Capital Market Review / *Third Quarter 2021*

The Big Picture

All I want for Christmas is for my presents to actually arrive!

Supply chain issues weigh on the global economy. It has been reported that 90 ships are in queue outside of Los Angeles, and more than 20 ships are backed up outside of Savannah, GA. Orders online that we are accustomed to receiving the next day, they now say will ship in three weeks.

@ sesame

The combination of Covid shutdowns, stimulus payments, and a lack of workers returning to the workforce have created a nightmare of supply chain logistics.

In the meantime, we have the combination of high inflation and dramatically slowing economic growth. The US economy has gone from growing at a rate of 6.5 percent all the way down to 2 percent in a matter of months.

This is a strange economic soup, but the greatest concern is likely inflation. This means that stocks should be the best place to be as they are the best hedge against inflation. We could see an environment where the economy limps along, but the stock market does well.

Inflation hurts consumers and destroys savers but can actually help investors. Even though we are investors, this is not a good situation for the long haul.

> *Inflation hurts consumers and destroys savers…*

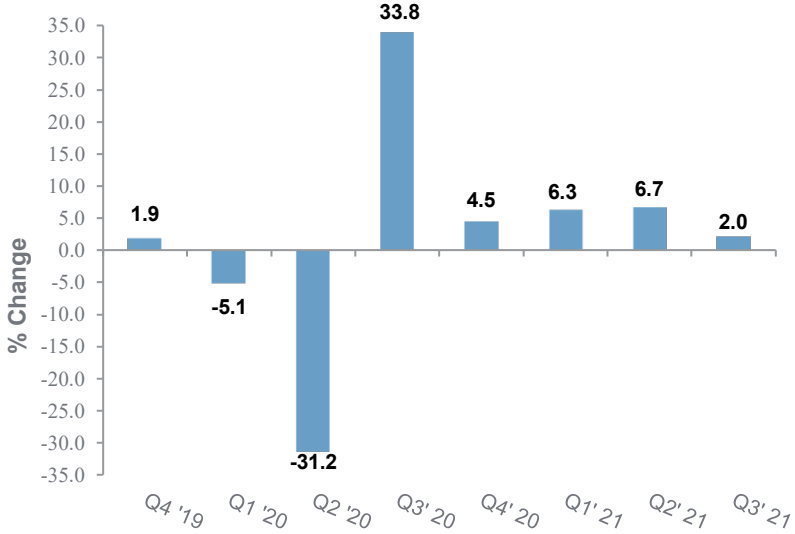
The Economy

The 2nd quarter 2021 GDP growth came in up 6.7 percent as the economic recovery continues. As good as that is, it missed expectations by nearly 2 full points. The initial 3rd quarter reading was just 2.0 percent.

The official unemployment rate is 4.8 percent in September, but that was mostly due to people leaving the workforce. Most of the additional unemployment benefits ran out in September, so we will see if that has an impact.

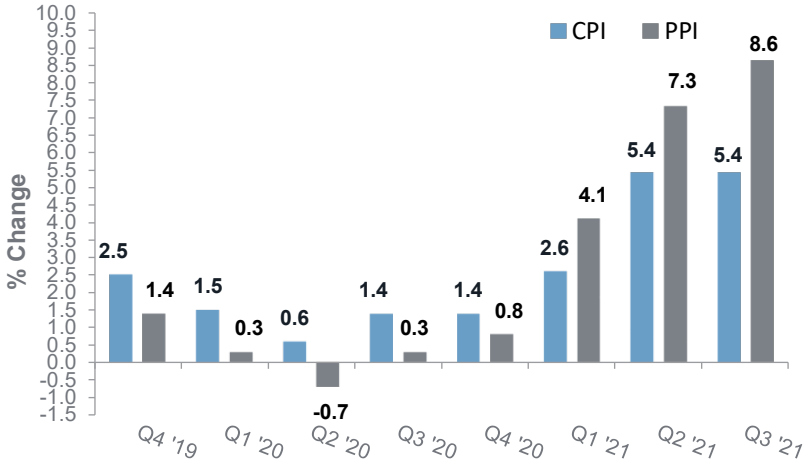
Inflation is 5.4 percent based on the latest consumer price index report. It has moved upward rapidly. The producer price index, which tracks wholesale prices, is up 8.6 percent over the last 12 months. Inflation is worrying everyone and even the Fed is beginning to notice. But will they act?

