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Third Quarter Market Watch

Positive equity returns in the US have continued into the third quarter, cementing a sixth-consecutive quarter of gains for the S&P 500 and the Dow Jones Industrial Average. Regional equity performances have mostly reflected their relative earnings growth. US equities have delivered the strongest returns year to date, with the S&P 500 and the Dow gaining 15.9% and 12.1%, respectively. Developed international markets also reported healthy results, gaining 8.8% YTD. Emerging market equities lagged their US- and developed international counterparts, losing 1% YTD. During the third quarter, emerging market equities have suffered from steeper losses due to concerns about heightened regulatory oversight in China.

Throughout the recent quarter, investors have navigated through a resurgence of the Delta variant of Covid-19 cases, concerns that higher inflation will stick longer than expected, along with the uncertainty around the US legislative policy and the negative impact of regulatory changes in China. The spread of the Delta variant has recently put a speed bump on economic recovery around the globe, more acutely felt in the emerging markets. In the US, the uncertainty around the infrastructure bill and its economic impact have led to some volatility in the market. In China, the negative impact of government policy changes has evolved from internet and education companies to the real estate sector. The latter has further triggered fear of a market contagion outside China.

At the end of Q3, the financial markets endured an additional rocky stretch as the US Federal Reserve signaled that it would start to reduce its $120 billion of monthly bond purchases as soon as November 2021, and possibly begin to raise interest rates next year. Subsequently, the 10-year Treasury yield continued its climb, reaching as high as 1.56%, as investors assess the impact of a more hawkish Fed. The rapidly rising interest rates have had ripple effects into the equity markets, with the technology- and Internet heavy Nasdaq composite suffering from big losses at the end of Q3, after a strong rally during the summer. The selling pressure in technology and internet stocks has been a catalyst for the drastic rotation and relation trades, weighing on sentiment of the markets.

Despite the recent pressure in the broad US equity market, there were pockets of strength. Energy stocks have resumed their strong rally after a pause earlier in Q3. The West Texas Intermediate Index, the benchmark for US crude oil, topped $76 a barrel. Meanwhile, the US housing market remains a bright spot. Home price growth further accelerated in Q3 as buyers continued to compete

	Date	YTD		1 Year Ago	
	9/30/2021	12/31/2020	% chg	9/30/2020	% chg
DJIA	33,843.92	30,606.48	12.1%	27,781.70	24.2%
S&P 500	4,307.54	3,756.07	15.9%	3,363.00	30.0%
NASDAQ Composite	14,448.58	12,888.28	12.7%	11,167.51	30.3%
Russell 2000	5,478.42	4,908.01	12.4%	3,746.99	47.7%

	Date	YTD		1 Year Ago	
	9/30/2021	12/31/2020	% chg	9/30/2020	% chg
Japan Nikkei 225	29,452.66	27,444.17	-0.7%	23,185.12	20.3%
MSCI EM (Emerging Markets)	1,253.10	1,291.26	-1.0%	1,082.00	18.3%
MSCI EAFE	2,281.29	2,147.53	8.8%	1,855.32	26.0%
MSCI AC World	709.51	646.27	11.5%	565.15	27.3%
FTSE 100	6,982.44	6,174.77	11.5%	5,569.85	31.0%
SSE Composite Index	3,568.17	3,473.07	4.0%	3,218.05	16.9%

US Equity Sector

	YTD	1-yr ret.
Consumer Discretionary	10.3%	17.4%
Consumer Staples	4.7%	10.8%
Energy	43.2%	88.9%
Financials	29.1%	58.8%
Health Care	13.5%	23.1%
Industrials	11.5%	29.3%
Information Tech	15.3%	27.7%
Materials	10.5%	28.3%
Communication Services	21.6%	36.5%
Utilities	4.2%	9.9%

US Equity Style

	YTD	1-yr ret.
RUSSELL 1000 VALUE	16.1%	34.7%
RUSSELL 1000 GROWTH	14.3%	25.8%
RUSSELL 2000 VALUE	22.9%	61.5%
RUSSELL 2000 GROWTH	2.8%	31.1%

Commodity Prices

	Sep 2021	Dec 2020	Sep 2020
Gold	1,757.00	1,895.10	1,895.50
Crude Oil	75.03	48.52	40.22
UD Dollar Index	94.24	89.89	93.93
Commodity Index	100.76	78.05	70.85

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fiercely amid a shortage of homes for sale. The Case-Shiller Home Price Index rose 19.7% through the end of July, marking the highest annual rate of price increase since the establishment of the index in 1987.

