WINTHROP WEALTH

OCTOBER 2021 MARKET RECAP

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October provided investors with a treat as the S&P 500 increased by +7.0%. There were no tricks or frightening surprises as the market produced its best month since November 2020. The S&P 500 is now higher by +24.0% for the year after reaching another new all-time closing record of 4,605 on October 29th. After declining by nearly -34% during the pandemic selloff last year (2/19/20 to 3/23/20), the market is up by over +111% from the low.

- **Style**: Growth (Russell 1000 Growth: +8.7%) exceeded Value (Russell 1000 Value: +5.1%).
- **Sector**: All eleven were positive for the quarter with Consumer Discretionary (+10.9%) and Energy (+10.4%) as the leaders, and Consumer Staples (+3.9%) and Communication Services (2.8%) as the laggards.
- **Yields**: The 10-Year Treasury increased by 6 basis points to 1.55%.
- **Fixed Income**: The Bloomberg Barclays US Aggregate Bond index (Agg) decreased by-0.03%.

After experiencing a-5% pullback from September to early October, the market snapped right back to new all-time highs as investors continue to buy the dip. We remain pleasantly surprised at the strength of the market while we prepare for volatility by taking profits and shifting portfolios more defensively. The market rally over the last eighteen months was driven by the vaccine rollout, massive amounts of fiscal and monetary stimulus, and strong economic and corporate earnings growth. Moving forward, volatility should increase as the stock market will face decelerating growth levels of each factor. Anticipating volatility does not mean that we are predicting a market crash. We are simply expecting the investment environment to get tougher as both volatility and market returns revert toward historical averages.

The markets have a full calendar of critical events over the next several weeks, including, the November FOMC Decision (11/3 – tapering details will likely be announced), OPEC+ Meeting (11/4), October Employment Report (11/5), October Core PCE Inflation Reading (11/24), November Employment Report (12/3), US Government Funding Expiration (12/3), and Debt Ceiling Deadline (12/3, although Treasury can utilize emergency measures to extend the date. ***Please see our Client Question on the Debt Ceiling***). We will continue to apply our time-tested investment process based on risk management, asset allocation, and security selection to utilize any volatility as an opportunity to reposition portfolios.

Covid-19

The delta variant faded throughout the month as hospitalizations declined from their latest spike. Vaccine Distribution: Over 518 million doses of the vaccine have been delivered with about 422 million administered. About 222 million people have received at least one dose while over 192 million are fully vaccinated (58% the total population). Hospitalizations: The 7-day average of prevalent hospitalizations of patients with confirmed COVID-19 decreased to about 43,000, down from the recent peak of around 90,000 in September.

Monetary Policy

Fed news related to monetary policy was quiet in October. However, November should be much more interesting as the Fed will likely announce that they will begin tapering their quantitative easing program at the next meeting (11/3). Recall that the Fed is still purchasing at least $80 billion in Treasuries and $40 billion in agency mortgage-backed securities per month. At a recent conference, Chair Powell stated, “I do think it’s time to taper; I don’t think it’s time to raise rates.”

Now that the economy is on the path to recovery and inflation pressures are rising, the Fed is starting to gradually move away from their ultra-accommodative monetary policy. The Fed will first by take their foot off the monetary policy gas pedal (tapering the quantitative easing program) before they hit the brake (raising interest rates). Our sense is that the Fed will begin tapering in November and conclude in mid-2022 before raising interest rates in late-2022. Overall, monetary policy will still be considered accommodative for at least the next year or two, but the level of support is decreasing.

Inflation

Most inflation data points have surged to their highest levels in years due to supply chain bottlenecks, surging energy prices, and pent-up demand. The four latest readings of the Fed's preferred inflation measure (Core PCE inflation- June, July, August, and September) increased by +3.6% Y/Y, well above the target of about 2%. While Fed Chair Powell admitted that it is "frustrating to see bottlenecks and supply chain problems not getting better and holding longer than we thought", he still believes the recent increase in inflation will be transitory. The latest FOMC projections show inflation ending the year at +3.7% before falling to +2.3% in 2022. Please see our ***Client Question on Inflation*** that details how the data is calculated, why the Fed cares about and targets inflation, and the impact it has on various asset classes (cash, fixed income, and equities).

