



**PERSPECTIVES  
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SUCCESS**

SEPTEMBER 2021  
Capital Markets Update

# Market commentary

## U.S. ECONOMICS

- The U.S. Establishment Survey indicated that nonfarm payrolls increased by 194K in September and missed expectations (+510K). The print disappointed despite the conclusion of a program that provided enhanced jobless benefits, which some believed were keeping workers sidelined from entering the labor market.
- The September ISM Manufacturing PMI rose to 61.1 in September from 59.9 the month before, indicating growth at a faster rate. Supplier deliveries, the only reading in the PMI that is inverted, meaning a value over 50 indicates slower deliveries, rose to 73.4 in September.
- Slowing supplier deliveries are typically an indicator of economic growth but could also be symptomatic of continued supply issues. Hiring challenges for suppliers, raw material lead times, and input material shortages were cited in the PMI report as leading causes for slowing supplier deliveries.

## U.S. EQUITIES

- The S&P 500 (-4.7%) recorded its largest monthly loss since March 2020, when markets sold off in response to the pandemic outbreak.
- Markets fell across the US as uncertainty surrounding fiscal and monetary policy have taken hold. Congress has yet to pass an infrastructure bill. The \$3.5 billion healthcare, education, and climate bill includes a 2% tax on stock buybacks by publicly traded issues.
- Revenues are projected to continue to outpace earnings and grow margins in the next 12 months. It remains to be seen if rising costs of labor will flow through to higher prices for consumers. In the most recent U.S. employment report hourly wages grew 4.6% year-on-year.

## U.S. FIXED INCOME

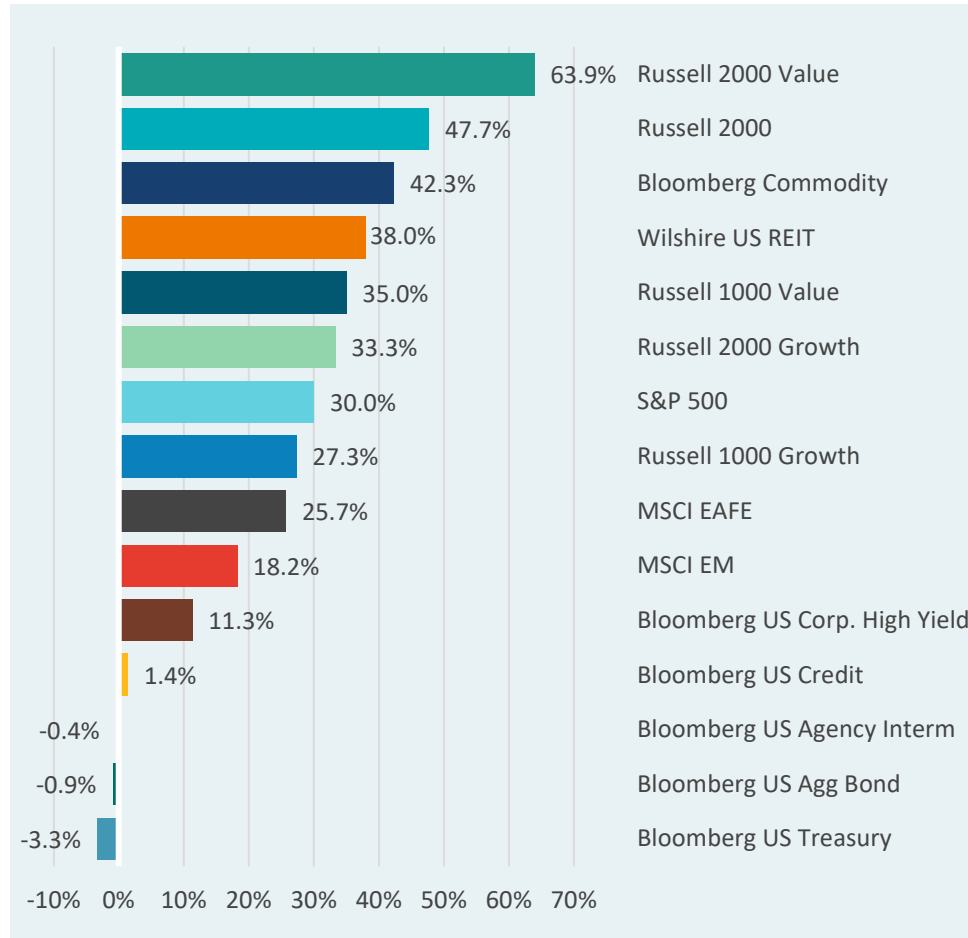
- The Fed signaled a likely November start to tapering of its asset purchase program, Chairman Powell added, “it wouldn’t take a knockout, great, super-strong employment report” for the Fed to begin to taper.
- Analysts expect the Fed to unwind the highly accommodative \$120 billion per month asset purchase program gradually, over the course of six to nine months, and would likely conclude around the middle of 2022.
- Nine of 18 U.S. central bank policymakers now project borrowing costs will need to rise in 2022, an increase from seven back in June. Markets are pricing a likely liftoff in rates from the 0.0% lower bound in December 2022, roughly five months following the end of the expected taper.

