

Mid-Month Market Update

October 2021



Sections:

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



Commentary:

Three questions



▪ What impacted markets over the last month?

- Last month, we noted the September meeting of the Federal Open Market Committee (FOMC) was a key event on the horizon and it proved to have a sizeable impact on markets over the last four weeks. Coming out of the FOMC meeting, markets revised their expectations for the pace of tapering and rate hikes. On Sept. 15, Fed funds futures priced in a 77% chance of one 0.25% rate increase by the Dec. 2022 FOMC meeting. By Oct. 15, markets priced in a 100% chance of one rate hike and a 77% chance of a second over the same time frame.

▪ How were diversified portfolios affected?

- Recently, the relative underperformance of large-cap U.S. growth stocks has been more closely linked to rising interest rates than what is historically normal. The same story played out over the last month, with the 10-year U.S. Treasury yield rising ~20 basis points, and large growth stocks lagging large value by 3%.
- High beta stocks outperformed the broader market for the month of September and through the first two weeks of October. Small- and mid-cap U.S. value stocks have been boosted by their exposure to sectors like energy and financials; those two sectors account for 31.4% and 24.1% of the small and mid value indices (compared to 14% of the S&P 500 Index).
- Markets now expect the pace of tapering the FOMC's \$120 billion in monthly bond purchases to proceed faster than expected prior to the September meeting. We saw bond yields adjust to new Fed expectations over the last month, serving as a drag on intermediate & long duration U.S. Treasury performance.

▪ What's on the horizon?

- **10/20** → Improving demand and supply constraints have pushed oil prices higher over the last eight weeks, with West Texas Intermediate crude rising from \$62 to \$82 per barrel since the last week of August.
- **10/29** → Sentiment recently dropped below its 2020 pandemic trough, to its lowest level since 2012, as the inflation outlook weighs on U.S. consumers.

The three Es:

- Economy
- Earnings
- Employment

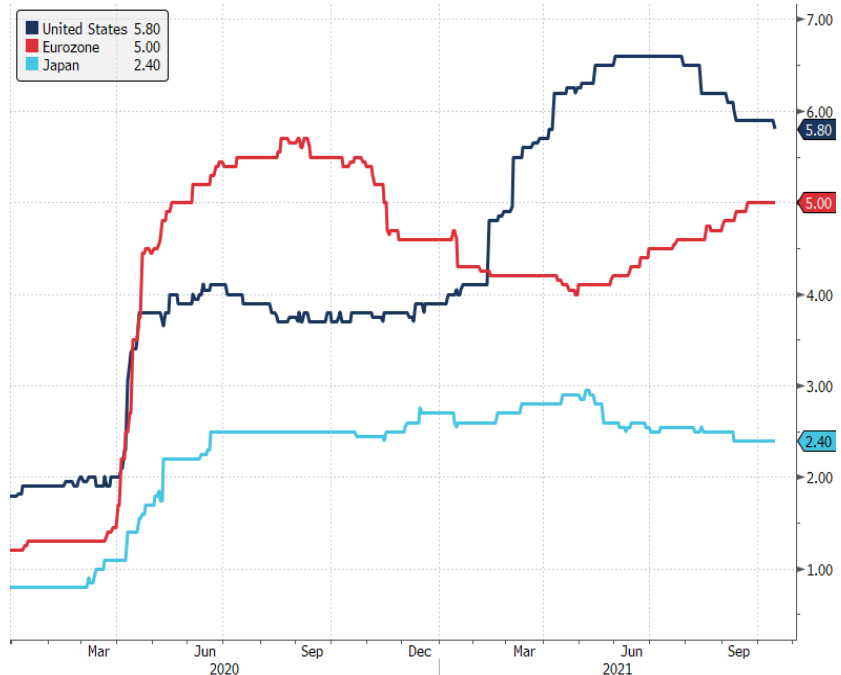


The three Es: Economy, Earnings, Employment



Economic growth projections for the United States and Eurozone have taken different paths over the last year but have been converging as of late. Both regions are dealing with similar growth constraints at this point in the recovery: labor market issues, supply chain disruptions and shortages, and rising consumer prices. Ireland, Greece, and the United Kingdom have seen GDP growth forecasts improve the most over the last year, while Germany's has declined. So far in 2021, European stocks (+13.9%) have far outpaced equity performance in other global regions (Pacific +4.6%, Emerging Markets +1.2%).

