

September 2021

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 9/30/2021

## Global Overview

In sympathy with the first day of fall on September 22<sup>nd</sup>, global equity markets began to cool and fell during the month. All broad market indices experienced a negative return for the month as supply chain issues and slowing economic data plagued equity markets. In the U.S., jobs numbers continued to disappoint and rising rates weighed on returns. In Europe, economic data continued to slow for the third straight month and a natural gas shortage in Europe is causing major disruptions. Emerging market equities continued their rough quarter as they fell alongside major developed equity markets as investors' risk appetite fell.

## U.S. Markets & Economy

The U.S. equity market rally reached an abrupt halt in September, diverging from the strong year-to-date positive returns experienced earlier this year. Both equity and fixed income markets faced increased volatility, which resulted from weaker economic data, financial contagion concerns from defaults in Chinese real estate debt, and a change in the Fed's tone toward the tapering of its balance sheet. Additionally, the ongoing debt ceiling debate and brinkmanship within Congress compounded the market's unease in the month. As reported in early September, the U.S. economy added 235,000 jobs in August, significantly short of the 733,000 expected and considerably less than the 938,000 and 943,000 jobs added in June and July, respectively. The U.S. Manufacturing PMI Index was revised higher to 60.7 in September, but still below the 61.1 reading in August. Although manufacturing production slowly continues to increase, it remains hampered by material and labor shortages, as supply chain disruption remain. While domestic and foreign manufacturing orders continue to increase, pressure on capacity has resulted in input cost inflation. The PCE price index advanced 4.3% year-over-year in August, which was a second straight month at this accelerated rate.

The FOMC September meeting minutes stated that enough progress has been made toward reaching the Fed's extended 2% inflation target and employment mandates that some consideration of tapering their asset purchase program at the Fed's meeting in early November was warranted. Although Fed Chair Powell stated the tapering would be gradual and likely conclude later in 2022, the market quickly reacted to the news with the U.S. 10-Year Treasury yield increasing 13 bps to 1.49%. As the market digested the likelihood and repercussions of rising Treasury yields, the S&P 500 Index fell -4.7% for the month, but is still up 15.9% year-to-date. The Russell 2000 Index returned -3.0% for September but is still positive 12.4% year-to-date. Within the broader bond market, the Bloomberg U.S. Aggregate Index returned -0.9% in September and the Bloomberg U.S. Government/Credit Long Index returned -2.3%. The S&P/LSTA Leveraged Loan Index returned 0.6% during September and is up 4.4% year-to-date.

## International Markets & Economy

Non-U.S. developed markets also declined September as the MSCI EAFE Index posted a -2.9% return for the month. Japan's equity market continued its strong quarter and was one of the only countries with a positive monthly return at 2.8%. Japan's economic data continues to improve after lagging other developed countries during the first half of 2021. In Europe, the IHS Markit Composite PMI, which measures both the manufacturing and service sectors, fell for the third month in a row to 56.2. Another ongoing crisis in Europe is a shortage of natural gas and energy as natural gas prices hit multi-year highs. Manufacturers across the continent are dealing with high energy input costs, as the low winds in the North Sea could not keep up with the increased demand, as the economy reopened. This weighed on equity returns during the month.