## INTERNATIONAL MARKETS

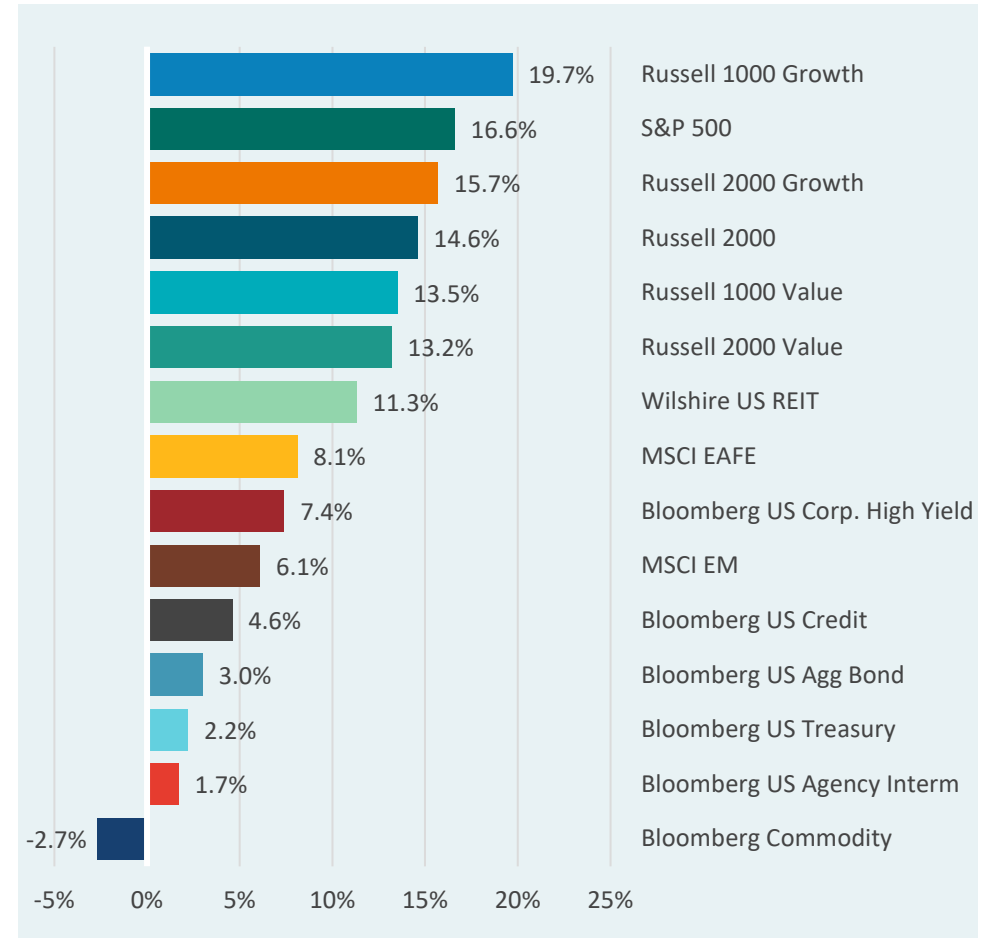
- The MSCI Asia Pacific Index (-1.8%) declined while Japan’s TOPIX Index advanced +4.3%. Broader Asian markets were weighed down by Chinese equities (MSCI China -5.0%) which saw a major rout in its risk assets in part due to uncertainties surrounding a property developer who struggled to meet its debt obligations.
- The MSCI EAFE Index (-2.9%) faced headwinds from Europe (STOXX 600 Index -5.0%) while the neighboring United Kingdom fared better (FTSE 100 -0.2%).
- The U.K. 10-year Gilt yield rose 31 basis points over the month. The 10-year yield closed above 1.0% for the first time since March, following a confluence of accelerating inflation and curtailed growth from an expected tightening in rates. Despite U.S. Treasury yields hitting similar milestones the Pound spot fell -2.0%.

# Major asset class returns

ONE YEAR ENDING SEPTEMBER



TEN YEARS ENDING SEPTEMBER



\*Only publicly traded asset performance is shown here. Performance of private assets is typically released with a 3- to 6-month delay.

Source: Morningstar, as of 9/30/21

Source: Morningstar, as of 9/30/21

# U.S. large cap equities

- The S&P 500 Index fell -4.7% in September and ended seven months of consecutive gains. The Technology sector holds almost a 28% weight in the index and saw a -5.8% return.
- Of the 11 GICS S&P 500 Sectors, Energy (+9.4%) was the only sector to post a positive return over the month. The energy sector has recorded a 20.8% increase in estimated earnings since June 30<sup>th</sup> with most of the upward revisions coming in September. National average gas prices at the pump hit \$3.20, the highest level since 2014, and have increased 45.7% year-over-year.
- In addition to the Energy sector (9.4%), the Financials (-1.8%) and the Consumer Discretionary (-2.6%) sectors helped the S&P 500 Price Index's performance. The Materials (-7.2%), Communication Services (-6.6%), and Real Estate (-6.2%) sectors led the overall index's decline and weighed on performance.
- The Cboe VIX Index of implied volatility reached an intra-month high of 25.7, the highest level since May. The index ended a risk-off month elevated at 23.1, well above the 100-day moving average of 17.5. As the economy peaks from its recovery from the pandemic it will be interesting to see if volatility will trend higher.