Domestic GDP



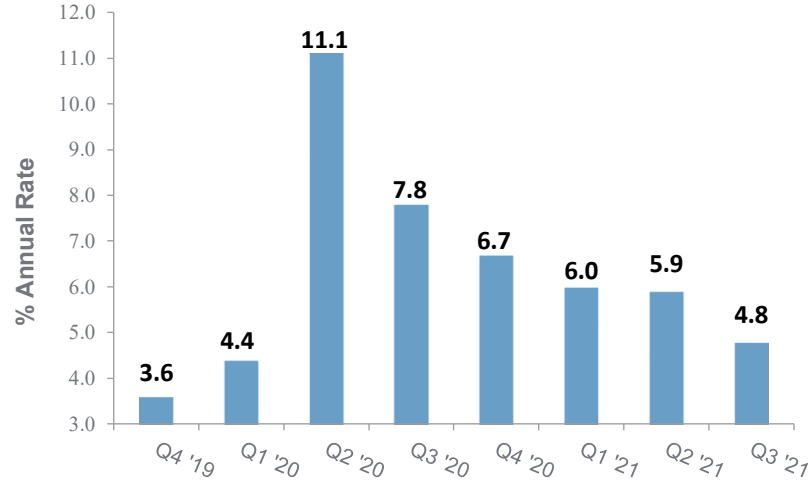
Source: Factset

Inflation Indicator
12 month unadjusted



Source: Factset

Unemployment Rate

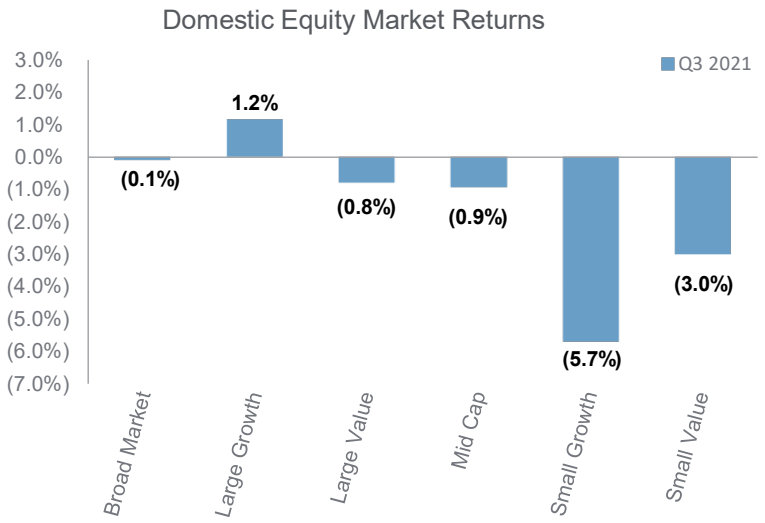


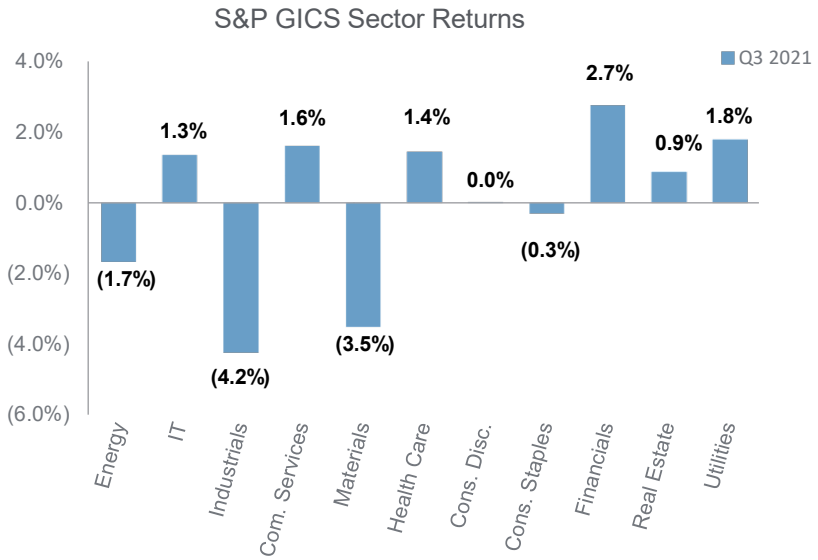
Source: Factset

Domestic Equity Markets

The markets were mixed this quarter. For the quarter the S&P 500 finished up 0.58 percent, but small company stocks represented by the Russell 2000 index were down 4.36 percent. Growth and value were mixed as well, with growth doing better among large companies, but value outperforming in small companies.

Financials were the best place to be as inflation worries should lead to rising rates and a positive outlook for banks. Utilities were the next best place which shows the market is worried about the growth of the economy.