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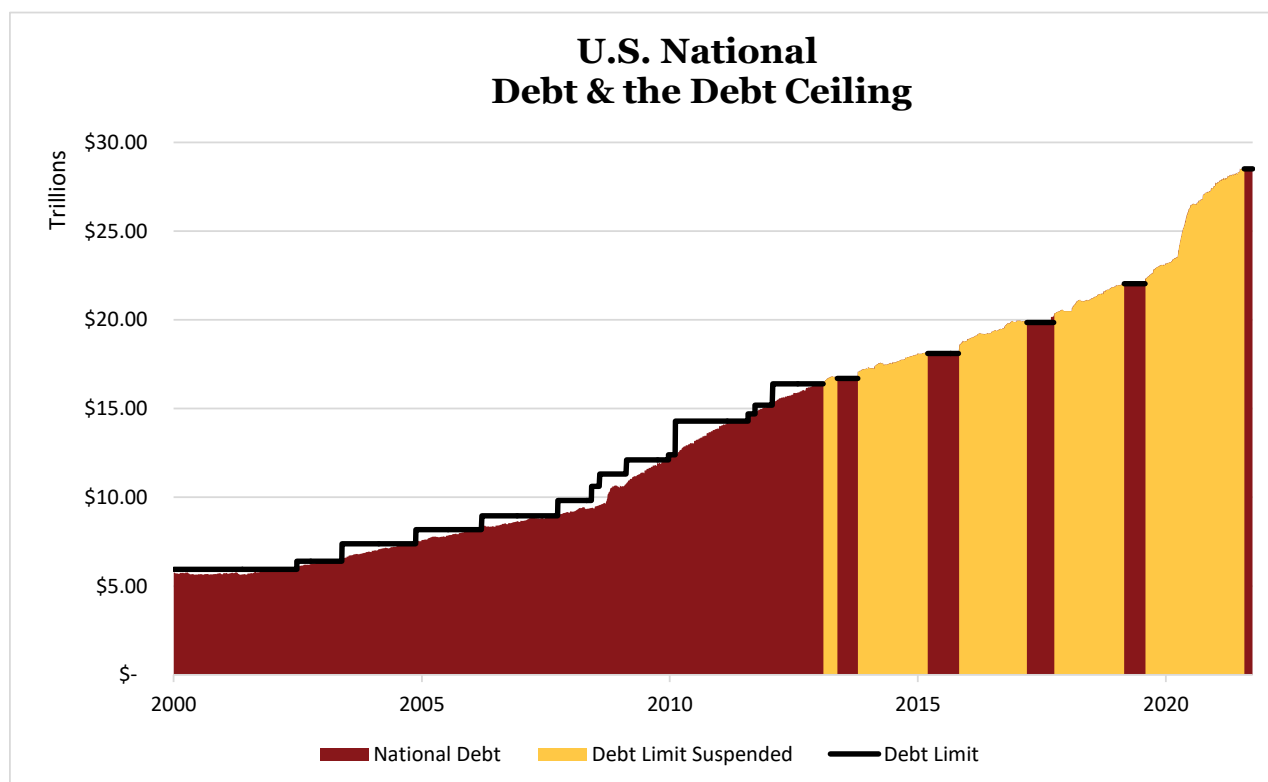
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The MSCI EM Index fell 4% in the month as investors' risk appetite declined. China continued to detract as the MSCI China Index lost 5%, and has lost 16.7% year-to-date. Russia was the strongest contributor, returning 6.1% during the month, as their market is the major beneficiary of the ongoing energy shortage in Europe. Indonesia and India both had positive returns for the month, while Korea, Taiwan and Brazil had negative returns falling below the broad benchmark.

## In the News

During the month of September, politicians rushed to extend government funding, which was set to expire at the end of the month. Congress passed legislation on September 30<sup>th</sup> to avoid a government shutdown, but a looming deadline for the debt ceiling to be increased still exists. Our Chart of the Month below takes a look at the history of the debt ceiling and the U.S. national debt over the last two decades. Since 2000, Congress has increased or suspended the debt ceiling 14 times to ensure the U.S. could continue paying its obligations. Large increases in the national debt are something that we have grown accustomed to following the GFC, but has the national debt always increased? It may come as a surprise to some (especially those in Washington saying we cannot keep increasing our debt) that since the end of WWII, the national debt has increased in every single fiscal year except 1969 and 1998-2001. As the month ended, Congress was unable to reach an agreement regarding raising the debt ceiling due to conflict over which political party was responsible for reaching this limit, while discussions were also tied to simultaneously passing President Biden's \$3.5 trillion spending package. As a result of this increased uncertainty, volatility increased toward the end of the month and is expected to remain elevated until a deal is reached.