**S&P 500 PRICE INDEX**



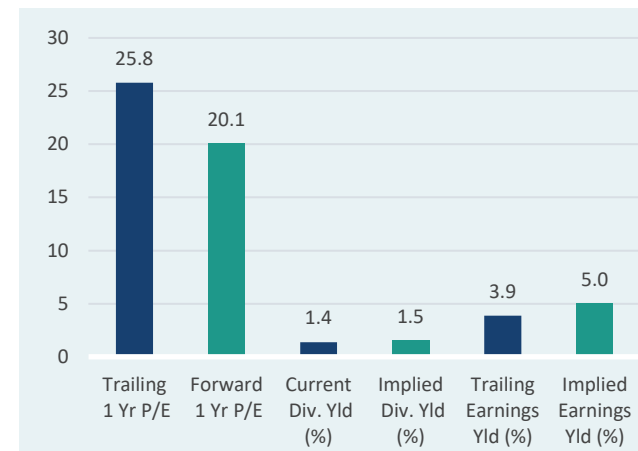
Source: Bloomberg, as of 9/30/21

**IMPLIED VOLATILITY (VIX INDEX)**



Source: Cboe, as of 9/30/21

**S&P 500 VALUATION SNAPSHOT**

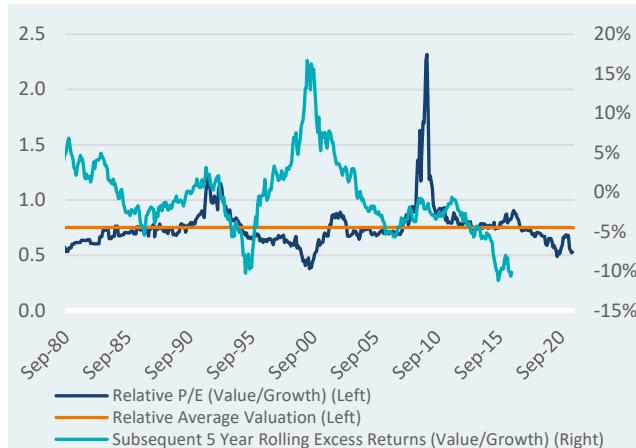


Source: Bloomberg, as of 9/30/21

# Domestic equity size and style

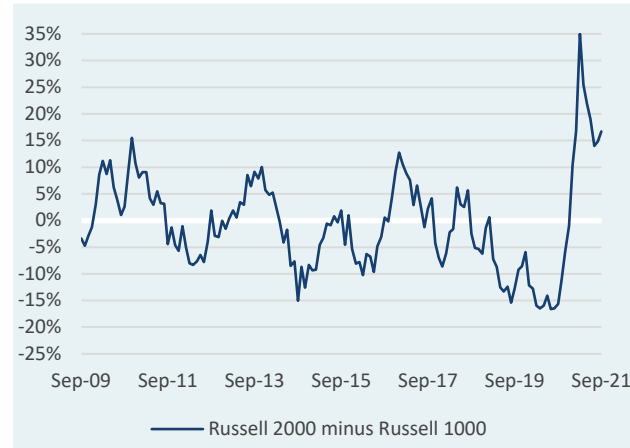
- The Russell 3000 Value (-3.4%) saw less of a drawdown than the Russell 3000 Growth (-5.6%) in September. Stocks with higher growth potential were hurt over the month from rising US Treasury yields. Growth stocks tend to have most of their earnings expectations in the future and when rates rise markets discount those earnings expectations at a higher rate.
- The performance of the Russell 3000 Value (-3.4%) was buoyed by the Energy sector (+13.6%). Continued rises in demand for energy-related commodities have been a tailwind for the sector.
- Small-cap (Russell 2000 -2.9%) reversed a five-month trend of large-cap (Russell 1000 -5.5%) outperformance and weakened less than large-caps. The tech-heavy Russell 1000 Index holds a 14% relative overweight to the Information Technology sector, where large-cap underperformed small-cap by 3.1%.
- The S&P 500 Volatility Index, an index that tracks performance of the 100 most volatile stocks in the S&P 500 weighted by volatility, rose +0.4% in September and strongly outperformed the broader index (S&P 500 -4.7%).

