MUIRWOOD
PRIVATE WEALTH

A WORD FROM
JEFF KILBURG
Chief Investment Officer

SANCTUARY ASSET MANAGEMENT

CIO CORNER

October 2021

The S&P 500 Index posted its first monthly decline since January, with viable concerns swirling around fiscal and monetary policy, inflation, slowing growth, regulations in China and the persistent Delta variant uncertainty all colliding to distract equities from their upward trajectory. Still, the S&P 500 remained up by more than 15% year-to-date as of September's close.

Due to the recent rise in interest rates, volatility has crept back into the marketplace as markets closed out the month and Q3. Even given the dip in U.S. stocks in recent weeks, the indexes are still not far from their record all-time highs. As of quarter end, the S&P 500 finished the month down 4.8%, breaking a seven-month winning streak, but still managed to eke out a gain for Q3. The Dow and the Nasdaq Composite fell 4.3% and 5.3%, respectively, suffering their worst months of the year.

Déjà vu: September 2nd of last year (2020) marked a notable turning point for the US equities. The S&P 500 put in a short-term peak on that date, and it also marked the beginning of a significant rotation out of some technology darling stocks, such as Facebook, Apple, Amazon, Microsoft and Google. In the wake of that shift and for several consecutive quarters thereafter, investors witnessed outperformance of value stocks over growth stocks and solid breadth with the equal-weight S&P 500 outperforming the market-cap weighted index. Fast forward one year to September of 2021, and yet again the close on September 2nd has marked the recent high for the S&P 500. This coincidence sparks additional confidence in my belief on rebalancing portfolios for Q4 to tilt equity exposure towards more tangible, blue-chip names with an industrial and cyclical undercurrent. Boring may indeed be sexy…again.

Inflation: Fed Chairman Jerome Powell calls inflation 'frustrating' and forecast it to persist into 2022. Powell still has expectations for inflation to ease eventually, but said he sees the current pressures are now running into 2022. Inflation by the Fed's preferred measure is running at its hottest pace in about 30 years. Powell and most of his colleagues say they expect the current pressures to decline back to trend as supply chain bottlenecks ease and demand goes back to pre-pandemic levels. He stated that 2022 should be "quite a strong year" for economic growth. The FOMC's (Federal Open Market Committee, FOMC, consists of twelve members) recent meeting last week collectively raised their projection for 2021 core inflation to 3.7% from the 3% forecast back just in June.

This leads us to the question of, should we be concerned with runaway inflation? Fed Chairman responded: "Of course, if we were to see sustained higher inflation and that were to become a serious concern, I would tell you the FOMC would certainly respond and we would use our tools to ensure that inflation runs at levels that are consistent with our goal," Powell said.

MUIRWOOD
PRIVATE WEALTH

Interest Rates: Recently, all it seems investors can talk about is the relationship between the performance of growth stocks and interest rates. After the Fed's September meeting, yields jumped higher just after the Fed largely confirmed it soon will begin the tapering or reducing its bond-buying program. Please remember that "Taper" is not a bad word but, the fact remains that less money moving into the bond market could potentially lower bond prices and raise their yields. The yield on the benchmark 10-year note spiked to as much as 1.56% in the final week of September, or its highest level since June, before pulling back to settle the month and quarter at 1.52%.

Congress Chaos: Congress avoided a government shutdown Thursday hours before funding would have lapsed. President Biden signed a short-term appropriations bill that keeps the government running through Dec. 3. Washington was up against a midnight Thursday (9/30) deadline to prevent a shutdown of some federal operations.

But the drama on Capitol Hill will persist as our leadership remains at a stalemate over the plans to raise the debt ceiling to prevent the U.S. defaulting on its obligations by Oct. 18. In addition, Biden failed to break the Democratic stalemate, and the key House infrastructure vote is postponed. Expect more DC theater...

China Concerns: A liquidity crisis at a large Chinese property developer (Evergrande) shook global markets and sent short term ripple effects across the global economy. Evergrande, saddled with $305B in liabilities, is teetering on the brink of collapse. However, markets have been able to overcome the contagion fears as the Chinese government is now supposedly prodding government-owned firms and state-backed property developers to buy some of embattled China Evergrande Group's assets.

Earnings Season: All eyes in October will be laser focused on earnings season. Total Q3 earnings for the S&P 500 index are expected to be up +26.1% from the same period last year on +13.8% higher revenues. This would follow the +95.0% earnings growth on +25.3% higher revenues in Q2. Rising cost pressures amid supply-chain disruptions and labor/material shortages will keep the spotlight on margins and force investors to critically measure companies' forward guidance. Margin pressure is a key source of investor uncertainty due to the lack of visibility with respect to the duration of inflationary pressures. Q3 earnings season will really kickoff when JPMorgan (JPM) and the other major banks report their quarterly results on October 13th
.

Positioning: I remain optimistic on markets and believe that Q4 will move equities higher. Cyclical stocks are attractive and performed well in September, as investors take bets on higher inflation and rising rates. Additionally, I believe dividend stocks are revealing significant value at this point in the market cycle. A jump in crude oil prices helped make the energy sector by far the best performer in the S&P 500. Financial stocks also outperformed, with rising Treasury yields serving as a tailwind to bank profitability.

I believe that some of the $4.5T in cash sitting on the sidelines will be deployed making any pullback shallow in depth and short in duration.

For assistance, please contact:

Muirwood Private Wealth
1676 N. California Blvd, Ste 350
Walnut Creek CA 94596

925-433-7490 Main
833-799-7490 Toll Free

muirwoodpw.com