Fiscal Update

President Biden released the framework for his "Build Back Better" budget reconciliation bill. After months of intraparty negotiations, the ultimate size of the bill will likely be around $1.85 trillion. The legislative text still needs to be written and there are still several issues that will need to be resolved. Spending proposals include, climate and energy related investments ($550 billion), childcare and preschool ($400 billion), child tax and earned income credits ($200 billion), home care ($150 billion), and several others. To pay for the bill, tax proposals include, a 15% minimum corporate tax rate, a 1% surcharge on stock buybacks, a surtax on adjusted gross income over $10 million, and increased IRS enforcement. If Republicans unanimously oppose the bill, Democrats can afford to lose no more than three votes in the House and zero in the Senate. Moderate Senators Joe Manchin (D; West Virginia) and Krysten Sinema (D; Arizona) have signaled support of the bill but have not committed to voting in favor.

The $550 billion infrastructure package has bipartisan support and includes funding for roads, major repairs, public transit, broadband, airports, power, and water. The bill passed in the Senate, but the House has not yet voted on the measure. House Progressives stated they would not vote in favor of the infrastructure bill unless the vote on the budget reconciliation bill occurs simultaneously.

The current budget reconciliation proposal does not contain many of the tax increases that President Biden campaigned on. However, the proposals are still fluid, and they may change before the bill is written. We also want to remind everyone that taxes were already scheduled to increase. Most of the individual and estate tax provisions as part of the Tax Cuts and Jobs Act (TJCA) of 2017 are set to expire after 2025. Individual tax rates are set to effectively return to where they were pre-TCJA. Keep in mind that the tax code evolves – there have been plenty of tax changes in the past and there will be more in the future.

As part of our comprehensive financial planning process, we provide tax analysis and minimization strategies as well as cash flow management. We will analyze your past tax returns and help estimate your current year tax situation so that we can proactively introduce and implement strategies that best fit your unique circumstances.

Economic Data

The economy slowed in the third quarter as Real GDP came in at a 2.0% seasonally adjusted annual rate. Economic growth was mostly impaired by the delta variant and global supply chain issues. One interesting factoid about the latest economic growth report is that the decline in Motor Vehicle and Parts sales brought down Q3 GDP by -2.4% alone. Despite the slowdown in Q3, Real GDP is still expected to increase by +5.7% in 2021 and +4.0% in 2022. **Labor Market**: The United States continues to face problems related to the supply of workers rather than demand for labor. Since the start of the pandemic, the labor force has lost about 5 million jobs, while the latest Job Openings and Labor Turnover Survey (JOLTS- August) reported over 10.4 million job openings. While the past two monthly employment reports have been weak, the more recent weekly jobs data (Initial Jobless Claims and Continuing Claims) has been encouraging. The October employment report, which will be released on November 5th, is forecasted to add +450,000 jobs with the unemployment rate falling to 4.7%. **Going Forward**: Supply chain issues are expected to remain for at least the next several months, but the labor market and economic growth should accelerate in the fourth quarter as the delta variant fades.