## Chart of the Month



Source: U.S Treasury, White House Office of Management and Budget

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(4.15)	(0.01)	13.04	28.82	13.14	13.74	12.68
	Bloomberg US Agg Bond TR USD	(0.87)	0.05	(1.55)	(0.90)	5.36	2.94	3.01
	Russell 3000 TR USD	(4.49)	(0.10)	14.99	31.88	16.00	16.85	16.60
	DJ Industrial Average TR USD	(4.20)	(1.46)	12.12	24.15	11.00	15.68	14.72
	NASDAQ Composite PR USD	(5.31)	(0.38)	12.11	29.38	21.55	22.16	19.59
	MSCI EAFE NR USD	(2.90)	(0.45)	8.35	25.73	7.62	8.81	8.10
	FTSE Treasury Bill 3 Mon USD	0.00	0.01	0.03	0.06	1.14	1.13	0.60
	Bloomberg Commodity TR USD	4.98	6.59	29.13	42.29	6.86	4.54	(2.66)
Domestic Equities	S&P 500 TR USD	(4.65)	0.58	15.92	30.00	15.99	16.90	16.63
	S&P MidCap 400 TR	(3.97)	(1.76)	15.52	43.68	11.08	12.97	14.72
	S&P SmallCap 600 TR USD	(2.43)	(2.84)	20.05	57.64	9.44	13.57	15.69
	Russell 1000 TR USD	(4.59)	0.21	15.19	30.96	16.43	17.11	16.76
	Russell 1000 Growth TR USD	(5.60)	1.16	14.30	27.32	22.00	22.84	19.68
	Russell 1000 Value TR USD	(3.48)	(0.78)	16.14	35.01	10.07	10.94	13.51
	Russell Mid Cap TR USD	(4.12)	(0.93)	15.17	38.11	14.22	14.39	15.52
	Russell Mid Cap Growth TR USD	(4.84)	(0.76)	9.60	30.45	19.14	19.27	17.54
	Russell Mid Cap Value TR USD	(3.68)	(1.01)	18.24	42.40	10.28	10.59	13.93
	Russell 2000 TR USD	(2.95)	(4.36)	12.41	47.68	10.54	13.45	14.63
	Russell 2000 Growth TR USD	(3.83)	(5.65)	2.82	33.27	11.70	15.34	15.74
	Russell 2000 Value TR USD	(2.00)	(2.98)	22.92	63.92	8.58	11.03	13.22
International Equities	MSCI ACWI Ex USA NR USD	(3.20)	(2.99)	5.90	23.92	8.03	8.94	7.48
	MSCI EAFE NR USD	(2.90)	(0.45)	8.35	25.73	7.62	8.81	8.10
	MSCI EAFE Growth NR USD	(3.89)	0.07	6.88	20.87	11.91	11.41	10.06
	MSCI EAFE Value NR USD	(1.84)	(0.97)	9.61	30.66	3.04	5.96	5.97
	MSCI Japan NR USD	2.75	4.56	5.90	22.07	7.54	9.36	8.35
	MSCI AC Asia Ex Japan NR USD	(4.18)	(9.33)	(3.53)	14.42	9.19	10.13	8.50
	MSCI Europe NR USD	(4.78)	(1.55)	10.07	27.25	7.81	8.85	8.15
	MSCI United Kingdom NR USD	(2.03)	(0.30)	12.19	31.20	2.37	4.82	5.40
	MSCI EAFE Small Cap NR USD	(3.57)	0.90	10.02	29.02	9.05	10.38	10.73
	MSCI EM NR USD	(3.97)	(8.09)	(1.25)	18.20	8.58	9.23	6.09
MSCI China NR USD	(5.02)	(18.17)	(16.67)	(7.33)	5.95	9.12	8.68	
Fixed Income	Bloomberg US Govt/Credit TR USD	(1.07)	0.04	(1.93)	(1.13)	5.94	3.24	3.24
	Bloomberg US Govt/Credit Long TR USD	(2.34)	0.07	(4.57)	(2.97)	10.12	5.21	5.76
	Bloomberg US Govt/Credit Interm TR USD	(0.57)	0.02	(0.87)	(0.40)	4.63	2.60	2.52
	ICE BofA US High Yield TR USD	0.03	0.94	4.67	11.46	6.62	6.35	7.30
	Credit Suisse HY USD	0.16	0.91	4.83	11.28	6.28	6.19	7.03
	S&P/LSTA Leveraged Loan TR	0.64	1.11	4.42	8.40	4.14	4.58	4.91
	FTSE WGBI NonUS USD	(2.94)	(1.97)	(7.86)	(3.41)	2.89	0.76	0.50
	Bloomberg Gbl Agg Ex USD TR USD	(2.45)	(1.59)	(5.94)	(1.15)	3.17	1.10	0.90
REITs	FTSE Nareit All REITs TR	(5.73)	0.15	21.37	32.51	11.17	8.28	11.94
	Wilshire US REIT TR USD	1.91	10.39	31.51	40.58	11.30	7.63	10.58

