

# Adviser Outlook

FOURTH QUARTER 2021

## QUICK TAKES

- ✓ Stocks have generated double-digit gains year-to-date, although September's pullback was a reminder that markets don't always go up
- ✓ Volatility may increase in Q4 following a year of relative calm
- ✓ China's business crackdown, abnormally high inflation here at home, Federal Reserve policy changes and political dysfunction are current concerns for traders and investors
- ✓ Rising vaccination rates and a slow-growth economy could lift the market through year-end

The quiet that settled over the markets this summer ended as autumn began. News of Chinese real estate giant Evergrande's default, coming on the heels of the nation's aggressive regulatory actions, raised concerns here and abroad that were further fueled by the Federal Reserve's taper talk and the debt-ceiling dysfunction in Washington. But for all the fuss, the S&P 500 index fell a mere 5% in September, was marginally positive in the third quarter and is up nearly 16% year-to-date.

The spread of the delta variant of COVID-19 appears to have peaked in the U.S. and (fingers crossed) is on track to fade further over the fall. After vaccination rates plateaued this summer, government and business mandates gave Americans more motivation to take their medicine. And as younger children become eligible for the jab, and the number of people who are protected goes up, we hope to see serious illness and death from COVID-19 abate as the pandemic passes its two-year anniversary.

We've said all along that vaccination rates and treatment options would be key to a sustained reopening of the global economy, and a range of data bears this out. But we'll be living with the economic aftermath of shutdowns and labor market shifts for some time to come. Inflation has been one stubborn side effect of the bounceback from the 2020 retrenchment—demand dropped precipitously, then increased faster than supply, resulting in the highest jump in prices since 2008 (consumer prices were up 5.2% year-over-year in August).

It's said that a chain is only as strong as its weakest link, and we continue to feel the effect of the dis-

ruption to global supply chains as economic activity picks up. Capacity and production seem unable to keep up with demand. Scarcity has increased con-



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sumer costs—auto dealerships are adding thousands of dollars to the sticker prices on new cars, if they have them on the lot—and this may mean that higher inflation lasts longer than expected.

In turn, this has prompted the Federal Reserve to revise its timeline for shifting from an accommodative policy (moves to boost the economy and employment) to an inflation-fighting stance (tapering bond purchases and eventually raising the fed funds interest rate). Policymakers have signaled that they will slow bond purchases as soon as

## QUARTER REVIEW

- ✓ U.S. stocks slipped in September and were flat for the quarter; the S&P 500 index is up 15.9% year-to-date and 30.0% over the 12 months through Q3
- ✓ Energy stocks have surged 46.5% this year due to escalating reopening demand; all sectors are in positive territory year-to-date and since this time last year
- ✓ The U.S. bond market is showing small losses (year-to-date and for the 12-month period), reflecting traders' reaction to the Fed's policy shift and economic reopening

November and are considering raising short-term interest rates in 2022—the bond markets reacted, with yields moving higher and bond prices falling in September.

Heading into the final months of 2021, we believe reactions to changing Fed policy, congressional wrangling and supply-chain kinks will usher in greater but “normal” volatility after a nine-month period in which daily stock market swings over 1% were below the long-term average. September may have been an eye-opener for traders who had grown complacent, but as experienced long-term investors, we knew a pullback was inevitable and were prepared for it.

### Third Quarter Review

After hitting 56 all-time highs this year through early September, the S&P 500 index lost traction

### Markets Stumble Into Fall

INDEX	Q3	YTD	12-MO.
S&P 500	0.6%	15.9%	30.0%
Bloomberg Barclays U.S. Aggr. Bond Idx.	0.1%	-1.6%	-0.9%
MSCI U.S. Broad Market	0.0%	15.4%	32.4%
MSCI EAFE	-0.4%	8.3%	25.7%
Dow Jones Industrial Average	-1.5%	12.1%	24.2%
MSCI Emerging Markets	-8.1%	-1.2%	18.2%

Note: Ranked by Q3 returns. Performance numbers are total returns, reflecting reinvested dividends through 9/30/2021. Source: Morningstar.

and eked out only a 0.6% gain over the third quarter. The MSCI U.S. Broad Market index was flat in Q3 and the Dow Jones Industrial Average declined 1.5%. While the debate over whether the current environment calls for a wholesale commitment to growth stocks or value stocks has dropped off the media's radar, “value” stocks, typically those considered best

## PERSONAL FINANCE FOCUS

### Three Cybersecurity Safeguards

HAND-IN-GLOVE with the incredible benefits of online interactions and digital advances are the endless opportunities afforded to scoundrels, hackers and scammers to take advantage of the unsuspecting. Remaining vigilant is the best way to protect yourself and your wealth. Here's how to get started.