MARKET RETURNS

US Equity										
Index	**October**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	7.01%	24.03%	18.39%	31.48%	-4.39%	21.82%	21.04%	18.90%	16.52%	9.76%
Russell 3000	6.76%	22.76%	20.88%	31.01%	-5.25%	21.12%	21.11%	18.89%	16.42%	10.06%
Dow Jones Industrial Average	5.93%	18.77%	9.72%	25.34%	-3.48%	28.11%	14.69%	17.19%	14.59%	9.74%
Nasdaq	7.29%	20.89%	45.05%	36.74%	-2.81%	29.73%	28.98%	25.74%	20.94%	12.89%
S&P 400	5.89%	22.32%	13.65%	26.17%	-11.10%	16.23%	16.28%	14.86%	14.25%	11.11%
Russell 2000	4.25%	17.18%	19.93%	25.49%	-11.03%	14.63%	15.59%	15.49%	13.91%	10.18%
Russell 1000 Growth	8.66%	24.19%	38.49%	36.39%	-1.51%	30.21%	28.81%	25.47%	19.71%	11.20%
Russell 1000 Value	5.08%	22.01%	2.78%	26.52%	-8.28%	13.64%	13.53%	12.37%	13.19%	8.61%
International Equity										
MSCI Index	**October**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	2.46%	11.01%	7.82%	22.01%	-13.79%	25.03%	11.31%	9.79%	7.83%	6.54%
Europe	3.95%	13.85%	7.89%	23.20%	-16.90%	28.07%	12.15%	10.56%	8.37%	6.06%
Japan	-3.36%	2.34%	14.48%	19.61%	-12.88%	23.99%	9.83%	8.32%	8.18%	5.35%
China	3.16%	-14.04%	29.49%	23.46%	-18.88%	54.07%	10.34%	10.23%	7.79%	12.10%
Emerging Markets	0.99%	-0.27%	18.31%	18.42%	-14.57%	37.28%	11.70%	9.39%	5.16%	10.68%
ACWI ex US	2.39%	8.43%	10.65%	21.51%	-14.20%	27.19%	11.67%	9.77%	7.08%	7.13%
US Fixed Income										
Bloomberg Barclays Index	**October**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-0.03%	-1.58%	7.51%	8.72%	0.01%	3.54%	5.60%	3.09%	2.94%	4.22%
Treasury Bills	0.00%	0.03%	0.54%	2.21%	1.83%	0.81%	1.05%	1.09%	0.58%	1.23%
Corporates	0.25%	-1.02%	9.89%	14.54%	-2.51%	6.42%	8.04%	4.83%	4.65%	5.44%
Securitized MBS/ABS/CMBS	-0.20%	-0.86%	4.18%	6.44%	0.99%	2.51%	4.10%	2.26%	2.45%	
High Yield	-0.17%	4.35%	7.11%	14.32%	-2.08%	7.50%	7.40%	6.39%	6.86%	7.95%
Munis	-0.29%	0.50%	5.21%	7.54%	1.28%	5.45%	5.21%	3.41%	3.83%	4.40%
US Equity Sectors										
Index	**October**	**YTD 2021**	**2020**	**2019**	**2018**	**2017**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	8.17%	24.70%	43.88%	50.29%	-0.29%	38.83%	33.76%	30.44%	23.10%	12.94%
Real Estate	7.51%	33.72%	-2.17%	29.00%	-2.23%	10.85%	18.00%	13.09%	10.78%	
Industrials	6.88%	19.15%	11.05%	29.32%	-13.32%	21.01%	15.96%	14.44%	14.58%	9.16%
Energy	10.36%	57.93%	-33.68%	11.81%	-18.10%	-1.01%	-0.08%	0.96%	1.83%	6.50%
Consumer Discretionary	10.94%	22.34%	33.30%	27.94%	0.82%	22.98%	24.34%	22.05%	19.70%	12.17%
Communication Services	2.83%	25.02%	23.61%	32.69%	-12.53%	-1.25%	23.56%	14.68%	12.58%	6.77%
Consumer Staples	3.89%	8.76%	10.75%	27.61%	-8.39%	13.49%	12.32%	9.55%	12.05%	9.30%
Utilities	4.73%	9.13%	0.52%	26.35%	4.11%	12.10%	11.47%	9.93%	10.93%	8.14%
Materials	7.63%	18.91%	20.73%	24.58%	-14.70%	23.84%	18.92%	15.10%	12.10%	10.03%
Financials	7.30%	38.46%	-1.76%	32.09%	-13.04%	22.14%	17.72%	17.68%	16.77%	5.93%
Health Care	5.16%	19.31%	13.45%	20.82%	6.47%	22.08%	16.45%	16.89%	17.22%	9.23%
	Calendar Year Returns						**Annualized Returns**			

SOURCE: Bloomberg

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Past performance is no guarantee of future results. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.