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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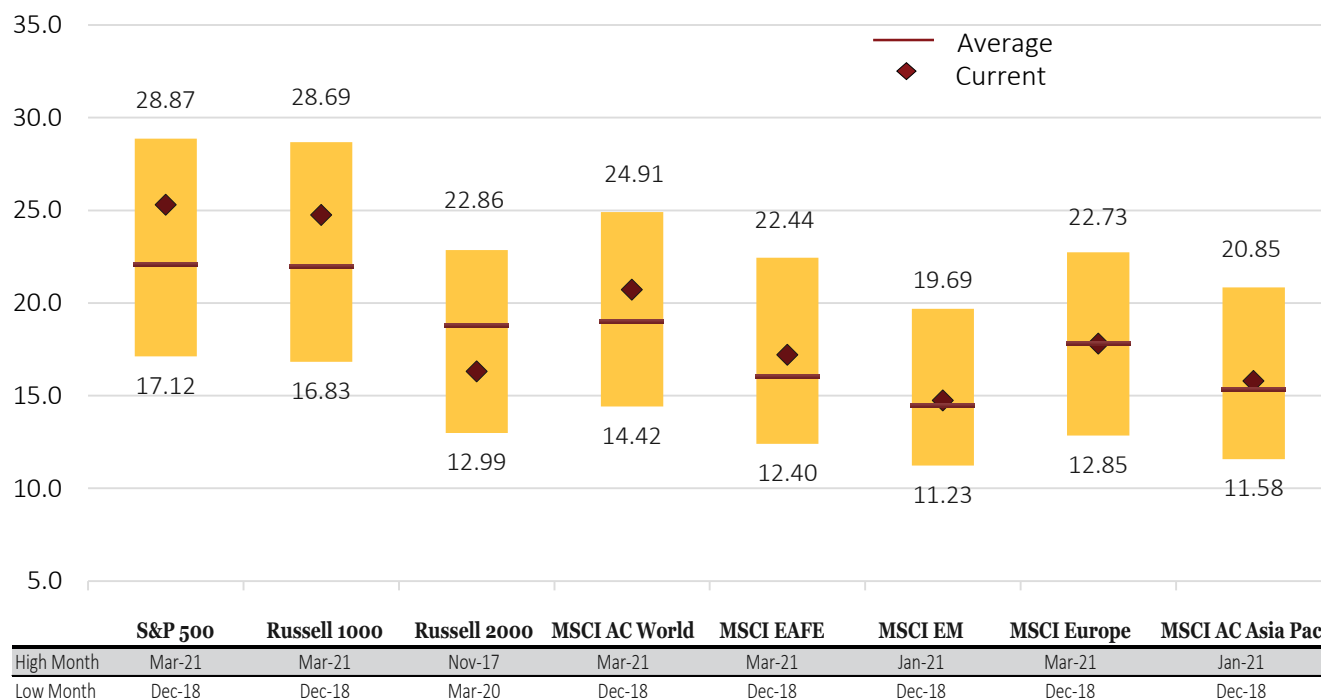
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2021 <sup>1</sup>	2022 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	6.70	6.00	3.90	5.20	1.49	-	-	4.00
<b>China</b>	1.30	8.50	5.80	5.10	2.89	6.45	6.79	1.20
<b>Japan</b>	0.50	2.50	2.10	2.80	0.07	111.40	105.53	0.00
<b>United Kingdom</b>	5.50	6.70	5.20	4.60	1.02	1.36	1.29	3.10
<b>Euro Area</b>	2.20	5.30	4.60	7.50	0.06	1.16	1.18	1.90
<b>Germany</b>	1.60	2.90	4.60	3.60	-0.19	1.16	1.18	2.80
<b>France</b>	1.10	6.30	4.00	8.00	0.16	1.16	1.18	1.50
<b>Italy</b>	2.70	5.90	4.10	9.30	0.86	1.16	1.18	1.10
<b>Canada</b>	-0.30	6.80	6.60	7.10	1.51	1.27	1.33	3.50
<b>India</b>	2.10	9.70	7.90	6.90	6.22	73.64	73.52	5.30
<b>Mexico</b>	1.50	6.30	3.40	4.30	7.38	20.49	21.98	4.92
<b>Brazil</b>	-0.10	5.20	2.30	13.70	11.17	5.37	5.65	6.10