■ **Stay Email Aware.** Be on the lookout for suspicious messages in your inbox: An unknown sender, strange misspellings, requests for personal information or a demand to send money. All of these are red flags. If anything looks unusual in an email, *do not* click on any links. And avoid sending unsecured messages containing any detailed financial information, including account numbers or documents with your signature. At Adviser Investments, we protect sensitive information with email encryption and use applications like DocuSign to securely manage paperwork online.

■ **Safeguard Your Financial Accounts.** Review all credit card and financial statements as soon as they are available and contact the financial institution immediately (preferably by phone) if something sparks your concern. In addition, never access your online financial accounts from public Wi-Fi in libraries, coffee shops, airports or hotel rooms—these venues are easily hackable. Finally, be certain that your home Wi-Fi network is password protected.

■ **Be Savvy on Social Media.** Sharing personal details about yourself and your loved ones on social apps gives scammers the ammunition they need to gain your trust. We encourage clients to never post even the last four digits of their Social Security number, birthdate, home address or phone number. Similarly, refrain from mentioning impending vacations, children's birthdays or the loss of a loved one. And as tempting as it may be, don't respond to posts asking you to use details from your life (like the street you grew up on and your first pet's name) to come up with funny or clever responses—as harmless as they seem, this information is fodder for social engineering attacks.

We have built robust security measures at Adviser Investments to prevent any unauthorized access to client accounts. We've worked closely with our account custodians to set up secure procedures for wiring and transferring money. We also always confirm the validity of unusual requests and adhere to the instructions clients have given us for handling their accounts.

For more information, read our special report on cybersecurity ([adviserinvestments.com/cybersecurity/](https://adviserinvestments.com/cybersecurity/)) and contact us anytime with questions!

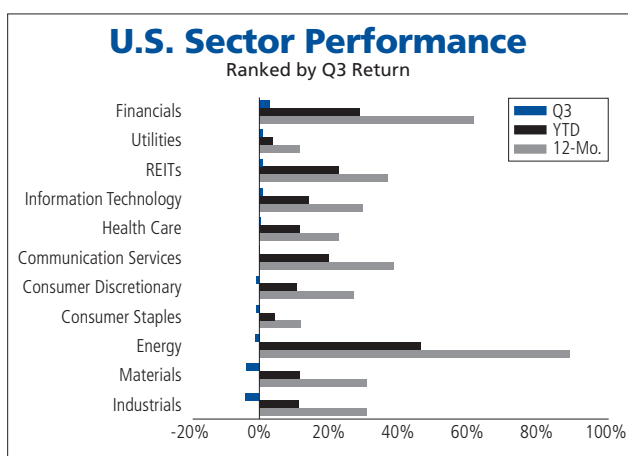
## OUR OUTLOOK

- ✓ We anticipate a recovering economy will set the stage for further stock gains
- ✓ Near-term positive trends include robust consumer financial health, rising corporate earnings and a return to pre-COVID levels of consumer activity (travel, leisure, dining out and shopping)
- ✓ The brinkmanship in Washington over the debt-ceiling debate, supply chain bottlenecks and rising interest rates are some flies in the recovery's ointment
- ✓ With stock markets having moved steadily higher, now is a good time to discuss your overall strategy with your financial adviser if you are feeling an increased sensitivity to risk

suiting to benefit from economic reopening, have outperformed so far this year. If their edge holds, it will be the first calendar year since 2016 that growth has given ground to value.

The MSCI EAFE index of developed foreign countries slid 0.4% in Q3 but is up 8.3% year-to-date and 25.7% over the last 12 months. Meanwhile, the MSCI Emerging Markets index dropped 8.1% for the quarter, dragged down by a -18.2% return for China's stock market and a 20.2% pullback in Brazil. Emerging markets stocks are down 1.2% in 2021, but up 18.2% since October 2020. Renewed strength in the dollar contributed to losses for U.S. investors in overseas markets.

