Market Review

as at September 30, 2021

In centuries past, when one heard that the Vikings were marshalling their forces, it was a good idea to pay attention. Perhaps the financial world should take note of the recent quarter-point interest rate hike from Norway's central bank.

This is the first tightening of monetary policy from any advanced economy since the pandemic began, and indeed, the US Federal Reserve and the Bank of England have now both adopted a more hawkish tone. Markets are now musing over whether this signals an end of super-cheap money that has fuelled this growth in equities.

Stock Markets Gain

Even though central banks had flagged well in advance that they expected a rise in inflation, there is a sense from investors that inflationary pressure is in excess of what was expected.

The major stock market indices lost ground in September, surrendering gains made earlier in the third quarter. This was by no means a rout however, and stocks are still well up on the year. The MSCI World Index rose 11 percent since the beginning of the year, with the S&P 500 Index of US stocks and the Bloomberg European 500 Index both registering gains in excess of 15 percent since January 1st.

As stocks continue to receive inflows, there are areas of concern. The direction of the pandemic remains highly uncertain, with Covid still spreading in countries with high vaccination rates and breakthrough infections occurring with regularity. Supply chain issues are choking consumer demand and stoking inflation. Many jobs are unfilled because of a mismatch between the required skills and the available talent. Commodity prices are erratic, and surging gas and electricity prices are threatening to produce social unrest in Europe.

Inflation: To Avoid a Spiral

Christine Lagarde, the European Central Bank (ECB) president, acknowledges that energy price rises will continue to be a problem and that growth and inflation had picked-up quicker than the ECB expected. However, in a recent interview with CNBC, she restated her view that inflation was "temporary", and that the outlook will "fall into place" when problems with supply bottlenecks are resolved. The US Fed, however, has said that transitory does not mean short term.

The ECB will be concerned over the possibility of a self-fulfilling inflationary spiral. An increasing number of workers in Germany are now demanding higher pay – citing higher retail prices – with the Financial Times reporting that some have already gone on strike.

Bonds: Under Pressure

A less-than-certain outlook for inflation continues to present a very challenging climate for fixed income investment. The Barclays Multiverse Index, which tracks the prices of global bonds, has declined by 4 percent since the start of the year.

In recent weeks, however, the focus of the bond market has been very much at the speculative end of the credit spectrum. More specifically, it's been on the prospects for the debt of China's second-largest real-estate developer, the China Evergrande Group. The issue is whether the Chinese government will allow it to go insolvent.

Contagion Risk

The danger is that if Evergrande is not bailed out, then this is likely to have a knock-on effect throughout the global economy and financial system. Australia and Brazil, for example, would be seriously impacted, since they supply China with raw materials. The banks that have lent to Evergrande would have their capital at risk.

The price of Evergrande's bonds themselves plunged to around 25/30 cents on the dollar, but thus far at least, there has been no wider panic. This is because the market thinks that the Chinese authorities will indeed bail them out.

It's a shame that contagion only seems to work in a negative sense. As well as adopting a grown-up approach to monetary policy, the Norwegian government recently announced that they were ending all Covid restrictions, and has accepted that the virus is not going away. Perhaps elsewhere in the developed west, we could do with a bit more Viking spirit.

Macro Indices Report as at September 30, 2021 (%)

	SEP	AUG	JUL	Q3 2021	YTD	2020	Annualized 3 Years	Annualized 5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	-4.1	2.5	0.7	-1.1	11.1	16.3	12.5	13.2
MSCI EAFE	-2.8	1.8	0.8	-0.3	8.8	8.4	8.3	9.4
NORTH AMERICA EQUITY								
S&P 500 Total Return	-4.7	3.0	2.4	0.6	15.9	18.4	15.8	16.9
DOW JONES INDUSTRIAL AVG	-4.2	1.5	1.3	-1.5	12.1	9.7	11.2	16.0
S&P 400 Net TR	-4.0	1.9	0.3	-1.9	15.2	13.1	10.8	12.4
NASDAQ COMPOSITE	-5.3	4.1	1.2	-0.2	12.7	45.1	23.1	23.6
RUSSELL 2000 INDEX	-2.9	2.2	-3.6	-4.4	12.4	19.9	11.7	13.8
S&P/TSX COMPOSITE INDEX	-2.2	1.6	0.8	0.2	17.5	5.6	11.1	9.7
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	-3.1	1.9	1.4	0.1	15.1	-1.7	7.9	8.6
FTSE 100 INDEX	-0.2	2.1	0.1	1.9	13.0	-11.4	1.8	4.4
CAC 40 INDEX	-2.2	1.0	1.6	0.4	20.0	-5.0	8.7	11.0
DAX INDEX	-3.6	1.9	0.1	-1.7	11.2	3.5	7.1	7.6
ASIA EQUITY								
MSCI AC Far East Ex Japan	-5.1	0.8	-8.8	-12.8	-8.6	23.4	5.7	7.2
NIKKEI 225	5.4	3.0	-5.2	2.9	8.8	18.3	8.3	13.6
HANG SENG INDEX	-4.7	-0.1	-9.6	-13.9	-7.5	-0.2	0.5	4.2
S&P/ASX 200 INDEX	-1.5	2.7	1.1	2.2	16.0	2.3	10.3	11.2
SHANGHAI SE COMPOSITE	0.8	4.4	-4.6	0.4	4.9	16.5	10.6	5.8
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	-4.0	2.6	-6.7	-8.1	-1.2	18.3	8.6	9.2
S&P LATIN AMERICA 40	-10.4	-0.1	-5.8	-15.7	-7.9	-11.5	-2.7	1.9
BRAZIL IBOVESPA INDEX	-6.6	-2.5	-3.9	-12.5	-6.8	2.9	12.7	14.0
S&P BSE SENSEX INDEX	2.8	9.5	0.4	12.9	24.9	17.2	18.5	17.4
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	-0.1	0.0	0.2	0.1	0.0	3.1	2.6	1.6
Barclays US Agg	-0.9	-0.2	1.1	0.1	-1.6	7.5	5.4	2.9
Barclays Multiverse (Unhedged)	-1.8	-0.4	1.3	-0.9	-3.8	9.0	4.4	2.2
Citi World BIG US Hedged	-1.0	-0.2	1.3	0.2	-1.7	6.2	4.9	2.9
ICE BoA US High Yield Index	0.0	0.5	0.4	0.9	4.7	6.2	6.6	6.3
JPM EMBI Global Core – US$	-2.3	1.1	0.4	-0.8	-1.8	5.8	5.9	3.8
JPM EM Global Cove – Local	-3.4	0.8	-0.5	-3.1	-6.2	3.5	3.2	1.4
COMMODITIES								
BLOOMBERG Commodity Index	5.0	-0.3	1.8	6.6	29.1	-3.5	5.3	3.4
GOLD	-4.0	0.6	3.6	-1.2	-10.3	24.6	13.6	5.7
OIL (WTI)	9.9	-7.1	1.5	3.7	57.8	-60.3	-20.3	-5.8

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