Global GDP Growth Forecasts for 2021



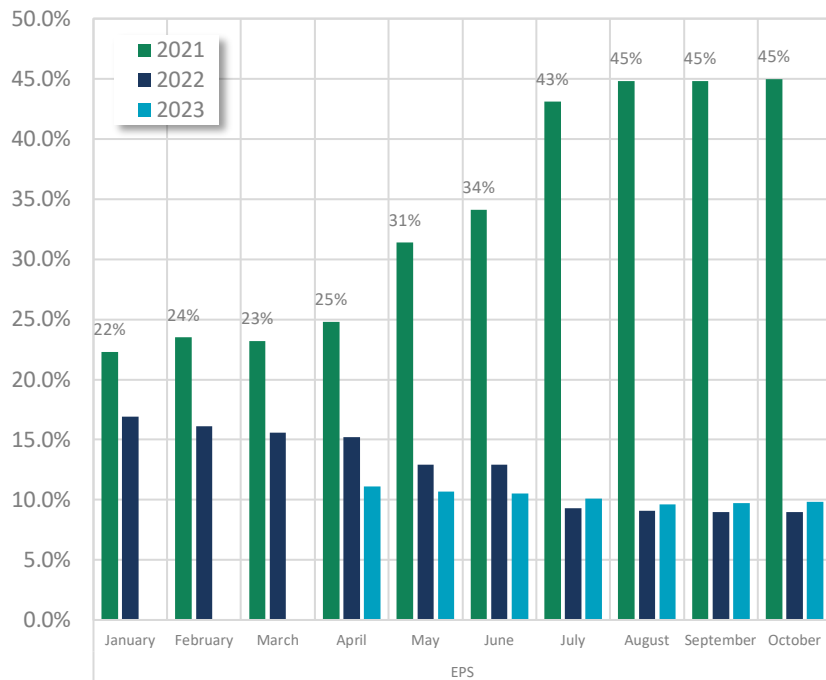
ECGDUS 21 Index (US GDP Economic Forecast (QoQ) ECO GDP forecasts 2021 Daily 31 Copyright© 2021 Bloomberg Finance L.P. 17-Oct-2021 10:09:01

Source: Bloomberg, as of 10/15/2021. NOTES: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



Estimated Annual S&P 500 Earnings Growth



Earnings season for Q3 2021 has begun, with major national banks having a strong showing. Thus far 41 S&P 500 Index companies have reported Q3 earnings, with actual reported EPS (earnings per share) outpacing analysts estimates by 14.3%. Based on actual results for the first two quarters of the year and estimates for the second half of 2021, analysts expected earnings will grow 45% compared over last year. The chart tracks estimated earnings growth for 2021 and the next two years on a monthly basis, showing how expectations have shifted as the year has gone on. Stronger than expected growth in 2021 has lowered expectations for further growth next year.

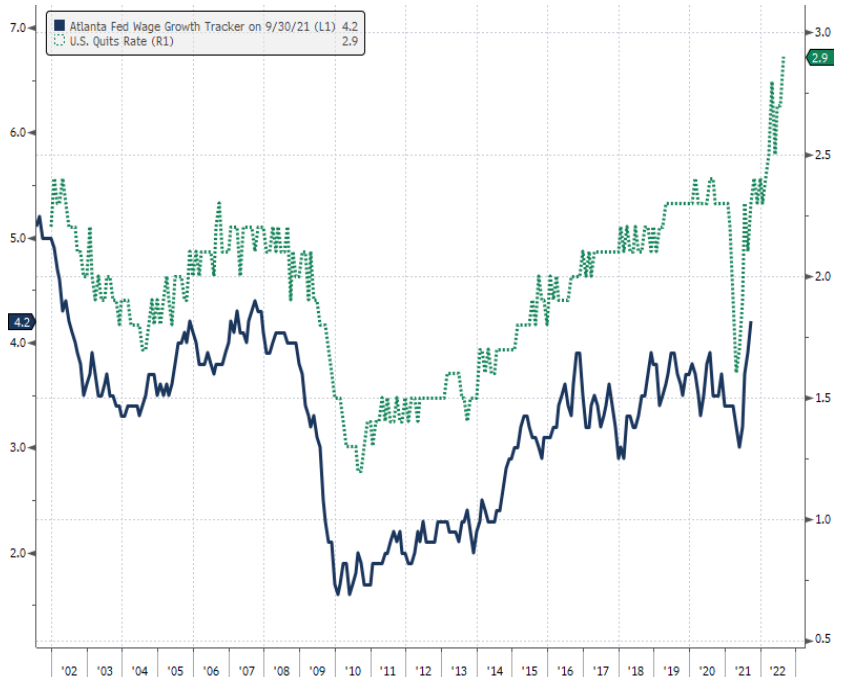
Source: Bloomberg, as of 10/15/2021. NOTE: This material is incomplete without the accompanying disclosure document.