**VALUE VS. GROWTH RELATIVE VALUATIONS**



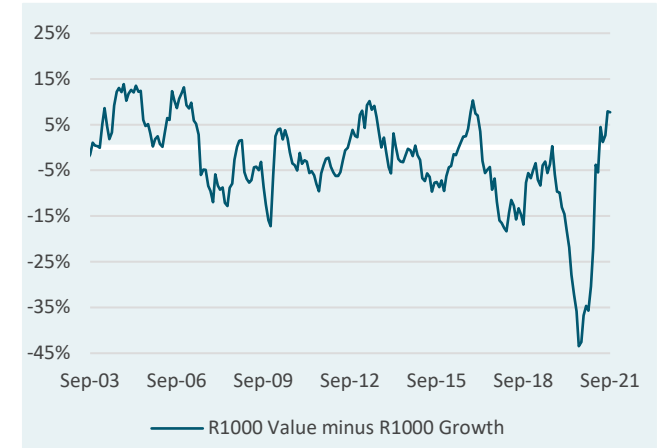
Source: FTSE, Bloomberg, as of 9/30/21

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, Bloomberg, as of 9/30/21

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**

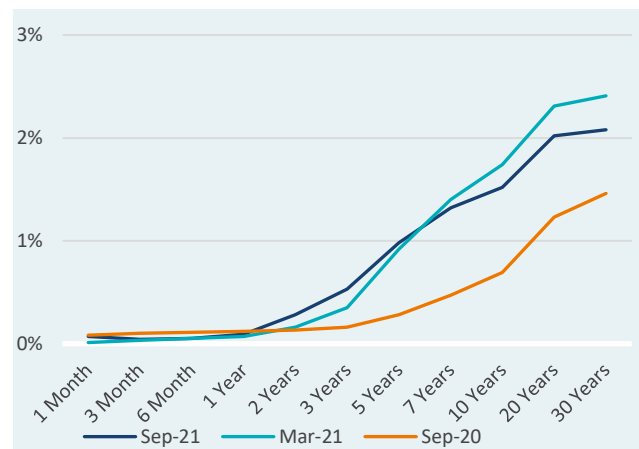


Source: FTSE, Bloomberg, as of 9/30/21

# Fixed income

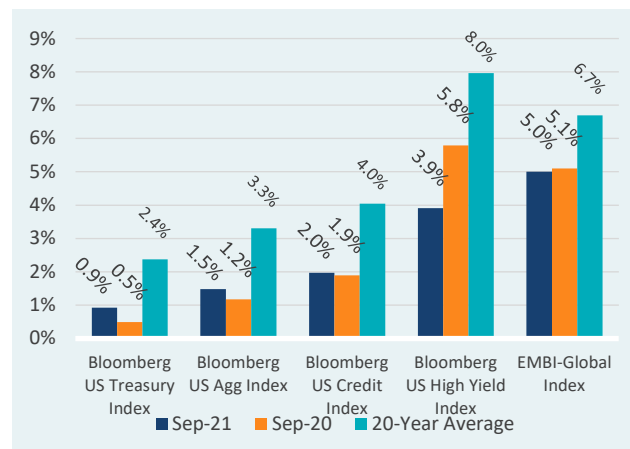
- Global sovereign bonds (Bloomberg Global Treasuries ex US -2.6%) have seen a sharp rise in yields as investors have considered the gradual tightening of central bank policy within the context of a higher and stickier potential inflation backdrop.
- Evergrande, a Chinese real estate developer was unable to meet its obligations following a liquidity crisis due in part to misses in sales and new rules from regulators that limited the amount of debt companies can hold. Fear of exceedingly extended real estate companies in the highly priced Chinese real estate market sent Chinese junk bond yields to decade highs.
- Short-duration Treasuries outperformed (Bloomberg US Treasury Bills +0.0%) long-duration fixed income (Bloomberg US Treasury Long -2.9%) in a month of term spread compression.
- US high yield spreads (ICE BofA US HY Index OAS Spread) compressed by six basis points in September. Record profits for Corporations have strengthened balance sheets and many companies have moved up in credit quality tranches. Default rates for high yield companies remained well below average.

