Small Value 18.2%	Mid Growth 32.8%	Mid Value 12.1%	Mid Growth 2.0%	Large Value 17.4%	Pacific Stocks 24.6%	Large Growth 0.0%	Mid Value 26.1%	Emg Markets 18.3%	Large Value 18.0%
	Non-US Bonds 5.2%	Large Value 17.7%	Large Growth 32.8%	Mid Growth 7.6%	MBS 1.5%	Mid Growth 14.8%	Mid Growth 19.9%	Long Gov't -1.8%	Small Value 24.5%	Long Gov't 17.6%	Small Growth 16.6%
	Large Growth 4.7%	Mid Growth 17.3%	Large Value 32.0%	Small Value 7.5%	Intern Gov't 1.2%	Emg Markets 11.2%	Large Value 15.4%	Non-US Bonds -1.8%	Europe Stocks 23.8%	Pacific Stocks 11.9%	Europe Stocks 14.2%
	Small Growth 3.6%	Large Growth 14.6%	Europe Stocks 25.2%	Corp Bonds 7.5%	Cash -0.1%	Large Growth 6.9%	Small Growth 14.8%	Corp Bonds -2.5%	Small Growth 21.1%	Non-US Bonds 10.8%	Mid Growth 13.7%
	Cash 0.4%	Small Growth 14.6%	Pacific Stocks 18.3%	MBS 6.1%	Corp Bonds -0.7%	Corp Bonds 6.1%	Mid Value 12.3%	Small Growth -4.1%	Pacific Stocks 19.3%	Corp Bonds 9.9%	Pacific Stocks 9.7%
	Large Value -0.5%	Pacific Stocks 14.4%	Cash 0.2%	Small Growth 3.9%	Long Gov't -1.2%	Pacific Stocks 4.2%	Small Value 11.5%	Large Value -9.0%	Emg Markets 18.4%	Intern Gov't 5.7%	Emg Markets 1.4%
	Mid Growth -0.9%	Corp Bonds 9.8%	Intern Gov't -1.2%	Intern Gov't 2.5%	Europe Stocks -2.8%	Non-US Bonds 1.8%	Non-US Bonds 10.3%	Mid Growth -10.3%	Long Gov't 14.7%	Europe Stocks 5.4%	Corp Bonds 0.3%
	Small Value -1.4%	Long Gov't 3.8%	MBS -1.4%	Cash 0.0%	Large Value -3.1%	MBS 1.7%	Long Gov't 8.5%	Mid Value -11.9%	Corp Bonds 14.5%	MBS 3.9%	Cash 0.1%
	Mid Value -2.4%	MBS 2.6%	Corp Bonds -1.5%	Emg Markets -2.2%	Non-US Bonds -5.5%	Long Gov't 1.4%	Corp Bonds 6.4%	Pacific Stocks -12.0%	MBS 6.4%	Mid Value 3.7%	MBS -0.2%
	Europe Stocks -11.1%	Intern Gov't 1.7%	Emg Markets -2.6%	Non-US Bonds -2.7%	Mid Value -6.7%	Intern Gov't 1.1%	MBS 2.5%	Small Value -12.6%	Non-US Bonds 5.3%	Small Value 2.5%	Intern Gov't -0.5%
	Pacific Stocks -13.7%	Non-US Bonds 1.5%	Non-US Bonds -4.6%	Pacific Stocks -2.7%	Small Value -6.7%	Cash 0.4%	Intern Gov't 1.1%	Emg Markets -14.6%	Intern Gov't 5.2%	Cash 1.8%	Long Gov't -3.7%
Worst ↓	Emg Markets -18.4%	Cash 0.1%	Long Gov't -12.5%	Europe Stocks -6.2%	Emg Markets -14.9%	Europe Stocks -0.4%	Cash 0.3%	Europe Stocks -14.9%	Cash 3.1%	Large Value 1.4%	Non-US Bonds -5.0%

Source: Morningstar Direct. NOTE: "2021" returns as of 9/15/2021. Asset class returns are represented by the following indices – Cash (USTREAS T-Bill Constant Maturity Rate 1 Yr), Corp Bonds (BBGBarc US Corp Bond TR), Intern Gov't (BBGBarc US Govt Intern TR), Long Gov't (BBGBarc US Government Long TR), MBS (BBGBarc US MBS TR), Non-US Bonds (FTSE WGBI NonUSD), Large Growth (S&P 500 Growth TR), Large Value (S&P 500 Value TR), Mid Growth (S&P MidCap 400 Growth TR), Mid Value (S&P MidCap 400 Value TR), Small Growth (S&P SmallCap 600 Growth TR), Small Value (S&P SmallCap 600 Value TR), Europe Stocks (MSCI Europe NR), Pacific Stocks (MSCI Pacific NR), Emg Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.