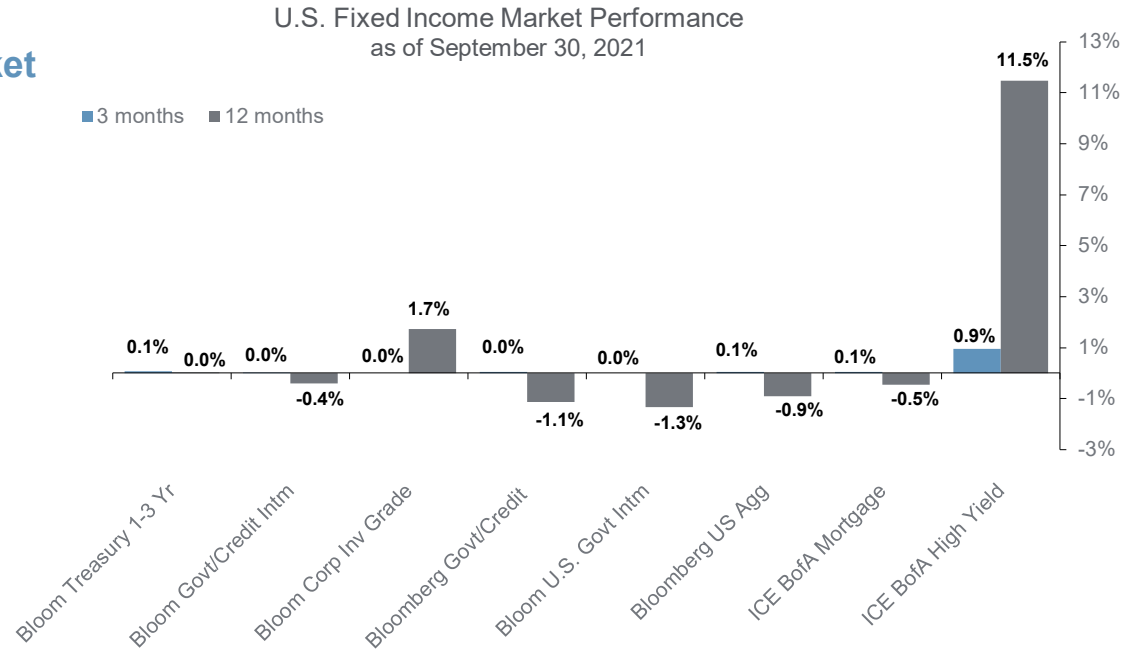




Domestic Fixed Income Market

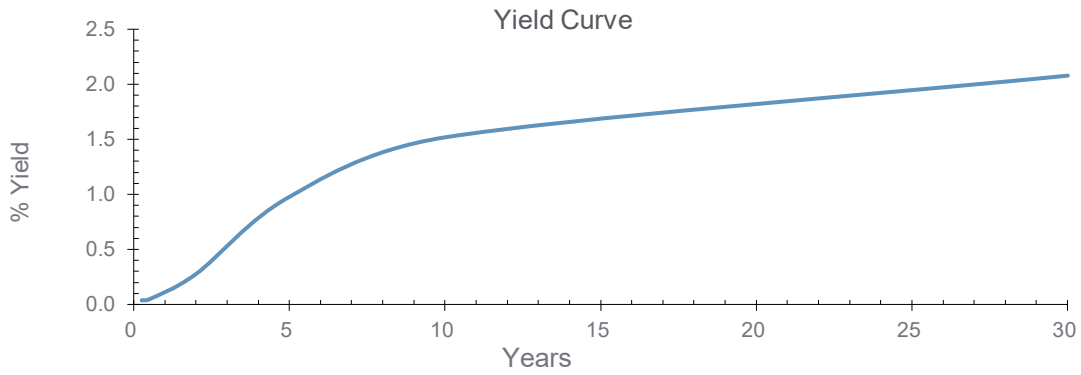
Bonds were flat during the quarter. The Bloomberg US Aggregate Bond index ended up 0.05 percent. High yield bonds rose 0.94 percent.

The ten-year Treasury ended the quarter with a 1.52 percent yield. That is slightly higher than last quarter but still low. With inflation rising one would expect higher rates.



Yield Curve as of September 30, 2021

Time to Maturity	Interest Rate
3 Month	0.04
6 Month	0.05
2 Year	0.28
5 Year	0.98
10 Year	1.52
30 Year	2.08

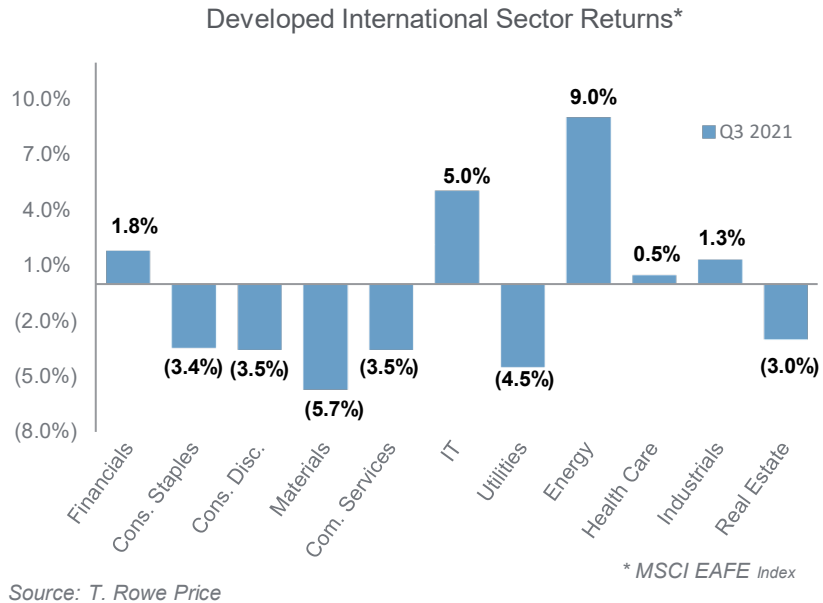


International Markets

International stocks fell. The EAFE index finished down 0.35 percent while the MSCI Emerging Markets index ended the quarter down 7.97 percent.

Energy was the bright spot for the market but unfortunately this was due to an energy crisis in Europe. Natural gas prices are up 6 times over a year ago in Europe due to a combination of bad luck and bad policy.

China tanks the emerging markets, amid its financial crisis. The government continues to attempt to loosen credit but simultaneously keeps eroding years of economic liberalization. Things do not look good for China at the moment.



