# MARKET INSIGHTS

*from* Ziegler Capital Management

## Monthly Market Commentary: September 2021

The S&P 500 returned 3.04% in August and has returned 21.58% on a year-to-date basis as of August 31, 2021. Small cap stocks, as measured by the Russell 2000, returned 2.24% in August and are up 15.82% so far in 2021. Large Cap Growth outperformed Value in August with the Russell 1000 Growth returning 3.74% and the Russell 1000 Value returning 1.98%. Growth has now taken the lead over Value on a year-to-date basis with a return of 21.08% versus 20.32%. The Russell 2000 Growth returned 1.82% and the Russell 2000 Value returned 2.68% in August. In contrast to Large Cap, Small Cap Value continues to lead Small Cap Growth on a year-to-date basis with a return of 25.43% for Small Cap Value versus Small Cap Growth at 6.92%.

Headlines dominating the news are led by the fall of Afghanistan to the Taliban and related instability in the country, the spread of the Delta variant of COVID-19 and the resignation of disgraced former New York Governor Andrew Cuomo. According to the Centers for Disease Control (CDC), 60.4% of the United States population over 12 years old is fully vaccinated against COVID-19, with 71.2% of the population having received at least one dose as of August 25th. The CDC has reported an increasing number of cases in areas with lower vaccination rates at the end of August, continuing the trend seen in July. The Delta variant is currently the most prevalent source of infection and is responsible for almost all cases.

Discussions remain ongoing regarding the proposed $1.8 trillion "American Families Plan" and a proposed reduced $1.2 trillion infrastructure package that focuses on bridges, roads, railways, and broadband internet. Both plans need Congressional

### Returns by Sector NEEDS NEW CHART

| | S&P 500 | | Russell 2000 | |
|---|---|---|---|---|
| Sector | YTD | August 2021 | YTD | August 2021 |
| Communication Services | 30.15 | 5.01 | 34.27 | 3.10 |
| Consumer Discretionary | 13.17 | 2.12 | 29.71 | 0.49 |
| Consumer Staples | 9.21 | 1.40 | 15.76 | 1.35 |
| Energy | 30.87 | -2.04 | 53.18 | 0.59 |
| Financials | 31.57 | 5.14 | 21.13 | 3.70 |
| Health Care | 20.12 | 2.38 | -1.42 | 2.58 |
| Industrials | 18.78 | 1.15 | 17.05 | 1.98 |
| Information Technology | 22.36 | 3.56 | 13.10 | 3.60 |
| Materials | 19.07 | 1.92 | 24.37 | 0.79 |
| Real Estate | 32.64 | 2.81 | 21.12 | 0.81 |
| Utilities | 11.07 | 3.98 | 5.86 | 1.48 |
| TOTAL RETURN | 21.58% | 3.04% | 15.82% | 2.24% |

Source: Bloomberg

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**ABOUT ZCM MARKET INSIGHTS**

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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approval and are subject to further negotiation. The parties are closer to an agreement on the infrastructure package than they are on the American Families Plan. In total, President Biden has put forward $6 trillion in new federal spending over the next decade. To pay for his plans, President Biden's proposals include raising the top income tax and capital gains rates, increasing corporate taxes, and expanding the Internal Revenue Service's collections.

Real gross domestic product (GDP) increased at an annual rate of 6.6% in the second quarter according to the second estimate released by the Bureau of Economic Analysis (BEA). This is revised up from the 6.5% advance estimate. Upward revisions to nonresidential fixed investment, exports, and personal consumption expenditures were partly offset by downward revisions to private inventory investment, residential fixed investment, state and local government spending, and federal government spending. Imports, which are a subtraction to GDP, were revised down. The increase in personal consumption expenditures reflected increases in services (led by food services and accommodations) and goods (led by pharmaceutical products, clothing, and footwear). The increase in nonresidential fixed investment reflected increases in intellectual property products and equipment. The increase in exports reflected an increase in goods (led by nonautomotive capital goods) and services (led by travel). The decrease in private inventory investment was led by a decrease in retail trade inventories. The decrease in federal government spending primarily reflected a decrease in nondefense spending on intermediate goods and services.