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2021 & 2022 is forecasted data from OECD

2. In terms of CPI All Items

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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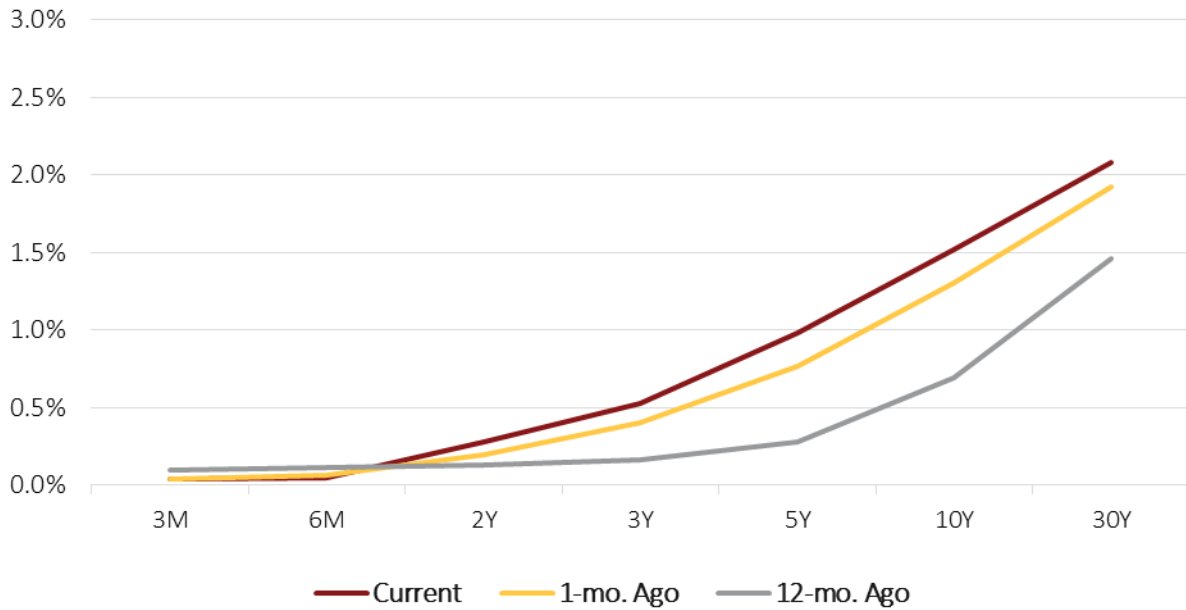
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## U.S. Treasury Yield Curves