**U.S. TREASURY YIELD CURVE**



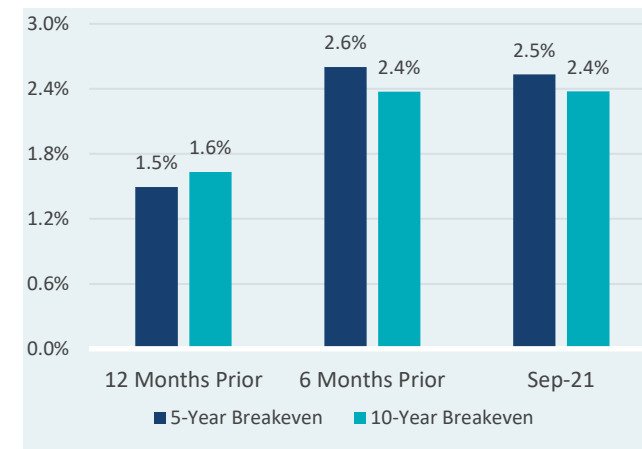
Source: Bloomberg, as of 9/30/21

**NOMINAL YIELDS**



Source: Morningstar, as of 9/30/21

**BREAKEVEN INFLATION RATES**

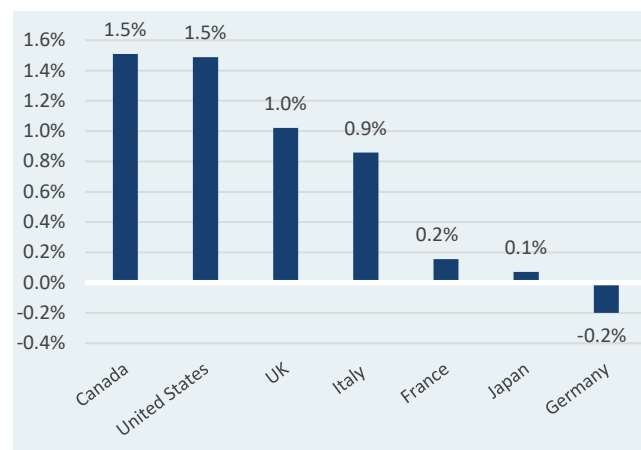


Source: Bloomberg, as of 9/30/21

# Global markets

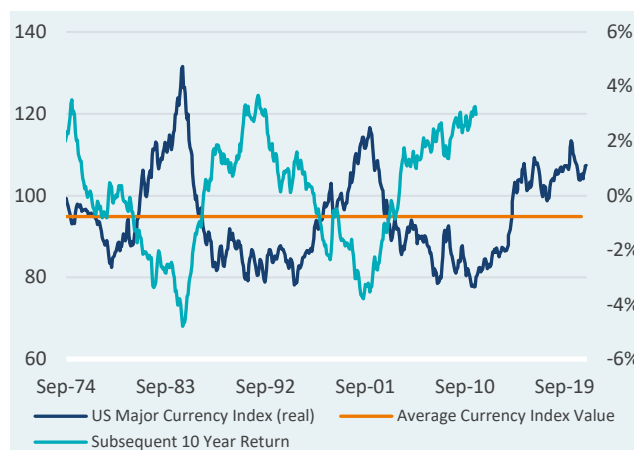
- World equities (MSCI ACWI -4.1%) sold off broadly in September. Euro-area countries (-5.0% MSCI Euro), and US equities (S&P 500 -4.7%) both weighed on risk assets globally. The MSCI EM Index (-4.0%) was buoyed by India (MSCI India +2.3%) and outperformed other major world indexes.
- The MSCI Japan (+2.8%) was a bright spot in developed world indexes. Japanese markets responded positively to an announcement by the Prime Minister of Japan Yoshihide Suga to resign. Mr. Suga's handling of COVID-19 was a factor to his resignation as the country's inoculation rates lagged many other developed nations.
- Latin American equities (MSCI Latin America -10.3%) were led lower by Brazilian equities (MSCI Brazil -13.0%). Concerns over Brazil's high inflation and political uncertainty around upcoming presidential elections likely drove the decline. Weakness in the Brazilian Real (-5.4%) against the U.S. Dollar worsened equity returns for US investors.
- Concerns over the financial wellbeing of Evergrande, a major property developer in China, weighed on sentiment surrounding the Chinese equity market, which declined -5.0% over the month (MSCI China).

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



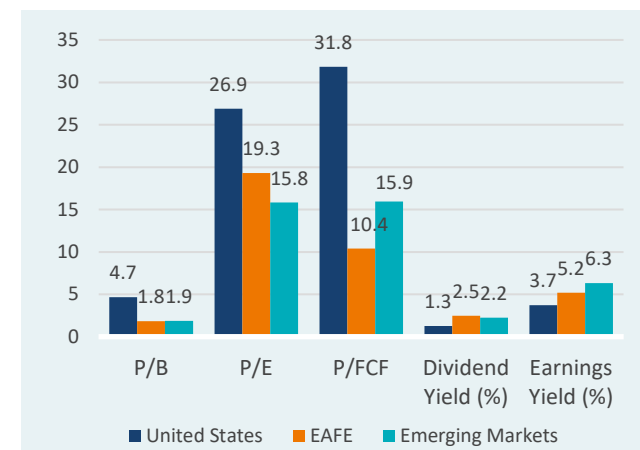
Source: Bloomberg, as of 9/30/21

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 9/30/21

**MSCI VALUATION METRICS (3-MONTH AVG)**



Source: Bloomberg, as of 9/30/21

# Commodities

- The Bloomberg Commodity Index rose 5.0% over the month. Energy (+17.0%) was the top performing sub-index within the commodity complex.
- The Bloomberg Natural Gas Sub-Index climbed 32.6% in September, as the stockpiling period for natural gas neared its end. In Europe, natural gas inventories remained at their lowest September-end levels in five years. High demand from Asian consumers has pushed prices to even higher levels. Natural gas, which produces lower emissions per unit of energy than other fossil fuels, has become more attractive as Europe has aimed to cut 55% of greenhouse gas emissions by 2030.

