MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: November 2021

WRITTEN: NOVEMBER 1, 2021

The S&P 500 returned 6.98% in October and has returned 23.99% on a year-to-date basis as of October 31, 2021. Small cap stocks, as measured by the Russell 2000, returned 4.27% in October and are up 17.20% so far in 2021. Large Cap Growth outperformed Value in October with the Russell 1000 Growth returning 8.66% and the Russell 1000 Value returning 5.08%. Growth is now ahead of Value on a year-to-date basis with a return of 24.20% versus 22.03%. The Russell 2000 Growth returned 4.68% and the Russell 2000 Value returned 3.81% in October. Small Cap Value continues to lead Small Cap Growth considerably on a year-to-date basis with a return of 27.60% for Small Cap Value versus Small Cap Growth at 7.64%.

Headlines dominating the news are led by the crisis at the southern U.S. border, rising inflation, congressional gridlock, and supply chain disruptions that are beginning to trickle down and are having a broader effect on U.S. companies and their consumers. COVID-19 cases, hospitalizations, and deaths continue to decline, while the number of people who have received at least one dose of a COVID-19 vaccine continues to increase. According to the Centers for Disease Control (CDC), 67.2% of the United States population over 12 years old is fully vaccinated against COVID-19, with 77.7% of the population having received at least one dose as of October 26th. The Delta variant is currently the most prevalent source of infection and is responsible for almost all cases.

Discussions remain ongoing regarding the proposed "American Families Plan" and a proposed reduced $1.2 trillion infrastructure package that focuses on bridges, roads, railways, and broadband internet. Congressional leadership is packaging both bills

Returns by Sector

	S&P 500		Russell 2000	
Sector	YTD	Sept. 2021	YTD	Sept. 2021
Communication Services	25.07	2.83	26.77	-1.17
Consumer Discretionary	22.36	10.94	28.14	2.99
Consumer Staples	8.76	3.89	12.48	1.16
Energy	58.16	10.38	93.95	9.03
Financials	38.55	7.30	28.00	5.61
Health Care	19.19	5.16	-7.14	-0.09
Industrials	19.01	6.88	21.47	6.84
Information Technology	24.74	8.17	15.87	6.77
Materials	18.79	7.61	25.24	5.24
Real Estate	33.77	7.56	23.15	5.72
Utilities	9.08	4.73	4.12	6.28
TOTAL RETURN	23.99%	6.98%	17.20%	4.27%

Source: Bloomberg

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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together from a voting standpoint with the infrastructure bill having already passed in the Senate with bi-partisan support. In recent negotiations, several of President Biden's campaign promises have been abandoned such as providing free community college and clean electricity standards. Programs such as the expanded Child Tax Credit and expanded Medicaid that were initially going to be permanent will instead expire in a year or two. 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 2.0% in the third quarter according to the first estimate released by the Bureau of Economic Analysis (BEA). The increase in GDP during the third quarter showed increases in private inventory investment, personal consumption expenditures, state and local government spending, and nonresidential fixed investment. These gains were partially offset by decreases in residential fixed investment, federal government spending, and exports. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in private inventory investment was due to gains in wholesale trade (led by nondurable goods) and in retail trade (led by motor vehicles and parts dealers). The increase in personal consumption expenditures showed an increase in services and a decrease in goods. There was an increase in services with significant contributions coming from "other" services (mainly international travel), transportation services, and health care. The decrease in goods was largely due to spending on motor vehicles and parts. The increase in state and local government spending was led by employee compensation. The increase in nonresidential fixed investment was led by gains in intellectual property products that was partly offset by decreases in structures and equipment.

The decrease in residential fixed investment primarily reflected decreases in improvements and in new single-family structures. The decrease in federal government spending primarily reflected a decrease in non-defense spending on intermediate goods and services after Paycheck Protection Program loan processing by banks on behalf of the federal government mainly ended in the second quarter. The decrease in exports reflected a decrease in goods that was partly offset by an increase in services. The increase in imports primarily reflected an increase in services (led by travel and transport).

According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 4.8% in September from 5.2% in August. The number of unemployed fell to 7.7 million people in September from 8.4 million in August. In September, notable job gains occurred in leisure and hospitality, professional and business services, retail trade, and transportation and warehousing. Employment in public education declined. 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 61.6% in September fell slightly from August and has remained in a narrow range of 61.4% and 61.7% since June 2020.

