

## **Fundamentum 2021 Q3 Commentary**

During the third quarter, market volatility returned. Equity markets hit all-time highs in July and August as investors' favorable views on fiscal & monetary support, economic recovery, corporate earnings, and COVID/vaccine news drove markets higher. However, investors became more cautious in September. The markets began to struggle as economic growth slowed, inflation remained elevated, supply-chain disruptions continued, energy prices soared, Chinese regulators raised restrictions, and U.S. monetary & fiscal stimulus policy pivoted.

### **Q3 Total Returns by Asset Class<sup>1</sup>**

Russell 3000 Growth Index	+ 0.37%
S&P 500 Index	+ 0.05%
NASDAQ Index	- 0.35%
MSCI EAFE Index	- 0.53%
Russell 3000 Value Index	- 1.60%
Dow Jones Industrials Index	- 1.84%
Russell 2000 Index	- 5.14%
MSCI EM Index	- 7.61%
Barclay US AGG Bond Index	- 1.55%

Within S&P 500 sectors, outperformers for the quarter were Financials +2.29%, Communication Services +1.40%, and Technology +1.13% while sector underperformers were Industrials -4.55%, Materials -3.94%, and Energy -2.82%<sup>2</sup>. The two best-performing stocks in the S&P500 were Moderna Inc. +63.8% and Paycom Software Inc. +36.4%, with Gap Inc. -32.3% and Wynn Resorts Limited -30.7% being the worst performing S&P500 stocks<sup>3</sup>. As the Delta variant negatively impacted economic momentum during the quarter, the performance of cyclical stocks slowed, and for the second straight quarter, growth stocks outperformed value stocks.

Fixed income was also volatile during the third quarter. The U.S. 10-year Treasury yield started the quarter around 1.47%, fell as low as 1.13% and finished higher at 1.52%<sup>4</sup>. Bloomberg Barclays U.S. Aggregate Index returned -1.55% for the quarter. The Federal Open Market Committee (Federal Reserve) met in September and decided to maintain the current target range of federal funds at 0.00% - 0.25%. However, the committee indicated that it would begin to be less accommodative by reducing its monthly asset purchases in the fourth quarter.

The strength of the U.S. economy was impressive during the 2<sup>nd</sup> quarter, with GDP coming in at a 6.7% growth rate. Third-quarter GDP expectations have moderated due to Delta variant's impact and supply constraint limitations. Overall, GDP growth is still expected to be above average and North of 3.0%<sup>5</sup>.

The momentum in the economy has allowed corporations to continue to deliver impressive revenue and earnings growth - beating analysts' expectations. The S&P500 in the 2<sup>nd</sup> quarter recorded the highest year-over-year earnings growth in over a decade as companies were able to offset rising input costs with significant pricing power due to strong demand<sup>6</sup>. However, the Delta variant impact on the economy has brought some downside earnings revisions for the 4<sup>th</sup> quarter and 2022.

Inflation has been on an upward trend since Spring 2020 but jolted higher during the 3<sup>rd</sup> quarter above the Federal Reserve's target. The Consumer Price Index (CPI) has climbed more than 5.0% over the past twelve months<sup>7</sup>. Inflation measures are at their highest levels in decades due to recovering demand and shortages in supply and labor. In fact, sticky inflation is beginning to be seen in consumer expectations and housing rents, calling into question the meaning of "transitory". If supply chain issues and cost-push inflation pressures are not transitory, future outlooks for the economy and markets will need to be adjusted.

Longer-term, Fundamentum believes future investment returns will be below historical norms given slowing growth, rising interest rates, increasing taxes, and high valuation levels. Therefore, we continue to encourage advisors to build diversified portfolios with lower capital market returns into their client's long-term financial plans.

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**Sources:**

- 1 Bloomberg L.P., September 2021
- 2 FactSet, September 2021
- 3 Strategas Quarterly Review, September 2021
- 4 FactSet, September 2021
- 5 Comerica Investment Monthly, October 2021
- 6 Bloomberg L.P., September 2021
- 7 Comerica Investment Monthly, October 2021

Past performance is no guarantee of future results.