The three Es: Economy, Earnings, Employment



Last month, we looked at the percentage of small businesses reporting jobs as being “hard to fill” and its alignment with potential wage growth. This month, another data series that has been correlated to wage growth highlighted the potential for further compensation growth over the next year or so. Data from the Bureau of Labor Statistics showed that the “quits rate” climbed to its highest level on record in August. The quits rate, or the number of people voluntarily leaving their job as a percent of total employment, rose to 2.9% with food services, retail trade, and business services employees leading the way.

Wage Growth and U.S. Quits Rate



WGTROVER Index (Atlanta Fed Wage Growth Tracker Overall) ECO quit rate and ECI Copyright© 2021 Bloomberg Finance L.P. 17-Oct-2021 10:19:40

Source: Bloomberg, as of 10/15/2021. NOTE: Quits Rate is advanced by 12 months. This material is incomplete without the accompanying disclosure document.

On the horizon

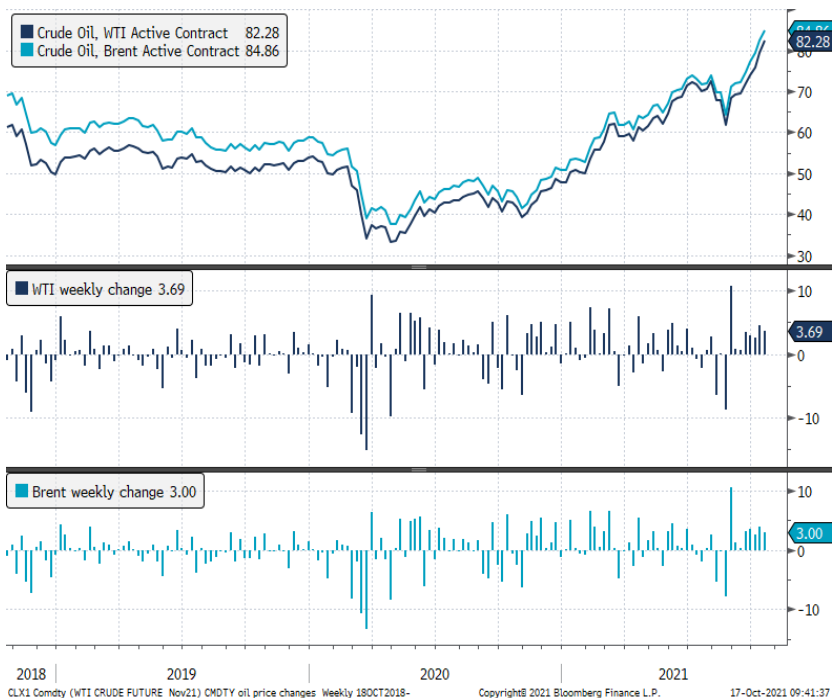


- **10/20** → EIA Crude Oil Inventory Report
- **10/29** → Consumer Sentiment

On the horizon: EIA Crude Oil Inventory Report



Crude oil prices



Crude oil prices have increased for eight consecutive weeks, as of the week ending October 15, serving as a major driver in headline inflation (both domestically and in regions such as Europe) and equity sector performance. Over the last five years, West Texas Intermediate crude oil prices and S&P 500 energy sector stocks have a +0.72 correlation when looking at their weekly changes. The most recent weekly report from the U.S. Energy Information Administration (EIA) showed that gasoline demand hit its pre-pandemic five-year average level for the first time since early 2020.

