BULLS&BEARS

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Supply Chain Kinks

Global supply-chain bottlenecks are feeding on one another, with shortages of components and surging prices of critical raw materials squeezing manufacturers around the world. The supply shocks are already showing signs of choking off the recovery in some regions. Part of the problem is a global economy that is out of sync on the pandemic, restrictions, and recovery. Factories and retailers in Western economies that have largely emerged from lockdowns are eager for finished products, raw materials, and components from longtime suppliers in Asia and elsewhere. But many countries in Asia are still in the throes of lockdowns and other coronavirus-related restrictions, constricting their ability to meet demand.

Meanwhile, global labor shortages, often the result of people leaving the workforce during the pandemic, are throwing further obstacles in the way of producers. The bottlenecks are forecast to constrain manufacturing output well into next year, hurting a sector that had until recently powered the global recovery. Global industrial output rose above its precrisis level in early 2021 but has since stagnated, according to the Kiel Institute for the World Economy, a German think tank. It recently lowered its forecast for world economic growth this year to 5.9% from 6.7%, in part due to supply-chain issues.

Fiscal Mud

The U.S. fiscal situation is as muddied as ever. Treasury default risks were temporarily avoided, after Congress agreed to raise the debt ceiling by $480 billion. But the increase in the limit will only be enough to fund the government into December. Congress still needs to pass a budget for fiscal year 2022 to avoid a government shutdown after December 3. Plus, the future of the $1.2 trillion infrastructure bill, which has bipartisan support, as well as the larger reconciliation package is hanging in balance.

Handicapping outcomes is incredibly difficult, given the political calculus involved. Past debt ceiling battles have been intense, but they were ultimately resolved without long-term consequences. We expect that to be the case this time around, but the risk of a bad outcome is rising.

Seasonal Volatility

The past nine months have been eventful from a medical, political, and economic perspective. For the first eight months of the year, the stock market moved along like an old horse plowing a familiar field. The S&P 500 rose steadily, with the occasional test of medium-term support acting as nothing more than an opportunity to push to new highs. September, however, has a reputation as a bad market month, and in September 2021 the ninth month lived up to its billing. The S&P 500 declined 4.8%, while the DJIA and the Nasdaq Composite also sagged. The September decline shaved away a quarter of the market's year-to-date gain.

Recent economic data has shown recovery growth in the U.S. that is well below the pace seen in winter and spring 2021. But it is equally true that data reported in September has generally been stronger than data reported in August. Every year, the fall is characterized by economic acceleration out of the sleepy summer months. Even amid the special circumstances of COVID-19, that pattern is likely to hold in 2021.

Winning nine-month markets tend to beget winning stock years. Recent market volatility and increasingly negative news headlines are putting doubt in this proclamation. As we turn the page on the third quarter, earnings season looms, and we’re hopeful it’s just what the doctor ordered to get the market moving higher in what historically is the best time of the year for markets, the fourth quarter.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

9/30/21 Year-to-Date Change	
S&P 500	15.92%
NASDAQ	12.66%
Russell 2000	12.41%

Interest Rates	3/31/21	9/30/21
10-Year Treasury Note	1.75%	1.49%
3-Month Treasury Bill	0.015%	0.043%

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