Diving deeper into the U.S. market, stocks in the financials (up 3.0%), utilities (1.1%) and real estate (1.0%) sectors were the quarter's best performers. Banks, in particular, did well—with the prospect of higher interest rates (which lead to higher profits on loans) paving the way. Industrials and materials stocks, down 4.0% and 3.8%, respectively, were the biggest losers, impacted by supply and production constraints. For the year, energy's 46.5% gain reflects the reopening of the global economy and lifting of



Source: Morningstar.

travel restrictions. Utilities stocks lagged for the first nine months, up just 3.8%.

The U.S. bond market generated a fractional gain in Q3 but is down 1.6% year-to-date. The yield on the benchmark 10-year Treasury bond, after declining early in the quarter, rose rapidly from 1.28% in mid-September to 1.52% at the end of the month as bond prices fell. September 2021 was one of the 12% of months in the last 35 years when both stocks and bonds declined (down 4.7% and 0.9%, respectively).

## COMPANY NEWS

### Our New Certificates and Updated Skills

AT ADVISER INVESTMENTS, we pride ourselves on giving "1% more" to our clients. One way we do so is by adding new tools to our toolkit. Despite the upheaval of the past year, nine members of our team earned professional certifications and designations, including Liz Laprade and Nikhil Kyathappala, who both passed intensive Chartered Financial Analyst® (CFA) exams in the face of record-low pass rates. We also had individuals earn the CERTIFIED FINANCIAL PLANNER™ (CFP®), Chartered Financial Consultant® (ChFC®), Equity Compensation Associate (ECA) and Chartered Retirement Plans Specialist™ (CRPS®) designations, among others. (For a description of each credential, visit [adviserinvestments.com/designations-and-credentials/](https://adviserinvestments.com/designations-and-credentials/).)

Please join us in celebrating the hard work of our team as they build their knowledge and expand their skills in an effort to constantly boost the quality of our services for our clients.



## Our Outlook

What supports our belief that the economy is improving even though growth most likely slowed dramatically in the quarter just past?

Let's start with the earnings picture. Companies reported better-than-expected earnings growth during this year's first half and forecasts call for further improvements. That said, once the pandemic lows drop out of the year-over-year growth calculation, we may see headlines painting a picture of much slower growth, which could contribute to some superficial uncertainty or market volatility. The inflation and supply chain issues we mentioned earlier make projections about Q3 earnings extremely difficult.

By a number of measures, consumers are financially fit. The savings rate, which spiked during the pandemic, has fallen off as people become comfortable spending again (this is reflected in rising retail sales). Wages have also increased four months running and are above pre-pandemic levels. The economy is back in job-creation mode. Employment is moving in the right direction even as a divide between what workers want and what companies are offering remains. As vaccination rates climb, and there's greater confidence in on-the-job safety and expanded access to child care, we may see that gap narrow.

Historically, rising interest rates have been an initial headwind for stocks—and with the Federal

Reserve set to tighten before the end of next year, it's something we'll be monitoring. Rate hikes also typically push bond prices lower and yields higher—over time, higher yields produce greater income, which fixed-income investors should welcome after a period of sustained low yields. Until then, we look to the bonds in our portfolio to provide stabilizing ballast when the stock market waters grow choppy (read our Q4 bond outlook here: [adviserinvestments.com/bonds-21q4/](https://adviserinvestments.com/bonds-21q4/)).

With a potential return of volatility on the horizon, we believe that partnering with active managers seeking value across the market's spectrum can be beneficial to long-term investors. As always, the

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research team is keeping a close eye on the managers we invest with and evaluating potential new additions to client portfolios. But please also consider this a gentle reminder to check in with your financial adviser if you are concerned about risk—and make any necessary adjustments as you prepare for 2022.

## THIS QUARTER'S CONTRIBUTORS



**Daniel P. Wiener** *Chairman*  
**James H. Lowell III** *Chief Investment Officer*  
**Elizabeth Laprade** *Research Analyst*  
**Jeffrey D. DeMaso, CFA** *Director of Research*  
**Christopher Keith** *Senior Vice President*  
**Jennifer Yousif** *Research Analyst*  
**Joshua Jurbala** *Quantitative Investments Manager*  
**Charlie Toole, CFA, CFP®** *Vice President*  
**Steve Johnson, JD, CPWA®, CFP®** *Vice President*  
**Joshua McCourt** *Equity and Quantitative Research Analyst*

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