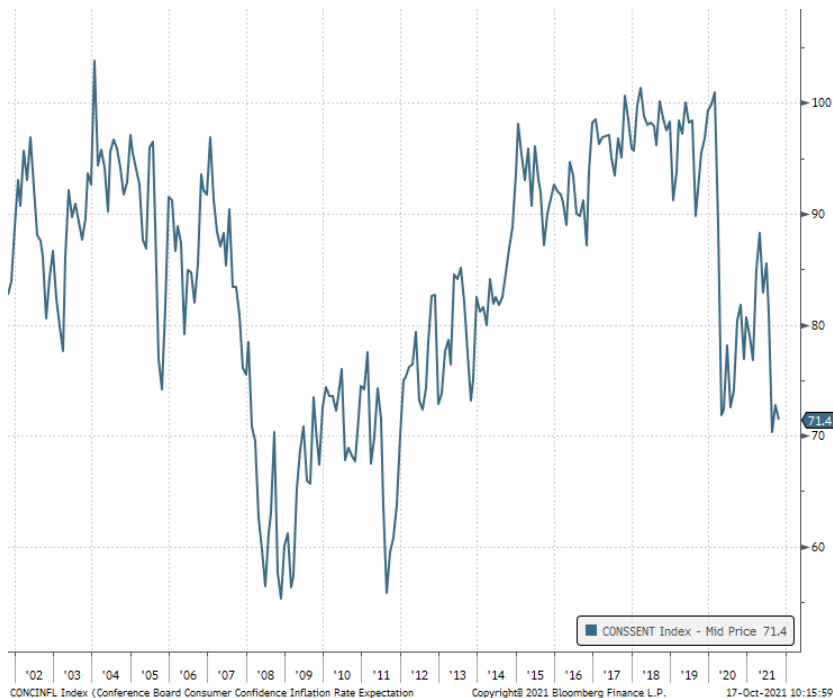
Source: Bloomberg, as of 10/15/2021. NOTE: This material is incomplete without the accompanying disclosure document.

On the horizon: Consumer sentiment



A preliminary look at consumer sentiment for the month of October showed the outlook deteriorated for the third time in the last four months. The latest drop was driven more by current conditions rather than expectations, as buying conditions continued to be a concern. The percent of respondents expecting business conditions to be improved in one year slipped from 84% to 79% this month. Personal consumption accounts for 2/3rd of U.S. economic growth, so the financial health of the U.S. consumer is always an important point of emphasis when discussing the macro-outlook.

University of Michigan Consumer Sentiment Index



Source: Bloomberg, as of 10/15/2021. 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



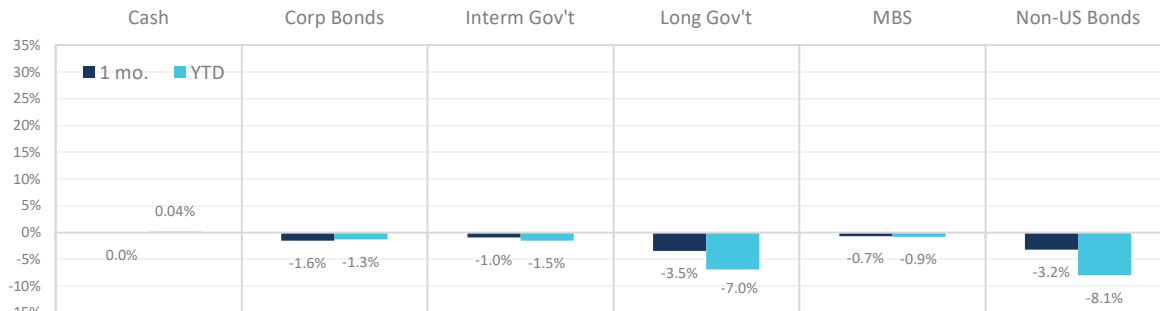
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best ↑	Long Gov't 29.1%	Europe Stocks 19.1%	Small Growth 42.7%	Long Gov't 24.7%	Large Growth 5.5%	Small Value 31.3%	Emg Markets 37.3%	Cash 1.5%	Large Value 31.9%	Large Growth 33.5%	Small Value 29.2%
	Corp Bonds 8.1%	Mid Value 18.5%	Small Value 40.0%	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%	Mid Value 26.3%
	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%	Large Growth 21.0%
	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 19.7%
	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 16.8%
	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%	Mid Growth 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%	Europe Stocks 13.9%
	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 4.6%
	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 1.2%
	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%	Cash 0.0%
	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%	MBS -0.9%
	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%	Corp Bonds -1.3%
	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 -1.5%
	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 -7.0%
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 -8.1%