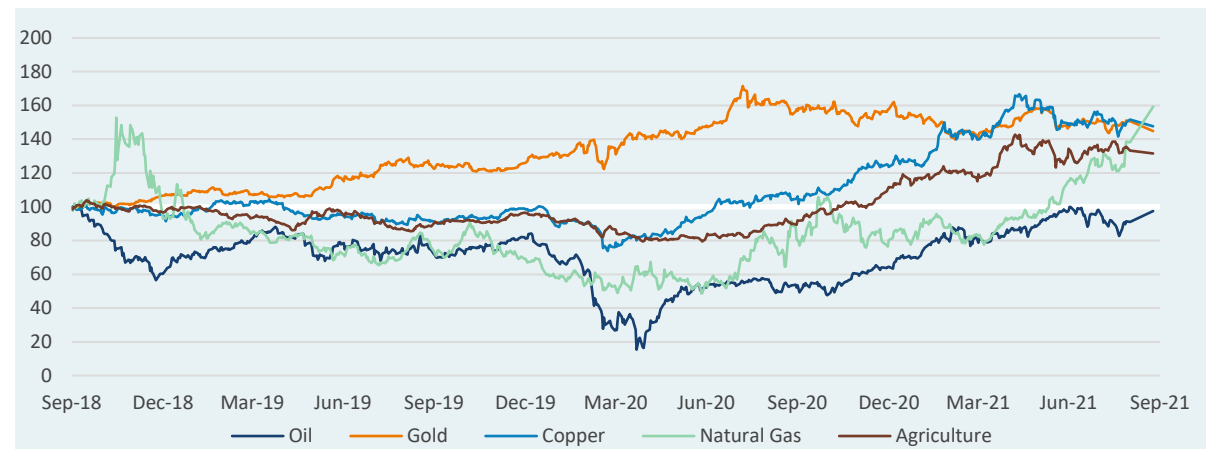
- The Bloomberg Petroleum Sub-Index (+10.0%) – which does not include Natural Gas – outperformed the broad commodity index. Oil prices rose sharply in September (WTI +9.9%; Brent +9.6%). Oil demand has largely recovered but, supply has remained depressed. OPEC decided to keep course with an output increase of only 400k barrels per day while some analysts expected a larger increase due to high oil demand.
- The Bloomberg Precious Metals Sub-Index was negatively impacted by a strong U.S. Dollar and fell -4.4% making it the worst performing sub-index. The price of Gold (-3.1%), Platinum (-4.8%), and Silver (-7.2%) fell in September.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	5.0	6.6	29.1	42.3	6.9	4.5	(2.7)
Bloomberg Agriculture	(0.1)	(1.0)	19.2	44.7	12.3	1.9	(2.3)
Bloomberg Energy	17.0	21.0	74.9	78.8	(6.0)	0.7	(8.9)
Bloomberg Grains	(0.4)	(6.0)	13.3	38.4	10.4	2.6	(2.4)
Bloomberg Industrial Metals	(2.2)	2.1	20.0	37.1	10.9	10.6	1.2
Bloomberg Livestock	(1.9)	(2.0)	6.6	9.3	(8.2)	(0.6)	(4.8)
Bloomberg Petroleum	10.0	7.3	59.3	91.2	(6.1)	4.1	(5.6)
Bloomberg Precious Metals	(4.4)	(4.6)	(10.0)	(7.8)	12.2	3.8	(1.1)
Bloomberg Softs	1.7	16.5	36.2	55.7	13.8	(3.0)	(6.0)

Source: Morningstar, as of 9/30/21

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/21



# Appendix

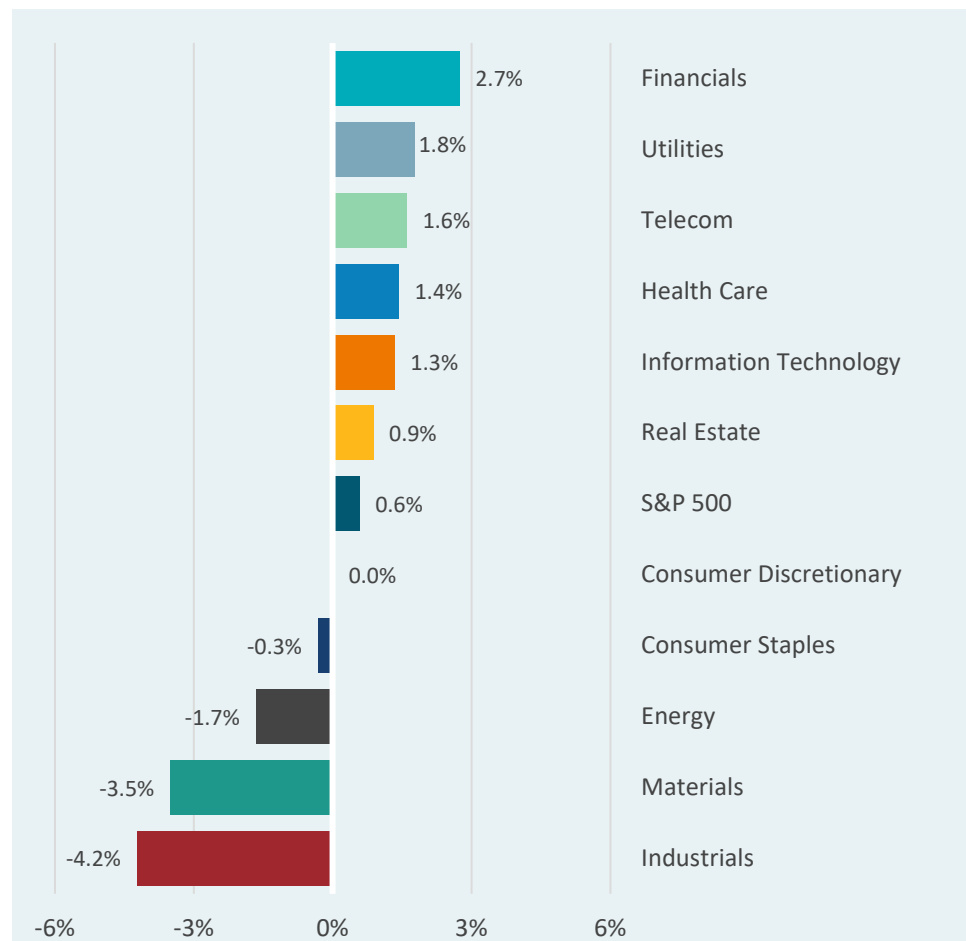
# Periodic table of returns



Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, Bloomberg US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, Bloomberg Global Bond. NCREIF Property Index performance data as of 6/30/21.