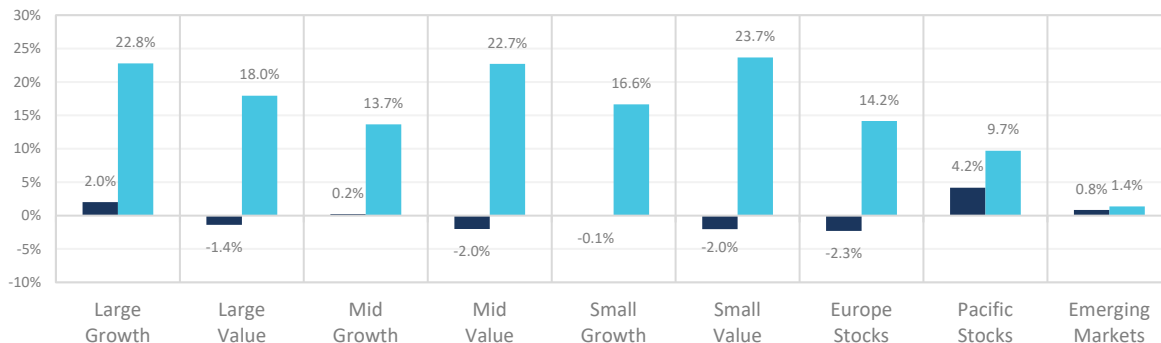
Asset class performance: 1 month & YTD returns



Fixed Income



Equities



Source: Morningstar Direct. NOTE: 1 mo. returns cover 8/16/2021 to 9/15/2021. YTD returns as of 9/15/2021. Asset class returns are represented by the following indices – Cash (USTREAS T-Bill Constant Maturity Rate 1 Yr), Corp Bonds (BBGBarc US Corp Bond TR), Interm Gov't (BBGBarc US Govt Interm TR), Long Gov't (BBGBarc US Government Long TR), MBS (BBGBarc US MBS TR), Non-US Bonds (FTSE WGBI NonUSD), Large Growth (S&P 500 Growth TR), Large Value (S&P 500 Value TR), Mid Growth (S&P MidCap 400 Growth TR), Mid Value (S&P MidCap 400 Value TR), Small Growth (S&P SmallCap 600 Growth TR), Small Value (S&P SmallCap 600 Value TR), Europe Stocks (MSCI Europe NR), Pacific Stocks (MSCI Pacific NR), Emg Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.

Asset class performance: Size, style and region returns



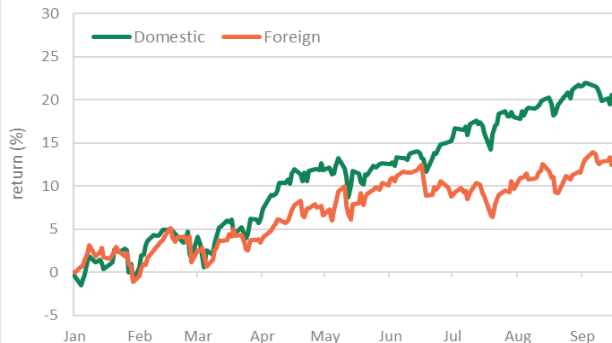
Large cap vs. small cap



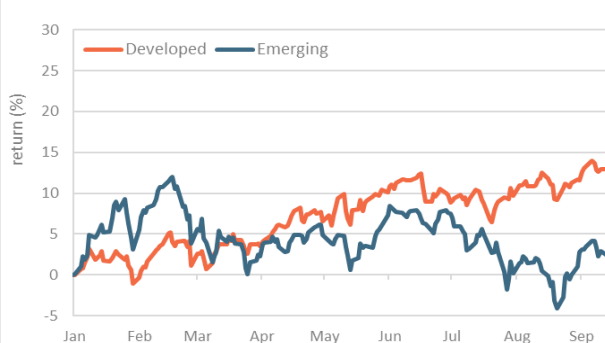
Growth vs. value



Domestic vs. foreign



Developed vs. emerging



Source: Bloomberg. Returns shown are YTD as of 9/15/2021. NOTE: Asset class returns are represented by the following indices – U.S. Large-Cap (S&P 500 TR); U.S. Small-Cap (S&P SmallCap 600 TR); U.S. Growth (S&P 1500 Growth TR); U.S. Value (S&P 1500 Value TR); U.S. Domestic Stocks (S&P 500 TR); Foreign Stocks (MSCI All Country World Index Ex-USA NR USD); Developed Markets (MSCI EAFE NR); Emerging Markets (MSCI EM NR). This material is incomplete without the accompanying disclosure document.



Disclosure document

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