Source: Morningstar Direct. NOTE: "2021" returns as of 10/15/2021. 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.

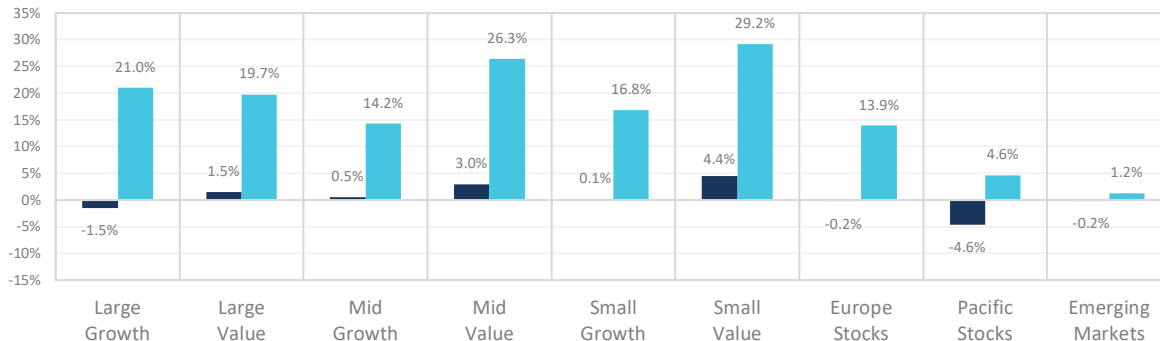
Asset class performance: 1 month & YTD returns



Fixed Income



Equities



Source: Morningstar Direct. NOTE: 1 mo. returns cover 9/16/2021 to 10/15/2021. YTD returns as of 10/15/2021. 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



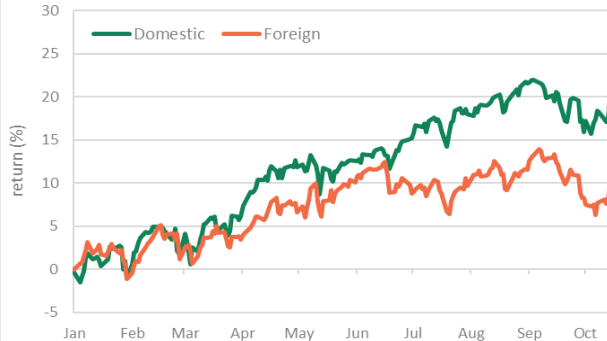
Large cap vs. small cap



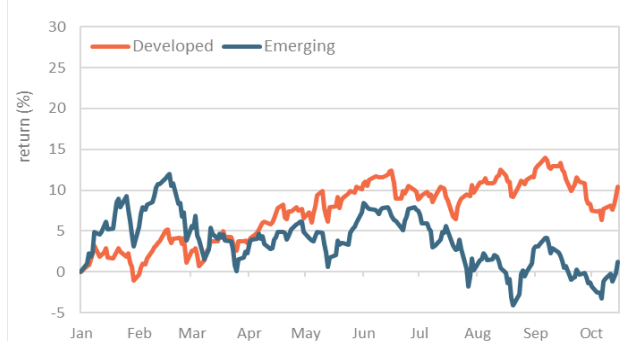
Growth vs. value



Domestic vs. foreign



Developed vs. emerging



Source: Bloomberg. Returns shown are YTD as of 10/15/2021. 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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