The US and European economies slowed in September as supply-chain issues weighed on businesses. Manufacturing and service businesses in the US and Eurozone delivered slower activities during the end of Q3, as supply chain disruptions and rising prices for raw materials hurt manufacturing output and lengthened order backlogs. Factories around the globe have been under tremendous pressure amid the surging shipping costs, component shortages, and higher commodities prices and rising costs of labor. Further exacerbating the supply shortage are the bottlenecks among the logistics and transportation networks. In the US, tens of thousands of containers are stuck at the ports of the busiest complex in the West Coast gateways. These heightened supply chain bottlenecks have overshadowed the corporate earnings in the coming months, negatively affecting a variety of businesses including retailers, hotels and restaurant operators, semiconductor companies, automobile manufacturers, pharmaceutical and medical device companies.

Also weighing on sentiment was a budget showdown in Washington, DC. Senate Republicans blocked a House-passed bill at the end of September that would have further suspended the debt ceiling and funded the government into December. This has led to concerns about a government default. US Treasury Secretary Janet Yellen told Congress that the US Treasury would be unable to pay all of the government's bills if lawmakers don't raise the debt ceiling by October 18th, 2021. Subsequently, the Senate passed a bill to raise the debt ceiling into early December, providing a short-term measure that has avoided default.

Despite cross-currents across the macro-economic and geopolitical landscape, equity markets have continued to push higher year

Interest Rates

	Sep '21	Dec '20	1 Yr. Ago
USD Prime Rate (TPI)	3.25	3.25	3.25
USD Federal Funds (TPI)	0.09	0.09	0.09
US 2Y T-Note Yield (TPI)	0.29	0.12	0.13
US 10Y T-Note Yield (TPI)	1.53	0.92	0.68
30YR FIXED MORTGAGE	3.01	2.66	2.88

Exchange Rates

	Sep 2021	YTD	Sep 2020
Euro per U.S. Dollar	0.863	0.817	0.853
British Pounds per U.S. Dollar	0.742	0.732	0.774
China Renminbi per U.S. Dollar	6.462	6.540	6.811
Indian Rupee per U.S. Dollar	74.228	73.068	73.780
Japanese Yen per U.S. Dollar	111.575	103.245	105.530

US Bond Performance

	Q3	YTD	1-Year Return
BAR CAP Govt. Interm. TR	0.0%	-1.1%	-1.3%

Economic Sentiment

	Sep 2021	Dec 2020	Sep 2020
Unemployment Rate	5.20	6.70	7.80

to date. The S&P 500 index hasn't had a 5% correction since the end of October 2020, yet this seemingly placid market masks the volatility under the surface. The rotation among baskets of stocks such as growth and value, cyclicals and defensives, large caps and small caps, has been accelerating and reached the highest level in decades. Given the uncertainty related to the monetary- and fiscal policies, risks associated with the new Covid-19 variants, as well as the fear of a contagion impact from the emerging market, the underlying turmoil will likely continue.

Such intensified underlying gyration ha V created challenges for wealth managers including us at 7he 1911 Trust. Meanwhile, the ceaselessly rising markets have been keeping us cautious about the sustainability of future returns. Though there are still reasons to expect a stronger economy, we are aware of some over-heated segments of the market and the repercussion V. Amidst the rising uncertainty, we think corporate fundamentals such as revenues and profit growth D U H as relevant as ever. Based on the healthy corporate earnings, we have reasons to be optimistic heading into 2022. We continue to maintain diversification in asset classes, and stay highly selective in making investment choices, while vigilantly monitoring your portfolios and safeguard L Q J your assets

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