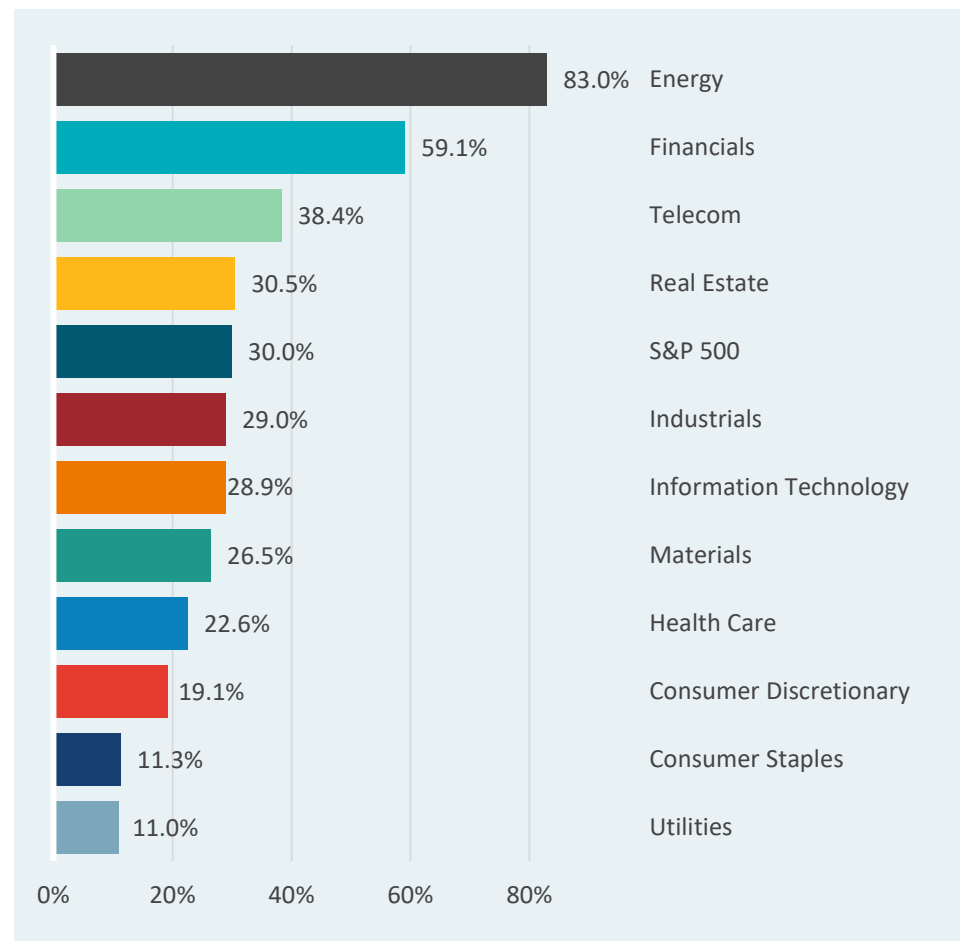
# S&P 500 sector returns

Q3 2021



Source: Morningstar, as of 9/30/21

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/21

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	(4.7)	0.6	15.9	30.0	16.0	16.9	16.6
S&P 500 Equal Weighted	(3.8)	(0.2)	18.9	40.9	14.3	14.6	16.0
DJ Industrial Average	(4.2)	(1.5)	12.1	24.2	11.0	15.7	14.7
Russell Top 200	(4.8)	0.6	15.2	28.6	17.3	18.2	17.2
Russell 1000	(4.6)	0.2	15.2	31.0	16.4	17.1	16.8
Russell 2000	(2.9)	(4.4)	12.4	47.7	10.5	13.5	14.6
Russell 3000	(4.5)	(0.1)	15.0	31.9	16.0	16.9	16.6
Russell Mid Cap	(4.1)	(0.9)	15.2	38.1	14.2	14.4	15.5
<b>Style Index</b>							
Russell 1000 Growth	(5.6)	1.2	14.3	27.3	22.0	22.8	19.7
Russell 1000 Value	(3.5)	(0.8)	16.1	35.0	10.1	10.9	13.5
Russell 2000 Growth	(3.8)	(5.7)	2.8	33.3	11.7	15.3	15.7
Russell 2000 Value	(2.0)	(3.0)	22.9	63.9	8.6	11.0	13.2

