

QUARTERLY RECAP

Third Quarter 2021 Recap

At-A-Glance

The S&P 500 has logged a near record run of 318 trading days above its 200-day moving average. The index is down 4.97% from its latest record high set on Sept 2.

For the month, the Dow Industrials shed 1,516-points (-4.20%) and the Nasdaq Composite lost 5.27%.

For the quarter, the Dow Industrials fell 1.46% and the Nasdaq Composite declined just 0.23%.

Despite pullbacks in equity valuations, U.S. stocks are still in the second year of a bull market.

Since plunging to a pandemic bear-market low last year in March, the S&P 500 is still holding onto gains of 97.2%, the Dow Industrials has risen 87%, and the Nasdaq Composite (+113.1%) has more than doubled.

At \$75.03/barrel, U.S. crude oil futures posted a strong monthly gain of over 9.5% backed by a global power crunch. Oil is poised for a sixth weekly gain after China ordered its state-owned companies to secure winter energy supplies “at all costs.”

Market Indices ¹	Sept	3Q 2021	Year-to-Date
S&P 500	-4.65%	0.58%	15.92%
Russell 3000	-4.49%	-0.10%	14.99%
Russell 2000	-2.95%	-4.36%	12.41%
MSCI EAFE	-2.90%	-0.45%	8.35%
MSCI Emerging Markets	-3.97%	-8.09%	-1.25%
Barclays U.S. Aggregate Bond	-0.87%	0.05%	-1.55%
Barclays U.S. Municipal Bond	-0.72%	-0.27%	0.79%
Barclays U.S. Corporate High Yield	-0.01%	0.89%	4.53%

¹Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

All three major U.S. equity indices ended a volatile September with their first monthly losses since January and worst monthly performances since March 2020. Only the S&P 500 finished positive for the quarter, while the Dow and Nasdaq Composite posted negative returns. The S&P 500 rose fractionally in the third quarter. As the quarter drew to a close, investors became wary amid heightened viral hospitalization rates, rising inflation and the impending Fed stimulus drawdown, as well as unresolved wrangling in Washington.

Favorably, the U.S. narrowly avoided a government shutdown after Congress passed stop-gap legislation to extend existing government spending through December 3. However, the measure does not include an increase to the existing \$28.4 trillion debt ceiling that is expected to be reached on October 18. Moreover, centrist Senator Manchin (D, WV), a key linchpin vote needed to pass President Biden’s signature \$3.5 trillion budget reconciliation package, objected saying his top-line spending limit is \$1.5 trillion. Meanwhile, global supply chains remain severely constrained and China’s manufacturing activity contracted in September for the first time since February 2020.

Referencing the performance table above, the small cap-focused Russell 2000 Index widely outperformed against large and mid cap equities with smaller September losses, yet for the third quarter small caps notably slumped. Rising bond yields have begun eroding the leadership of tech stocks over small caps. The U.S. 10-year Treasury yield soared in September, providing a turning point for small cap stocks relative to larger technology stocks. Year to date through August, tech stocks had more widely outperformed with the Nasdaq 100 Index up 21.5% versus the Russell 2000 up 15.8% (a +5.7% tech differential), whereas YTD through September the differential narrowed to 2.2%.

As shown in the style box performance boxes below, value outperformed growth-oriented companies in both September and YTD, while for the third quarter the opposite prevailed. Large cap growth performed best for the quarter, up 1.16%. Small cap value stocks (+22.92%) retained its top YTD performer status for a fourth

consecutive quarter; while for the year, mid cap value (+18.24%) trailed, but outperformed relative to large cap value (+16.14%).

In the sector performance tables below, 10 of the 11 major sector groups ended broadly lower last month, with only Energy (+9.44%) posting a positive return. Materials (-7.21%) and Communication Services (-6.58%) led among decliners and Technology and Healthcare each fell over 5.5%. Overall, the third quarter was more balanced with seven of 11 sectors posting gains, led by Financials (+2.74%) and Utilities (+1.78%), while Industrials (-4.23%) and Materials (-3.51%) declined the most. For the year, all 11 major sector groups have held onto YTD gains with top and bottom leadership remaining exactly the same order from the second quarter. Energy (+43.22%) and Financials (+29.14%) were again the top performers and the most defensive-oriented sectors, Consumer Staples (+4.69%) and Utilities (+4.20%), are still up the least so far this year.

Overseas equity performance outpaced the U.S. S&P 500 Index in September by falling less. The MSCI EAFE developed markets outpaced the U.S. benchmark by a 1.75% differential last month, while American equities outperformed on a quarterly and YTD basis. Emerging markets fared worse, underperforming in all three periods. Globally, the MSCI All-Country World Index fell 1.05% last quarter, while world stocks excluding U.S. performance declined 2.99%.

U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, lost 1.06% in September to trim its third quarter gain to just 0.08%. This as yields advanced amid Fed tapering prospects. The U.S. 10- and 30-year bond yields posted their largest quarterly gains since March. The yield on benchmark 10-year Treasury notes climbed eight basis points to end the third quarter at 1.53%. With prices moving in opposite direction to yields, the Bloomberg Barclays U.S. Government Long-term Bond Index slumped nearly 2.9% in September, extending its YTD loss to 7.40%.

In other fixed-income assets, investment-grade bonds of all types (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) also declined, falling almost 1% last month to trim its quarterly gain to just 0.05%. Municipal bonds fared only slightly better on the month, but erased gains for the quarter. Non-investment-grade high-yield debt as measured by the Bloomberg Barclays U.S. Corporate High Yield Index advanced by 0.89% in the third quarter.

Top Sector Performers – September ¹	Bottom Sector Performers – September ¹
Energy (+9.44%)	Real Estate (-6.22%)
Financials (-1.85%)	Communication Services (-6.58%)
Consumer Discretionary (-2.56%)	Materials (-7.21%)
Top Performers – Third Quarter ¹	Bottom Performers – Third Quarter ¹
Financials (+2.74%)	Energy (-1.66%)
Utilities (+1.78%)	Materials (-3.51%)
Communication Services (+1.60%)	Industrials (-4.23%)
Top Performers – YTD 2021 ¹	Bottom Performers – YTD 2021 ¹
Energy (+43.22%)	Consumer Discretionary (+10.28%)
Financials (+29.14%)	Consumer Staples (+4.69%)
Real Estate (+24.38%)	Utilities (+4.20%)

¹Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

	September			Third Quarter			YTD 2021		
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth
Large	-3.48%	-4.59%	-5.60%	-0.78%	0.21%	1.16%	16.14%	15.19%	14.30%
Mid	-3.68%	-4.12%	-4.84%	-1.01%	-0.93%	-0.76%	18.24%	15.17%	9.60%
Small	-2.00%	-2.95%	-3.83%	-2.98%	-4.36%	-5.65%	22.92%	12.41%	2.82%

Morningstar Direct Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](https://twitter.com/CeteraIM) on Twitter.

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Glossary

The Bloomberg Barclays Capital U.S. Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included.

The Bloomberg Barclays US Municipal Bond Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years.

The Bloomberg Barclays US Corporate High Yield Index measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years.

The **Barclays U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **Cboe Volatility Index**[®] (VIX[®]) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI All-Country World Index (ACWI)** is a market cap weighted index designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets, covering more than 2,700 companies across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.