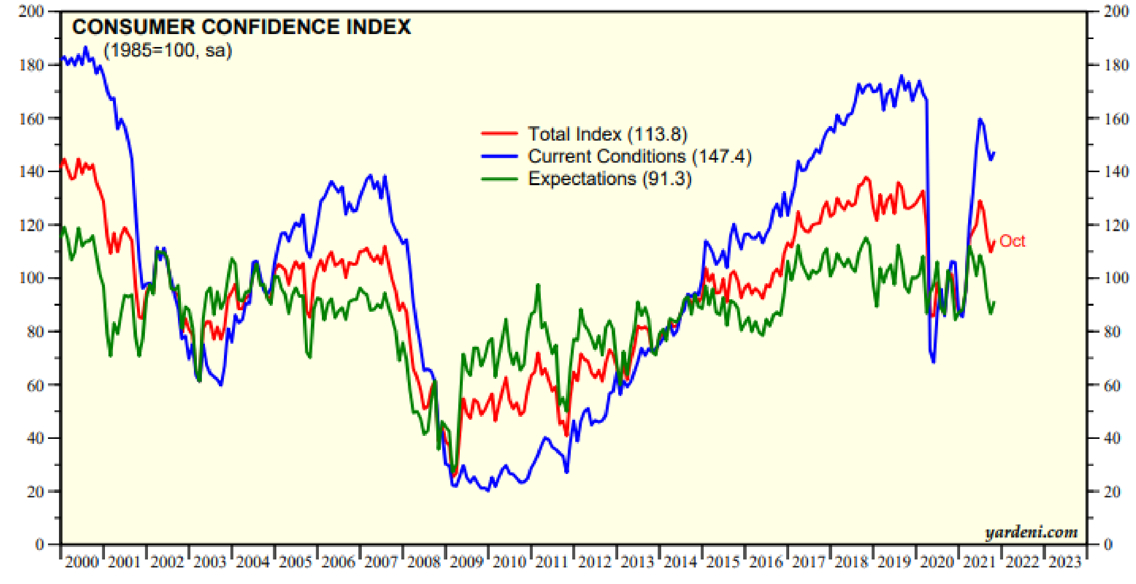
The U.S. savings rate was 7.5% in September, decreasing from a revised downward 9.2% in August. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020.

Personal income decreased $216.2 billion (1.0%) while consumer spending increased $93.4 billion (0.6%) in September. The reduction in personal income in September was due to a decrease in government social benefits, both in unemployment and other benefits such as the Provider Relief Fund, economic impact payments, and Paycheck Protection Program loans to nonprofit institutions. Unemployment insurance decreased reflecting reductions in payments from the Pandemic Unemployment Compensation program, the Pandemic Emergency Unemployment Compensation program, and the Pandemic Unemployment Assistance program.

In the October Beige Book, the Federal Reserve stated "Economic activity grew at a modest to moderate rate, according to the majority of Federal Reserve Districts. Several Districts noted, however, that the pace of growth slowed this period, constrained by supply chain disruptions, labor shortages, and uncertainty around the Delta variant of COVID-19. A majority of Districts indicated positive growth in consumer spending; however, auto sales were widely reported as declining due to low inventory levels and rising prices. Travel and tourism activity varied by District with some seeing continued or strengthening leisure travel while others saw declines that coincided with rises in COVID cases and the start of the school year. Manufacturing grew moderately to robustly in most parts of the country, as did trucking and freight. Growth in nonmanufacturing activity ranged from slight to moderate for most Districts. Loan demand was generally reported as flat to modest this period. Residential real estate activity was unchanged or slowed slightly but the market remained healthy, overall. Reports on nonresidential real estate varied across Districts and market segments. Agriculture conditions were mixed and energy markets were little changed, on balance. Outlooks for near-term economic activity remained positive, overall, but some Districts noted increased uncertainty and more cautious optimism than in previous months."

Consumer Confidence increased to 113.8 in October from 109.8 in September, breaking a streak of three consecutive monthly declines. Consumer confidence recently peaked of 128.9 reached in June. "The proportion of consumers planning to purchase homes, automobiles, and major appliances all increased in October—a sign that consumer spending will continue to support economic growth through the final months of 2021", according to the Conference Board. The Present Situation Index (based on consumers' assessment of current business and labor market conditions) rose to 147.3 in October from 144.3 in September. The Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) improved to 91.3 in October from 86.7 in September. According to information from the BEA, 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 -0.03% in October and has returned -1.58% on a year-to-date basis as of October 31, 2021, on the heels of a 7.51% return in 2020. The 10-Year U.S. Treasury ended October at 1.56% after ending September at 1.49% 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 October 31st, the spread is 106 basis points with the 2-Year increasing in yield 38 bps (0.50%) and the 10-Year increasing 64 basis points (1.56%). Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended October at 87 basis points, 3 basis point wider than September. Spreads peaked in 2020 at 373 basis points on March 23, 2021, concurrent with the equity market lows.

West Texas Intermediate (WTI) finished October at $83.39 a barrel, increasing from September's closing price of $75.12 per barrel. WTI has increased over 75% so far in 2021 after beginning the year at $48.40 per barrel. Over the past year, WTI has increased over 113%. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

The Volatility Index (VIX) ended October at 16.26, decreasing 27.5% from the September month end reading of 22.44. The VIX declined throughout the month after a more tumultuous September with debt ceiling fears and concerns about China Evergrande that were mitigated in October. 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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