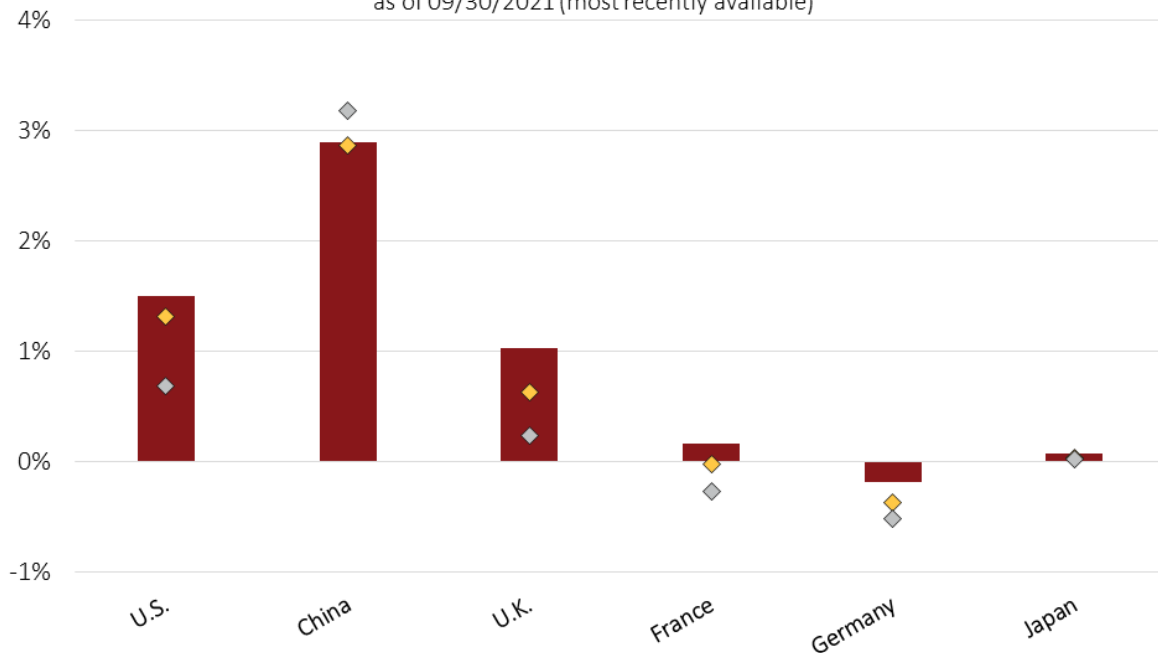
as of 09/30/2021



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## 10-Year Sovereign Yields

as of 09/30/2021 (most recently available)