Source: T. Rowe Price

MSCI Country Returns
Three Months Ending September 30, 2021

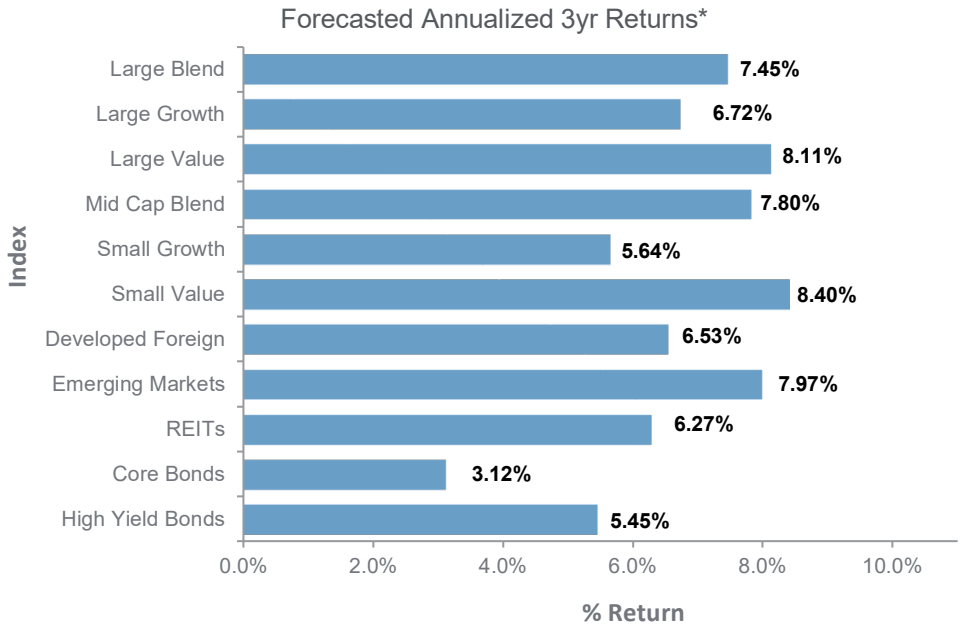
	Return US$ (%)	Return Local Currency (%)	Currency Effect (%)
Austria	10.456%	13.025%	-2.57%
Belgium	-5.634%	-3.439%	-2.20%
Denmark	2.699%	5.083%	-2.38%
Finland	-3.098%	-0.845%	-2.25%
France	-1.677%	0.610%	-2.29%
Germany	-4.227%	-2.000%	-2.23%
Ireland	0.039%	2.366%	-2.33%
Italy	-0.883%	1.422%	-2.31%
Netherlands	3.418%	5.787%	-2.37%
Norway	5.353%	6.872%	-1.52%
Portugal	3.741%	6.153%	-2.41%
Spain	-3.223%	-0.973%	-2.25%
Sweden	-2.128%	0.120%	-2.25%
Switzerland	-3.248%	-2.358%	-0.89%
UK	-0.289%	2.158%	-2.45%
Europe Total	**-1.460%**	**0.635%**	**-2.10%**
Australia	-3.000%	0.816%	-3.82%
Hong Kong	-9.409%	-9.201%	-0.21%
Japan	4.700%	5.252%	-0.55%
New Zealand	1.965%	3.281%	-1.32%
Singapore	0.001%	0.890%	-0.89%
Pacific Total	**1.651%**	**2.872%**	**-1.22%**
Brazil	-20.148%	-13.288%	-6.86%
Canada	-2.366%	-0.115%	-2.25%
China	-18.128%	-18.001%	-0.13%
Greece	2.124%	4.499%	-2.38%
Hungary	7.693%	12.767%	-5.07%
India	12.705%	12.550%	0.16%
Indonesia	9.491%	8.075%	1.42%
Korea	-13.173%	-8.713%	-4.46%
Mexico	1.475%	4.707%	-3.23%
Poland	1.620%	6.005%	-4.39%
Russia	9.857%	9.502%	0.36%
Thailand	-3.470%	1.906%	-5.38%
Emerging Markets	**-7.973%**	**-6.569%**	**-1.40%**

Market Forecast

The market seems to be in the process of a correction. Most stocks have corrected while rotation has kept the S&P 500 from actually dropping. This correction should be a buying opportunity.

Value stocks and small company stocks still have more room to run in the long term, but economic growth concerns are growing. International stocks look more attractive than domestic.

Bonds remain at very low yields. They are still a shelter in a storm but are not going to fund any retirements.



