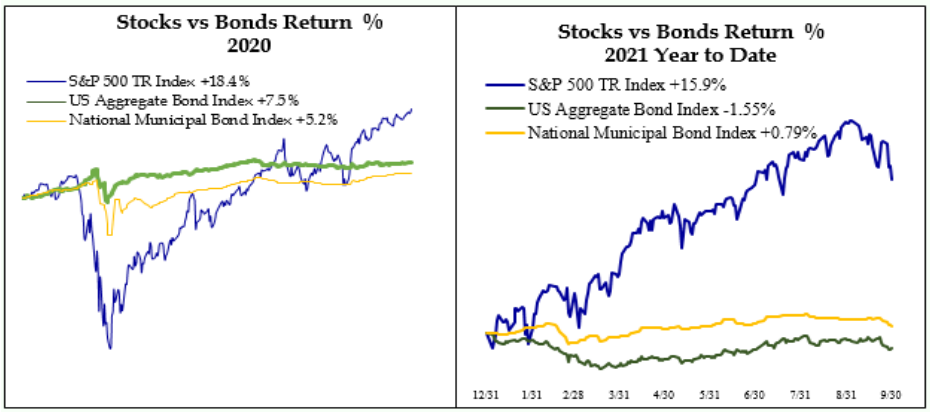
## Market Movement Highlights

As the third quarter drew to a close the most pervasive of unanswered economic questions yet remains; whether or not inflation, spiking as it has, may be here to stay. As we all know, earlier in the year the Fed brushed it aside as transitory. In their words it was a "perfect storm" occasioned by the post CV-19 re-opening trade, a consumer spend rate now known to have exceeded +11.9% through 2Q and supply chain bottlenecks that continued to worsen. Since then, the Fed's early dismissal has morphed into a more weighty concern on the notion that, by any measure, a 5.4% plus year over year cost of living increase may portend things to come. Unfortunately, the upside risk for further increases in PPI and CPI is all but certain as the country enters the winter season. Consider energy alone, always at the very core of inflation. Natural gas has already more than doubled in price, while crude oil futures are pushing $75-80/bbl and everyone is feeling the pain at the pump.

High inflation, even the perception of its coming reality, is arguably the most damaging headwind in any economy. As any lookback in history reminds us, rising prices often beget a "self-fulling prophecy". Consumers begin frontloading their purchases to avoid further price increases as constrained supply chains hampered by labor shortages wrestle to deliver on demand, and so prices begin to spiral. Add to this an even larger basket of worries including the uncertainty of Biden's *Build Back America* spend agenda, its cost and its potential tax impact, a permeable southern border, and an Afghan pullout that rendered the world pondering US competence and commitment. One can only wonder, and concurrently applaud, how resilient the stock market has been when common sense would otherwise have indicated that at least a modest correction would have occurred by now. Maybe the correction came in September's lackluster performance, short and sweet but now gone!

For 3Q21 the stock market, as measured by the S&P 500, delivered a flat 0.6% return, barely outperforming the Dow and Nasdaq's (1.9%) and (0.2%) respectively. Market's volatility over this stretch was noticeably higher largely due to increasing headline news over inflationary pressures and speculation over the Fed's next moves regarding its balance sheet and interest rates. Looking out across the seas, international market stocks, both developed and emerging, are respectively up +8.8% and (1.0%) on the YTD largely due to the continuing impact of delta variants.

Meanwhile, peering under the US equity hood over the quarter, large cap stocks handily outperformed mid and small cap stocks as growth re-emerged to outpace value investing. Earlier in the year there had been a definite rotation away from growth, which at its core is characterized by technology and communication stocks. When all was said and done, US equity performance through 3Q21 effectively tread water, remaining much in line with 1H21 returns; the S&P's YTD return through 9/30 was +15.9% vs its first half year's +15.3%. Meanwhile, the energy driven Alerian MLP total return index, a proxy for our oil and gas midstream infrastructure portfolios, has so far delivered +39.4% on the YTD despite increasing concern over climate change and fossil fuel carbon emissions.



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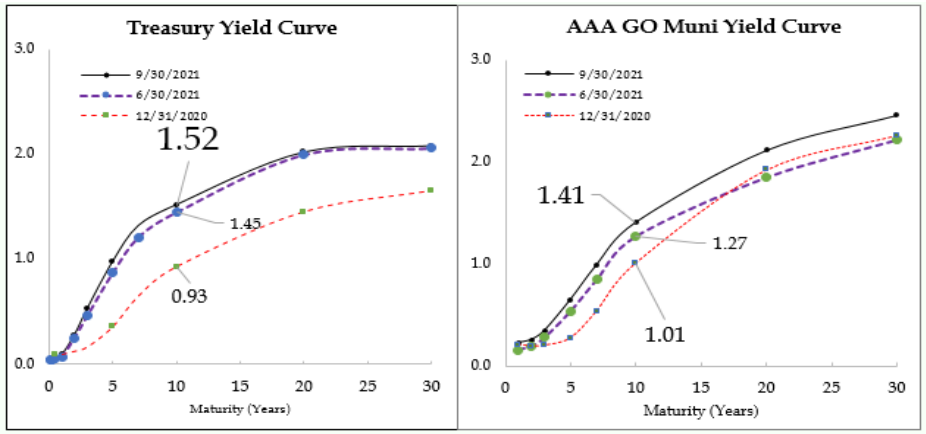
On the flip side of stocks, bond markets remained very rich, delivering flat to negative returns, but for the more speculative high yield space. As measured by Bloomberg Barclay's respective indices, US municipals posted +0.8%, while taxable investment grade bonds delivered (1.6%) and corporate high yield generated +4.5%.




## Looking Forward

Despite that the stock market may eke out new nominal highs through the balance of the year, it's more likely its best performance has already weighed in. (After all, it's pretty hard to sneeze at another year of double digit returns)! And while we can all agree that forward returns will remain predicated on consumer demand, there is no free lunch as long as the scepter of inflation lingers. In this case, the risk is that the current US labor shortage remains acute while more Federal dollars are being injected into the economy. That's a dangerous recipe! Fiscal stimulus is a wonderful tool so long as there is production capacity to efficiently absorb it. If not, prices rise and overall GDP decelerates.

However, as the current economic scenario plays out, you can rest assured we will remain focused, attentive and communicative.

**Eideard Group**

**October 28, 2021**

Major Market Indexes Total Returns 2021

| Market Indexes | September | 3Q | YTD |
|---|---|---|---|
| NASDAQ Composite | -5.3% | -0.2% | 12.7% |
| Dow Jones Industrial Average | -4.3% | -1.9% | 10.6% |
| S&P 500 (US large cap) | -4.7% | 0.6% | 15.9% |
| Russell 2000 (US small cap) | -2.9% | -4.4% | 12.4% |
| MSCI EAFE (Developed Intl.) | -2.8% | -0.4% | 8.8% |
| MSCI Emerging Markets | -3.9% | -8.0% | -1.0% |
| | | | |
| Bloomberg National Municipal Bond | -0.7% | -0.3% | 0.8% |
| Bloomberg US Treasury Bond | -1.1% | 0.1% | -2.5% |
| Bloomberg US Aggregate Bond | -0.9% | 0.1% | -1.6% |
| Bloomberg US Corporate Bond | -1.1% | 0.0% | -1.3% |
| Bloomberg US Corporate High Yield | 0.0% | 0.9% | 4.5% |
| Alerian MLP Index | 3.0% | -5.7% | 39.4% |
| | | | |
| WTI Crude Oil | 9.9% | 2.3% | 55.6% |
| Gold | -4.0% | -1.2% | -7.7% |