MARKET MINUTE

2021 VOLUME 11: OCTOBER REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by
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OVERVIEW

Global equities were up sharply in October with the S&P 500 leading the way and ending the month at a record high of 4,605. The steady fall of COVID-19 cases, in the US and globally, along with a robust start to the Q3 earnings season, helped power markets upwards despite fears the current elevated inflation rate may not be retreating any time soon and the global supply chain looks as strained as ever. Markets started October continuing the slide from September and early in the month the S&P 500 touched 4300—the lowest point since mid-July—but then began to grind higher erasing September's declines to hit new highs.[1] Even Chinese equities—one of the weakest performing markets this year—rebounded in October as fears related to the messy bankruptcy of its second largest property developer began to ease.

DOMESTIC EQUITY *As of October 31, 2021*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	5.9%	5.9%	18.8%	37.7%
S&P 500	7.0%	7.0%	24.0%	42.9%
Russell 2000	4.3%	4.3%	17.2%	50.8%
Russell 1000 Growth	8.7%	8.7%	24.2%	43.2%
Russell 1000 Value	5.1%	5.1%	22.0%	43.7%

US large cap reassumed market leadership with the S&P 500 Index gaining +7.0% for the month, while US small caps (Russell 2000 Index) gaining +4.3%. Growth stocks solidly outgained value stocks with the Russell 1000 Growth Index gaining +8.7% while the Russell 1000 Value Index gained +5.1%. US stocks were buoyed by a falling number of COVID-19 cases, a strong start to Q3 earnings season and progress—uneven as it may be—in Washington DC towards passing new spending and tax measures for 2022.

In terms of earnings announcements, over half of the S&P 500 has reported for Q3 and 82% of these companies have beaten their consensus earnings estimates. At this point in time, Q3-2021 earnings growth for the S&P 500 is more than +36% year-over-year compared to Q3-2020, which—if this level of earnings growth is maintained—would be the third best quarter for earnings growth going back to 2010.[1]

INTERNATIONAL EQUITY *As of October 31, 2021*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.4%	2.4%	8.4%	29.7%
MSCI EAFE	2.5%	2.5%	11.0%	34.2%
MSCI Emerging Markets	1.0%	1.0%	-0.3%	17.0%
MSCI EAFE Small Cap	1.6%	1.6%	11.7%	35.8%

International equities lagged US equities in October, but still managed to make solid gains. The MSCI EAFE Index ended October +2.5% and the MSCI Emerging Market Index gained +1.0%. China, which has lagged most other equity markets this year, gained (MSCI China Index) +3.2% as fears subsided that its second largest property developer Evergrande Group would default on over $3 billion in debts and spark a "Lehman moment" in China. Earlier in October, Chinese authorities stepped in to ensure a managed bankruptcy process.[3]

Like the US, international growth stocks (MSCI ACWI ex US Growth Index +3.1%) outperformed value stocks (MSCI ACWI ex US Value Index +1.7%) and small cap stocks (MSCI ACWI ex US Small Cap Index +1.6%) underperformed their large cap peers (MSCI ACWI ex US +2.4%). The US dollar was little changed against a basket of developed market currencies, but generally stronger against most emerging market currencies.[1]

FIXED INCOME *As of October 31, 2021*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.0%	0.0%	-1.6%	-0.5%
BarCap Global Aggregate	-0.2%	-0.2%	-4.3%	-1.2%
BarCap US High Yield	-0.2%	-0.2%	4.4%	10.5%
JPM Emerging Market Bond	0.1%	0.1%	-1.5%	4.1%
BarCap Muni	-0.3%	-0.3%	0.5%	2.6%

Longer-term interest rates have generally been trading in a range of 1.5% to 1.65% during the month, but the 10-year Treasury yield briefly touched above 1.7% on 21-October—a six month high—before falling back down and ending the month at 1.56%.[1] However, while the longer-end of the US Treasury curve (the 30-year bond) fell 11 basis-points during the month, the belly of the yield curve—2-year, 3-year, and 5-year rates—moved up over 20 basis points.[1] This led to an environment that favored longer duration assets and as such Investment Grade bonds (IG Corporate Index +0.3%) and Emerging Market debt (MSCI EM Bond Index +0.1%) generally fared better than the overall bond market (US Bloomberg Bond Aggregate Index 0.0%) or shorter duration bonds such as High Yield (HY Corporate Index -0.2%).

CLOSING

Despite clear progress in reducing the number of COVID-19 cases and a generally strong earnings season, global equity markets are likely to remain volatile and choppy in the final months of the year. As the Q3 earning season begins to wind down, markets will be increasingly focused on the Federal Reserve and the path of interest rates amid the backdrop of global supply-chain disruptions, drama in Washington DC over spending and taxes, and elevated inflation rates. At this point in time, it seems likely that Senate Democrats will eventually unite around a spending and tax package worth about $1.75 trillion and the Fed is likely to stay the course in commencing a gradual tapering to begin in December and unlikely to raise rates until mid-2022. Given this environment of fiscal stimulus and low interest rates, we expect it to support the continued rise of risk assets. Clearstead stands ready to assist clients in maintaining their rebalancing discipline and remaining invested for the long-run.

SOURCES:
1 Bloomberg LP
2 Factset "S&P 500 Earnings Season Update" 29-October-2021
3 https://www.ft.com/content/a581eabf-7835-435c-8747-c239b36d138e