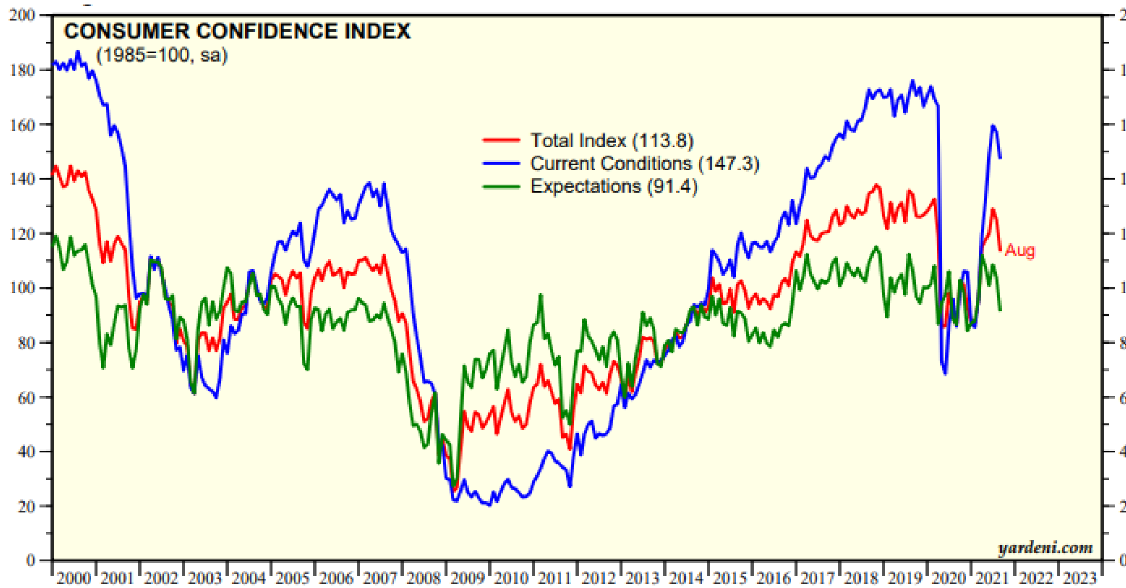
According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 5.4% in July from 5.9% in June with declines in all 50 states. The number of unemployed fell to 8.7 million people in July from 9.5 million in June. Notable job gains occurred in leisure and hospitality, in local government, education, and in professional and business services. Both measures continue to fall and are significantly lower than their April 2020 highs but remain above their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate of 61.7% was little changed in June and has remained in a narrow range of 61.4% and 61.7% since June 2020. The U.S. savings rate was 9.6% in July, increasing from 8.8% in June. Government stimulus payments remain frequently saved and unemployment benefits continue at elevated levels in many states with some enhanced benefits ending in September. These increased savings will likely continue to fuel consumption and economic growth for the coming quarters. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020.

In the release of minutes from the Federal Reserve's July meeting, asset purchase tapering before the end of the year was discussed but said it was not an indicator of upcoming rate hikes. "Looking ahead, most participants noted that, provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year," the minutes stated as well as saying that the economy had reached its inflation goals and was "close to being satisfied" with the job growth progress. The minutes said that employment figures have not met the "substantial further progress" benchmark the Fed has set before it would consider raising rates. The committee voted at the meeting to keep short-term interest rates anchored near between 0.0%-0.25%.

West Texas Intermediate (WTI) finished August at $68.54 a barrel, decreasing from July's closing price of $73.81 per barrel. WTI has increased over 43% so far in 2021 after beginning the year at $48.40 per barrel. Over the past year, WTI has increased over 49%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence declined to 113.8 in August and was revised downward in July to 125.1 (from 129.1) after gains in the previous five months. It is now at levels not seen since February 2021. Concerns about the Delta variant, rising gas and food prices were factors. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) fell to 147.3 from 157.2 in July. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell to 91.4 in August from 103.8 in July with consumers less upbeat on business conditions and the job market. The consumer is responsible for approximately 70% of the U.S. economy.

## Consumer Confidence & Sentiment




The Bloomberg U.S. Aggregate Bond Index (formerly the Bloomberg Barclays U.S. Aggregate Bond Index) returned -0.19% in August and has returned -0.69% on a year-to-date basis as of August 31, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended August at 1.31% after ending July at 1.22% and beginning the year at 0.92%. While it remains lower than the 2020 beginning reading of 1.92%, it has increased dramatically since hitting an all-time low of 0.54% in July 2020. The 2-Year U.S. Treasury and 10-Year Treasury spread began the year with a spread of 80 basis points (2-year: 0.12% and 10-year: 0.92%). As of August 31st, the spread is 110 basis points with the 2-Year increasing in yield 9 bps (0.21%) and the 10-Year increasing 39 basis points (1.31%). Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended August at 87 basis points, 1 basis point wider than July. Spreads peaked in 2020 at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended August at 16.48, a decrease of 15% from the end of July reading of 18.24. The VIX was muted for the month and peaked mid-month at 21.67 during fears over reduced Fed market support and the Taliban's increasing strength in Afghanistan. The VIX peaked in 2021 at 37.21 during the volatility from the well-publicized trading activity in fundamentally questionable retail companies. It remains considerably lower than the March 16, 2020, peak of 82.69 and is now below the long-term average of approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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