MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: October 2021

The S&P 500 returned -4.65% in September and has returned 15.89% on a year-to-date basis as of September 30, 2021. Small cap stocks, as measured by the Russell 2000, returned -2.95% in September and are up 12.41% so far in 2021. Large Cap Value outperformed Growth in September with the Russell 1000 Value returning -3.48% and the Russell 1000 Growth returning -5.60%. Value is ahead of Growth on a year-to-date basis with a return of 16.14% versus 14.30%. The Russell 2000 Value returned -2.00% and the Russell 2000 Growth returned -3.83% in September. Small Cap Value continues to lead Small Cap Growth considerably on a year-to-date basis with a return of 22.92% for Small Cap Value versus Small Cap Growth at 2.82%.

Headlines dominating the news are led by the crisis at the southern border, debt ceiling issues, rising inflation, congressional gridlock, and potential rippling economic effects from debt issues with China Evergrande. Supply chain disruptions are beginning to trickle down and are having a broader effect on U.S. companies and their consumers. According to the Centers for Disease Control (CDC), 64.9% of the United States population over 12 years old is fully vaccinated against COVID-19, with 75.3% of the population having received at least one dose as of September 29th. The CDC has reported an increasing number of cases throughout the country. 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

	S&P 500		Russell 2000	
Sector	YTD	Sept. 2021	YTD	Sept. 2021
Communication Services	21.55	-6.62	27.19	-5.34
Consumer Discretionary	10.29	-2.59	25.07	-3.66
Consumer Staples	4.69	-4.14	11.19	-3.94
Energy	43.26	9.39	77.89	15.88
Financials	29.19	-1.83	21.20	-0.01
Health Care	13.30	-5.51	-7.06	-5.72
Industrials	11.34	-6.15	13.30	-3.10
Information Technology	15.38	-5.79	8.79	-3.73
Materials	10.20	-7.21	18.74	-4.53
Real Estate	24.32	-6.22	16.91	-3.37
Utilities	4.15	-6.18	-2.04	-7.45
TOTAL RETURN	15.89%	-4.65%	12.41%	-2.95%

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.

Gross domestic product (GDP) increased at an annual rate of 6.7% in the second quarter according to the third estimate released by the Bureau of Economic Analysis (BEA). This is revised up from the 6.6% second advance estimate. Upward revisions to personal consumption expenditures (PCE), exports, and private inventory investment were partly offset by an upward revision to imports, which are a subtraction in the calculation of GDP. The increase in PCE reflected increases in services (led by food services and accommodations) and goods (led by other nondurable goods, including pharmaceutical products, clothing, and footwear). The increase in nonresidential fixed investment reflected increases in equipment (led by transportation equipment) and intellectual property products (led by software as well as research and development). The increase in exports reflected increases in goods (led by nonautomotive capital goods) and in 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. Non-defense services decreased partially due to a decline in Paycheck Protection loan processing by banks on behalf of the federal government.

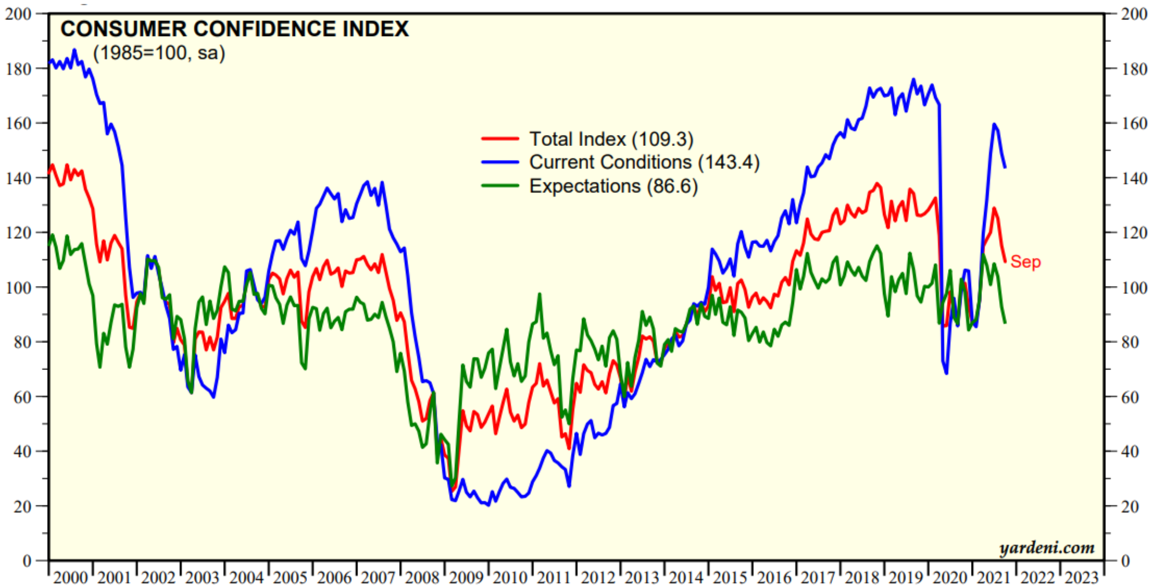
According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 5.2% in August from 5.4% in July. The number of unemployed fell to 8.4 million people in August from 8.7 million in July. In August, notable job gains occurred in professional and business services, transportation and warehousing, private education, manufacturing, and other services. Employment in retail trade declined over the month. 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% in August was unchanged from July and has remained in a narrow range of 61.4% and 61.7% since June 2020. The U.S. savings rate was 9.4% in August, decreasing from 9.6% in July. Government stimulus payments remain frequently saved, although many extended unemployment benefits ended in early 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 its September statement, the Federal Reserve stated "With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses." The Fed held short term interest rates between 0.0% and 0.25%. The "dot plot" now shows more members seeing a rate hike occurring in 2022 versus 2023 as previously indicated. Additionally, the Committee indicated that they would start pulling back asset purchases as the result of continued economic recovery sometime in mid-2022.

West Texas Intermediate (WTI) finished September at $75.12 a barrel, increasing from August's closing price of $68.54 per barrel. WTI has increased over 55% so far in 2021 after beginning the year at $48.40 per barrel. Over the past year, WTI has increased over 77%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

Consumer Confidence declined to 109.3 in September, following declines in both in August and July. The three declines interrupted a streak of gains in the previous five months. Consumer confidence has now fallen 19.6 points from the recent peak of 128.9 reached in June. Concerns about the state of the economy and short-term growth prospects deepened while spending intentions for homes, autos and major appliances fell again. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) fell to 143.4 from 148.9 in August. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) fell to 86.6 in September from 91.4 in August with consumers less upbeat on income, business, and labor market conditions. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The Bloomberg U.S. Aggregate Bond Index (formerly the Bloomberg Barclays U.S. Aggregate Bond Index) returned -0.87% in September and has returned -1.55% on a year-to-date basis as of September 30, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended September at 1.49% after ending August at 1.31% 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 September 30th, the spread is 121 basis points with the 2-Year increasing in yield 16 bps (0.28%) and the 10-Year increasing 57 basis points (1.49%). Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended September at 84 basis points, 2 basis point tighter than July. Spreads peaked in 2020 at 373 basis points on March 23rd concurrent with the equity market lows.

The Volatility Index (VIX) ended September at 22.44, increasing 21% from the August month end reading of 16.48. The VIX peaked during the month on September 20th at 25.71 amid a market sell off based on fears tied to potential ripple effect of problems with China Evergrande Group, a large Chinese real estate company, and the ongoing debate about the U.S. debt limit. 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 slightly higher than 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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