

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Mike McLelland, CFA, CAIA, Analyst, Research.](#)



#### OVERVIEW

Global equities sold off in September. The S&P 500 ended down at about -4.7% for the month as rising interest rates weighed on stocks. This snapped a seven-month streak of positive gains for the index. U.S. small-cap stocks performed modestly better on a relative basis than their large cap peers and globally growth stocks generally underperformed value-oriented names across most equity markets. International markets struggled and Chinese equities continue to weigh on emerging market stocks. Rising interest rates weighed on U.S. fixed income markets as the market prepares for future Federal Reserve tapering.

#### DOMESTIC EQUITY As of September 30, 2021

##### U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-4.2%	-1.5%	12.1%	24.2%
S&P 500	-4.7%	0.6%	15.9%	30.0%
Russell 2000	-2.9%	-4.4%	12.4%	47.6%
Russell 1000 Growth	-5.6%	1.2%	14.3%	27.3%
Russell 1000 Value	-3.5%	-0.8%	16.1%	35.0%

U.S. equities struggled during September. Large caps (S&P 500 Index -4.7%) underperformed small caps (Russell 2000 Index -2.9%) by 1.6%, reversing small cap underperformance from August. Growth (Russell 1000 Growth -5.6%) underperformed value (Russell 1000 Value -3.5%) by 2.1% as rising interest rates weighed most heavily on growth stocks. The U.S. economy is faced with elevated inflation levels, widespread supply-chain disruptions, and unprecedented labor market mismatches evidenced by a record number of job openings, a high number of quits, an unemployment rate over 5%, and depressed labor-force participation rates. These dynamics have led to a rise in the 10-year Treasury yield and spurred relative outperformance by more cyclically-oriented companies and select commodities and weakness in longer duration risk-assets—such as technology stocks and long-duration investment grade bonds.

At the top of this macro-economic backdrop is a great deal of policy uncertainty in Washington. Congress narrowly avoided shut-ting down the government and still needs to act within the next two weeks to raise the debt ceiling to avoid the U.S. defaulting on a portion of its debt. Looking beyond the next few weeks, the fate of President Biden's broader spending and tax plans remains highly uncertain.

## INTERNATIONAL EQUITY As of September 30, 2021

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-3.2%	-3.0%	5.9%	23.9%
MSCI EAFE	-2.9%	-0.4%	8.3%	25.7%
MSCI Emerging Markets	-4.0%	-8.1%	-1.2%	18.2%
MSCI EAFE Small Cap	-3.6%	0.9%	10.0%	29.0%

International equities slid with emerging markets and detracted the most as Chinese equities continued to drag on the market. Developed international markets (MSCI EAFE Index) lost -2.9%, relatively outperforming emerging market counterparts (MSCI EM Index down -4.0%). Unlike in the U.S., there was little difference between the performance of small cap stocks versus their large cap peers—MSCI ACWI ex U.S. index -3.2% vs MSCI ACWI ex U.S. Small Cap Index -3.0%. Chinese markets (MSCI China Index) declined -5.0% for the month as Chinese equities grappled with the looming default of China's second largest property developer, Evergrande Group, as well as a growing crisis in its energy markets. In contrast to most global equity markets, Indian equities (MSCI India) continued to grind higher and ended the month up nearly +0.6%.

## FIXED INCOME As of September 30, 2021

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.9%	0.1%	-1.6%	-0.9%
BarCap Global Aggregate	-1.8%	-0.9%	-4.1%	-0.9%
BarCap US High Yield	0.0%	0.9%	4.5%	11.3%
JPM Emerging Market Bond	-2.0%	-0.5%	-1.5%	3.9%
BarCap Muni	-0.7%	-0.3%	0.8%	2.6%

Interest rates trended higher during September, notably within the belly of the curve as the 5-Yr U.S. Treasury yield rose +0.19% to 0.97% and the 10-Yr U.S. Treasury yield rose +0.18% to 1.49%. The rise in rates weighed against global fixed income markets as the market is starting to prepare for Federal Reserve tapering. The expectation is that tapering of asset purchase will begin in December and conclude midway through 2022, and half of the Federal Reserve Open Market Committee expects a rate hike next year. Domestic high yield (Bloomberg High Yield Index) generated flat returns for the month, benefitting from spreads tightening, shorter duration exposure, and carry advantage. Investment grade spreads tightened, however investment grade bonds underperformed due to longer duration exposure. Emerging market debt (JPM Emerging Markets Bond) fell -2.0% as spreads widened, long duration exposure, and dollar strength weighed on the space.

## CLOSING

Global equity market volatility is likely to continue in the coming weeks as ambiguity remains high and markets remain wary of COVID-19 variants, rising interest rates, supply chain constraints, the potential for higher inflation, the looming debt ceiling vote, infrastructure spending plans, and potential social and tax policy changes, among others. However, strong corporate earnings growth (+28% YoY earnings growth for the S&P 500 is expected in the third quarter) is likely to support risk assets in the coming months, particularly after the formerly noted macro concerns are in the rear-view mirror.

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