

QUARTERLY MARKET COMMENT Third Quarter 2021



The 3rd quarter has come to a close with a basket full of tricks and treats. The second half of the year is looking a bit different than the first half. The 3rd quarter ended mixed with concerns brewing on several fronts and these issues continue to persist today. Domestic stocks were up around 1% to down 3% for the quarter. As of September 30th, small-caps were still in the lead this year with a positive return of 20.05% and large-caps at 15.92%. Momentum and Growth stocks eked out positive returns last quarter while yield-focused and Value stocks were among the weakest performers. The international stock markets experienced their own mild negative returns for the quarter, but were up 2% to 9% through quarter-end. Most sectors posted gains with Financials in the lead, up +2.74%. Energy made a dramatic turnaround in September up 9.44% and substantially diminished its 3rd quarter loss. Through the end of the 3rd quarter Energy was the best performing sector, up 43.22%. U.S. Real Estate was up 0.88% and commodities were up 3.08% for the quarter. Year to date through September 30th, all equities were experiencing positive returns. The fixed income markets ended pretty flat for the quarter. Interest rates on longer term bonds have seen quite a turn around. The 10-Year Treasury bond was yielding 1.47% at the beginning of the quarter, plunged to 1.12% in July and ended the quarter where it nearly began. The 10-Year Treasury is considered a good barometer for the overall bond market and rates have continued to climb into the 4th quarter. When yields rise, the value of a bond declines.

The bewitching months of September (historically the markets' worst performing month) and October (the 2nd worst) seem to have cast their spell. The surprising surge in the COVID-19 Delta variant dealt a blow to the economy last quarter.

Additional concerns over supply-chain problems, surging prices in different sectors of the economy and a tight labor market have dimmed the mood. The economy has progressed from early to mid-cycle and is still growing, just not at the torrid pace it had been. Fundamentals become more important in mid-cycle than macro factors. GDP is projected to grow at 5.9% for 2021. The Federal Reserve (FED) at their September meeting (FOMC) strongly indicated some changes are coming sooner than originally thought. It is anticipated that the FED will begin to taper or reduce its bond-buying program

in November. The mere mention of this back in June of 2013 led to what was called a taper tantrum. Back then, this change was more of a surprise and a shock. Today this change seems to be desired given that the economy is continuing to show strength. The FED is in a difficult position given the current levels of inflation and the strains in the labor market. Inflation has broadened due to supply chain bottlenecks and rising labor costs. Labor markets are restrained due to less women in the workforce, an unexpected large number of early retirements, less immigrants and vaccine hesitancy.

At this point, we continue to remain broadly diversified: balancing domestic vs. international exposure; growth vs. value; as well as large, medium, and small companies. Interest rates and bond yields have started to move off of their rock bottom levels. To protect principle, we are maintaining short-term duration positions with exposure to securities that are more insulated to the rise in interest rates.

In the meantime, we suggest to tune out the noise, focus on your long-term goals, and continue to practice what our health professionals are asking of us. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us and in helping guide you through your financial life.

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Asset Index Category	3Q 2021 %	YTD 2021 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	0.23	14.68	14.72	14.30
S&P 400 Index-Mid-size Companies	-2.06	14.48	11.21	12.95
Russell 2000 Index-Sm Companies	-4.60	11.62	11.99	13.09
Natural Resource Funds	-1.51	19.26	9.95	6.26
Gold	-1.03	-7.92	4.69	-0.08
US Real Estate Funds	0.65	21.24	7.27	10.97
Global Real Estate Funds	-0.97	13.26	5.98	8.61
MSCI EAFE-Developed International	-1.03	6.23	6.04	5.21
MSCI EM Index-Emerging Markets	-8.84	-2.96	6.76	3.59
Barclays US Aggregate Bond Index	0.05	-1.55	2.94	3.01
Long US Government Bond Index	-0.13	-9.04	0.45	1.17
Emerging Market Bond Index	-1.59	-3.22	2.81	3.22

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1621 W. First Ave., Grandview Hts., OH 43212 614-538-1600

www.alexanderfinancialplanning.com