Source: Trading Economics

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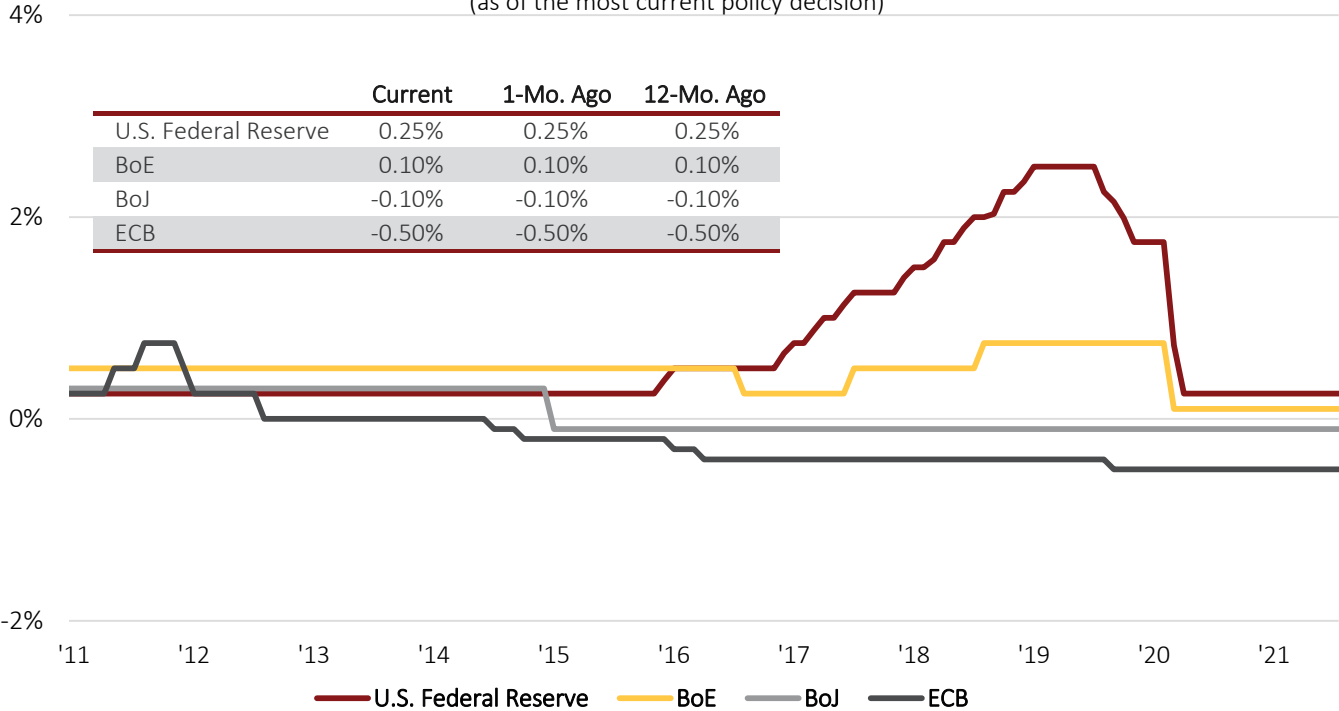
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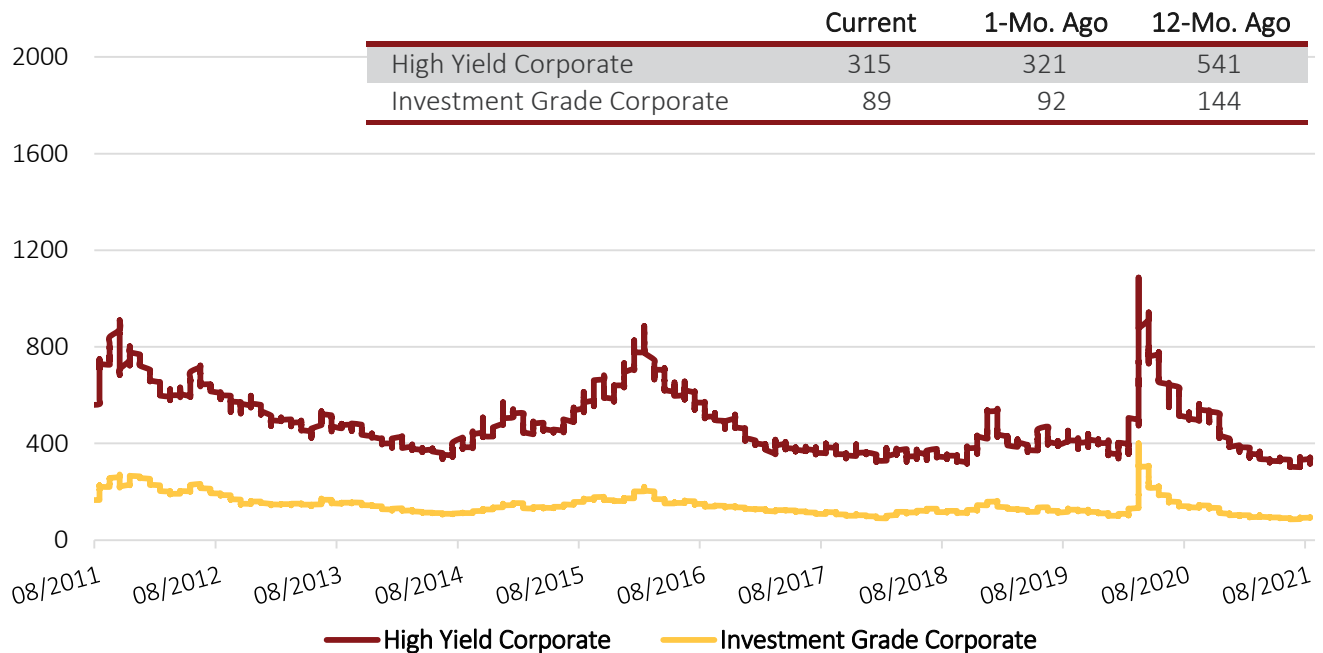
## Central Bank Policy Rates

(as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America