

2021 Third Quarter Investment Market Report

The string continues. The U.S. markets managed to eke out a sixth consecutive quarterly gain in the third quarter of the year, although most of the indices were down in the month of September. At the end of the quarter, stock investors were sitting on above-average gains and still, probably, feeling a bit uncertain about the future.

The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—eked out a 0.14% positive return in the third quarter, and is currently sitting on 15.62% gains since January 1. The comparable Russell 3000 index is up 14.99% for the first nine months of the year.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 0.47% in value in the recent quarter, and is now up 15.52% for the first nine months of 2021. The Russell 1000 large-cap index is holding onto a 15.19% gain, while the widely-quoted S&P 500 index of large company stocks rose 0.58% in the third quarter, to post a 15.92% return so far this year.

Meanwhile, the Wilshire U.S. Mid Cap index gained 0.76% in the quarter, for a 16.52% gain so far this year. The Russell Midcap Index is up 15.17% in calendar 2021.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies experienced a 1.72% loss in the third quarter, which brings the index's total return down to a still-positive 14.65% for the year. The comparable Russell 2000 Small-Cap Index is up 15.22% in the year's first three quarters. The technology-heavy Nasdaq Composite Index lost 0.38% in the third quarter, and is still up 12.11% for the first nine months of the year.

International investors experienced mild losses over the third quarter. The broad-based EAFE index of companies in developed foreign economies was down 1.03% in the third quarter, but is still sitting on a 6.23% gain for the first nine months of the year. In aggregate, European stocks were down 1.94% for the quarter, but are still up 8.93% so far this year, while EAFE's Far East Index has returned 3.46% this year. Of the developed nations, only a small handful of countries are showing losses: New Zealand (down 7.63% in 2021), Korea (down 4.51%) and Hong Kong (down 1.81%). The strong yearly U.S. returns are beaten only by the lucky

investors in the Austrian market (up 21.38%), Singapore (up 20.09%) and the Netherlands (up 24.33%).

Emerging market stocks of less developed countries, as represented by the EAFE EM index, suffered near double-digit losses in the third quarter, down 8.84% in dollar terms, but are down just 2.95% for the year. In that sector, the standout returns are coming from the Czech Republic (up 36.25% so far this year), Russia (up 32.91%), Saudi Arabia (up 37.54%) and the United Arab Emirates (up 35.89%).

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 1.64% gain during the year's third quarter, and is up 24.79% since January 1. The S&P GSCI index, which measures commodities returns, gained 5.22% in the third quarter, largely due to rises in oil and energy prices, and is now up a remarkable 38.27% for the year. Gold prices are down 7.92% for the first nine months of 2021.

In the bond markets, 10-year Treasury bonds are yielding 1.48%, and there has been a small incremental yield gain in 30-year Treasuries, to a 2.06% annual yield. Overall, however, rates remain historically low; 3 month, 6-month and 12 month Treasuries are still sporting barely positive yields. Five-year municipal bonds are yielding, on average, 0.55% a year, while 30-year munis are returning just 1.73% on average.

Few are celebrating the sixth consecutive quarters of gains, perhaps because the month of September saw the first monthly decline since January, with a 4.8% downturn in the S&P 500 index. The Nasdaq market was down 5.4% as well. Of course, this has brought out a lot of gloomy forecasts from analysts who always seem to project recent market performance out into the future when, in fact, each new day, month and year brings a new surprise.

There's a lot of noise right now for analysts to consider. Last June and July, there were inflation fears, as supply chain issues and the lingering effects of the pandemic (how many waves have we experienced now?) drove inflation to levels not seen in decades. But then, over the last couple of months, inflation has moderated, which some say has vindicated the assessments by the Federal Reserve that the recent bout of inflation was 'transitory.' We'll see.

Meanwhile, corporate earnings are showing reasonable growth during a time of economic uncertainty, and the most recent Institute for Supply Management's

manufacturing index showed a greater-than-expected expansion in September despite widespread materials shortages. Personal income for American workers rose 1.1% in July and 0.2% in August, which is considered bullish for spending--and, indeed, personal spending rose 0.8% in August, which should bode well for economic growth. And, of course, there is the massive infrastructure spending bill working its way through Congress, which could have the effect, if passed, of boosting a number of economic sectors.

But at the same time, Congress is deliberating over increasing the top marginal corporate tax rate from 21% to 28% and the bill would also allow the IRS to collect taxes on U.S.-based corporations' foreign earnings, which will diminish after-tax profits by some as-yet-unmeasurable amount. And companies (and consumers) are having to deal with oil prices that are up about 80% over the past year. The market is leveraged with roughly \$1 trillion in margin debt at the moment, and the federal deficit, however one might measure it, has never been higher.

The point here is that there have always been reasons to be optimistic and pessimistic about market returns, and articles that tell you to buy or sell--we call them 'clickbait'--will always be trying to grab your attention. The only thing we can know for sure is that the markets have always eventually reached new highs, through the Great Depression, through two world wars and many global skirmishes, through Presidential impeachments, political uncertainty, double-digit inflation and the most serious global pandemic in a hundred years. None of us know what's coming next in the short term, but we do know that every day, as millions of people put their efforts into their respective companies, the economy and its component corporations incrementally gain value--slowly, steadily, and with a persistent trajectory that is easy to overlook during the temporary up and down swings in the stock market indices.