Changes in Return Expectations

as of September 30, 2021

Asset Class	Change Over Quarter	Change Over Year
Large Blend	0.13%	-0.04%
Large Growth	0.09%	-0.06%
Large Value	0.22%	-0.03%
Mid Cap Blend	0.23%	-0.09%
Small Growth	0.03%	0.25%
Small Value	0.41%	0.05%
Developed Foreign	0.05%	0.02%
Emerging Markets	0.52%	0.15%
REITs	0.10%	-0.36%
Core Bonds	0.09%	-0.02%
High Yield Bonds	0.16%	-0.80%

*Forecasted 3-year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING September 30, 2021

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	-0.10%	14.99%	31.88%	16.00%	16.85%	16.60%
Large Stocks - S&P 500	0.58%	15.92%	30.00%	15.99%	16.90%	16.63%
Dow Jones Industrial Average	-1.46%	12.12%	24.15%	11.00%	15.68%	14.72%
Medium-Size Stocks - Russell Mid-Cap	-0.93%	15.17%	38.11%	14.22%	14.39%	15.52%
Small Stocks - Russell 2000	-4.36%	12.41%	47.68%	10.54%	13.45%	14.63%
Small Value Stocks- Russell 2000 Value	-2.98%	22.92%	63.92%	8.58%	11.03%	13.22%
Small Growth Stocks- Russell 2000 Growth	-5.65%	2.82%	33.27%	11.70%	15.34%	15.74%
Large Value Stocks - Russell 1000 Value	-0.78%	16.14%	35.01%	10.07%	10.94%	13.51%
Large Growth Stocks - Russell 1000 Growth	1.16%	14.30%	27.32%	22.00%	22.84%	19.68%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Bloomberg	0.07%	-0.03%	0.02%	2.68%	1.64%	1.17%
US Government Bonds Int - Bloomberg	0.00%	-1.12%	-1.33%	3.98%	1.99%	1.81%
US Corporate Inv Grade Bonds - Bloomberg	0.00%	-1.27%	1.74%	7.45%	4.61%	4.87%
Government/Credit (Corp) Bonds - Bloomberg	0.04%	-1.93%	-1.13%	5.94%	3.24%	3.24%
Int Govt/Credit (Corp) Bond - Bloomberg	0.02%	-0.87%	-0.40%	4.63%	2.60%	2.52%
US Aggregate Bond Market - Bloomberg	0.05%	-1.55%	-0.90%	5.36%	2.94%	3.01%
Mortgage Backed Securities - ICE BofA	0.05%	-0.79%	-0.46%	3.93%	2.21%	2.42%
US High Yield Bonds - ICE BofA	0.94%	4.67%	11.46%	6.62%	6.36%	7.29%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	-0.35%	8.79%	26.29%	8.13%	9.33%	8.60%
World Stocks (includes US) - MSCI World	0.09%	13.43%	29.39%	13.72%	14.34%	13.30%
European Stocks - MSCI Europe	-1.46%	10.64%	27.97%	8.44%	9.49%	8.79%
Japanese Stocks - MSCI Japan	4.70%	6.22%	22.46%	7.93%	9.74%	8.68%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	-4.37%	4.85%	25.93%	6.87%	7.86%	7.53%
Chinese Stocks - MSCI China	-18.13%	-16.58%	-7.24%	6.09%	9.28%	8.90%
Indian Stocks - MSCI India	12.70%	26.85%	53.70%	17.48%	13.36%	9.25%
Emerging Markets - MSCI EM	-7.97%	-0.99%	18.58%	8.96%	9.62%	6.46%
Int'l Gov't Bonds -FTSE Non-USD World Gov't Bond	-1.97%	-7.86%	-3.41%	2.89%	0.76%	0.50%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	0.97%	23.14%	37.39%	10.01%	6.73%	11.23%
SHORT TERM INTEREST RATES						
T-Bills	0.01%	0.03%	0.06%	1.14%	1.13%	0.60%

Note: Returns for periods longer than 12 months are annualized.