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	(4.1)	(1.1)	11.1	27.4	12.6	13.2	11.9
MSCI ACWI ex US	(3.2)	(3.0)	5.9	23.9	8.0	8.9	7.5
MSCI EAFE	(2.9)	(0.4)	8.3	25.7	7.6	8.8	8.1
MSCI EM	(4.0)	(8.1)	(1.2)	18.2	8.6	9.2	6.1
MSCI EAFE Small Cap	(3.6)	0.9	10.0	29.0	9.0	10.4	10.7
<b>Style Index</b>							
MSCI EAFE Growth	(3.9)	0.1	6.9	20.9	11.9	11.4	10.1
MSCI EAFE Value	(1.8)	(1.0)	9.6	30.7	3.0	6.0	6.0
<b>Regional Index</b>							
MSCI UK	(2.0)	(0.3)	12.2	31.2	2.4	4.8	5.4
MSCI Japan	2.8	4.6	5.9	22.1	7.5	9.4	8.4
MSCI Euro	(5.0)	(2.0)	10.5	29.5	7.9	9.3	8.3
MSCI EM Asia	(4.1)	(9.6)	(4.1)	13.9	10.0	10.7	8.5
MSCI EM Latin American	(10.3)	(13.3)	(5.6)	27.3	(1.4)	1.8	(1.1)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
Bloomberg US TIPS	(0.7)	1.8	3.5	5.2	7.4	4.3	3.1
Bloomberg US Treasury Bills	0.0	0.0	0.0	0.1	1.2	1.2	0.7
Bloomberg US Agg Bond	(0.9)	0.1	(1.6)	(0.9)	5.4	2.9	3.0
Bloomberg US Universal	(0.9)	0.1	(1.1)	0.2	5.6	3.3	3.5
<b>Duration</b>							
Bloomberg US Treasury 1-3 Yr	(0.1)	0.1	(0.0)	0.0	2.7	1.6	1.2
Bloomberg US Treasury Long	(2.9)	0.5	(7.5)	(10.3)	9.2	3.3	4.4
Bloomberg US Treasury	(1.1)	0.1	(2.5)	(3.3)	4.9	2.2	2.2
<b>Issuer</b>							
Bloomberg US MBS	(0.4)	0.1	(0.7)	(0.4)	3.9	2.2	2.4
Bloomberg US Corp. High Yield	(0.0)	0.9	4.5	11.3	6.9	6.5	7.4
Bloomberg US Agency Interm	(0.4)	0.1	(0.5)	(0.4)	3.2	1.9	1.7
Bloomberg US Credit	(1.1)	(0.0)	(1.3)	1.4	7.1	4.4	4.6
<b>OTHER</b>							
<b>Index</b>							
Bloomberg Commodity	5.0	6.6	29.1	42.3	6.9	4.5	(2.7)
Wilshire US REIT	(5.1)	1.6	24.8	38.0	10.4	7.0	11.3
CS Leveraged Loans	0.5	0.9	4.0	8.5	4.1	4.7	5.0
Alerian MLP	3.0	(5.7)	39.4	84.6	(5.2)	(3.5)	1.2
<b>Regional Index</b>							
JPM EMBI Global Div	(2.1)	(0.7)	(1.4)	4.4	5.7	3.9	5.8
JPM GBI-EM Global Div	(3.4)	(3.1)	(6.4)	2.6	3.7	2.1	1.1
<b>Hedge Funds</b>							
HFRI Composite	0.1	(0.0)	10.1	22.1	8.5	7.3	5.9
HFRI FOF Composite	0.8	1.4	6.4	15.0	6.7	5.9	4.5
<b>Currency (Spot)</b>							
Euro	(1.8)	(2.3)	(5.3)	(1.2)	(0.1)	0.6	(1.5)
Pound Sterling	(2.0)	(2.4)	(1.4)	4.3	1.1	0.7	(1.4)
Yen	(1.5)	(0.5)	(7.5)	(5.4)	0.6	(1.9)	(3.6)

Source: Morningstar, HFRI, as of 9/30/21

# Detailed private market returns

## Comparison to public market index returns

Private Equity Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Private Equity FoFs & Secondary Funds	48.2	19.3	15.9	12.6
Global Private Equity Direct Funds *	58.5	22.9	20.0	15.2
U.S. Private Equity Direct Funds *	61.1	25.1	20.9	16.6
Europe Private Equity Direct Funds *	51.8	19.5	20.0	12.7
Asia Private Equity Direct Funds *	54.3	20.0	17.9	14.6

Public Index Time-weighted Returns	1 Year	3 Year	5 Year	10 Year
MSCI World	54.0	12.8	13.4	9.9
S&P 500	56.4	16.8	16.3	13.9
MSCI Europe	44.9	5.6	8.2	5.1
MSCI AC Asia Pacific	51.8	8.2	12.2	6.7

Private Real Estate Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Real Estate	13.1	7.0	8.5	11.7

Public Index Time-weighted Returns	1 Year	3 Year	5 Year	10 Year
FTSE NAREIT Equity REIT	37.8	9.5	5.3	8.6

Private Credit Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Debt **	32.0	10.4	11.5	10.4

Public Index Time-weighted Returns	1 Year	3 Year	5 Year	10 Year
S&P / LSTA U.S. Leveraged Loan 100 Index	15.3	4.1	5.0	3.9

Private Real Assets Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Nature Resources ***	19.6	(4.7)	1.7	0.6
Global Infrastructure	16.9	9.1	10.9	9.7

Public Index Time-weighted Returns	1 Year	3 Year	5 Year	10 Year
S&P Global Natural Resources	67.7	5.5	11.4	1.1
S&P Global Infrastructure	37.0	5.7	6.8	6.3

Source: Pooled IRRs are from Thompson Reuters C/A and Time-weighted Returns are from Investment Metrics, as of March 31<sup>st</sup>, 2021. All returns in U.S. dollars.

\* Includes Buyout, Growth Equity and Venture Capital.

\*\* Includes Control-Oriented Distressed, Credit Opportunities, Senior Debt and Subordinated Capital.

\*\*\* Includes Private Equity Energy, Timber and Upstream Energy & Royalties.

# Notices & disclosures

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