CORNERS OF THE MARKETPLACE

Market Review **SEPTEMBER 2021**

Marketplace valuations have reached new heights, and interest rates have revisited lows. So naturally, it is normal to experience more uneasiness and weariness around the limits of financial returns, creating heightened awareness in all those involved. Indeed, anything vaguely connected with the delta-variant, inflation, credit defaults, government deadlocks, and challenging labor markets can captivate the public right now.

First, fantastic news recently came out about an effective oral drug for treating COVID-19, which has economic significance. Specifically, Merck, a pharmaceutical company, announced significant trial results for an oral medicine that contained meaningful trial results on a large sample of unvaccinated people who had the infection. The drug showed reduced illness severity and better recovery times. Such news is welcomed from an investment perspective because it can improve the confidence in people's daily economic lives, resulting in less uncertainty for returns in the equity, bond, and real estate markets.

But in labor markets, things are more challenging. For one, the labor market is tight, resulting in increased bargaining power for labor. Tightness is notably visible in the number of available jobs per unemployed person. Currently, that ratio is much greater than one. In addition, labor reports indicate that a massive skill gap is out there. Many major employers are simply finding it hard to find qualified labor. As a result, labor shortages are an essential factor impeding the monthly manufacturing surveys. Unfortunately, these acute problems could result in lost future revenues in some economic sectors since those industries can't reach total capacity.

Still, corporate earnings were solid in the second quarter. And, quite comically, the earnings picture made the analysts' projections look laughable and showed just how lousy they sometimes are at forecasting the future. But in defense of those analysts, these are abnormal times. Fortunately for stock market returns, earnings, for the most part, surprised greatly to the upside. As a result, US indexes kept pressing on as the second-quarter reporting cycle came to a close. Credit markets also received a stress test in September as Evergrande, a Chinese real estate conglomerate, received massive downgrades and essentially defaulted on some of its obligations. However, the risks associated with this default seem well contained inside Evergrande and its creditors, supporting the notion that financial markets are well-capitalized, just as the Fed has been saying.

"Marketplace valuations have reached new heights, and interest rates have revisited lows. As a result, there is often greater uncertainty and sensitivity at the limits of financial curves, causing increased attentiveness by market participants."

Still, there are often risks during periods when stock market prices rush to new heights. Therefore, investors should set appropriate return expectations during these times when markets are trading above average norms. Moreover, price inflation is alive and well in most segments of the global economy. Energy prices are high and so are home values. For example, national home prices have increased by twenty percent over the last year. The Federal Reserve sees this as a temporary change, and they're probably right. However, companies are starting to announce price hikes, such as Dollar Tree's reference to an experimental two-dollar price point.

Finally, monetary stimulus and government spending have received much more attention as inflation has moved higher. As a result, the Treasury Secretary and Fed Chairman have attracted the scrutiny of the Congress, and more Federal Reserve Presidents now expect short-term rate increases to come sooner rather than later. Meanwhile, Congress continues to test legislation regarding the debt ceiling as they try to appease their districts with an upcoming spending bill that could reach into the trillions of dollars. As it stands now, the government will remain funded into December, so those that are due government payments will continue to receive their checks. Most likely, members of Congress will continue to pressure the debt ceiling while they do their best to figure out the terms of the next big spending bill. The aggressive fiscal and monetary policies have indeed propped equity prices, which may very well continue. But because of the elevated market risks, including uncorrelated exposures against equities in portfolios is perhaps a good thing as any misstep caused by policy, financial default, or market shock could become a volatile situation. With that said, the current market and economic situation seem to be making a solid case for extensive portfolio diversification.

Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	-3.75%	-3.78%	-0.33%	-1.73%	-4.27%	-0.97%
Year to Date	15.88%	6.62%	1.90%	-2.18%	13.17%	4.62%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING SEPTEMBER 30, 2021.

US STOCKS

US Stock gave back some of this year's gains in September. The monthly drawdown of approximately -3.77% was rather significant for the past eighteen-month timeline. However, domestic stocks have provided handsome returns since the beginning of the year. Large caps fell hardest in September as some mega-cap stocks lost ground on being richly valued and having received some negative news. Mid-cap and small-cap companies fared better but still incurred losses during the month.

FOREIGN STOCKS

Foreign Stocks did slightly worse than domestic stocks in September. Yet, last month's loss of -3.79% was relatively even across all categories of international equities. Moreover, year-to-date performance has been attractive for foreign developed country equities. On the other hand, emerging market returns have come down due to the weakness contained in Chinese markets. As a result, emerging markets have settled down to nearly breakeven since the beginning of the year.

US BONDS

US Bonds experienced outflows in September as well. A flight to quality simply did not happen as wealth left riskier assets. Government and corporate losses suffered small losses while bank loans stood out as the only sector with modest gains. As a result, high-quality bonds remain relatively flat for the year in terms of performance. Inflation-protected bonds and credit risk bonds, however, continue to exhibit relative strength.

FOREIGN BONDS

Foreign Bonds were another weak spot for asset returns in September, with an overall decline of -1.73%, rather significant for bond assets. However, similar to foreign equities, losses were pretty even between foreign developed and emerging market categories for the month. Both classes have seen a revaluation on faster than expected rate hikes and robust inflation data in foreign countries.

HARD ASSETS

Hard Assets fell in September because of declining precious metal values and downward re-rating in the public real estate space. Precious metals experienced a rather significant loss of -9.91% in September. Such an outsized move down seems strange when inflation was seemingly everywhere, which supports the complexity of the forces driving asset prices. Real-estate prices slipped by over -5%. Limited Partnerships in energy stood out as a bright spot in markets, booking gains over 4% in September, and currently carries a near 36% return for the year.

HYBRIDS

Hybrids slid by modest amounts in the prior month as well. However, larger losses were in the convertible bonds market. Convertibles lost -1.74% in September but held a 3.69% year-to-date return. Preferred stock shed a negligible -0.18% last month. Its year-to-date return record stands at about 5.83%, close to the asset's dividend yield at the beginning of the year.

www.SerenityWealthMgmt.com • (636) 544-8199

Investment advisory and financial planning services offered through Simplicity Wealth, LLC, a SEC Registered Investment Advisor. Subadvisory services are provided by Advisory Alpha, LLC, a SEC Registered Investment Advisor. Insurance, consulting and education services offered through Serenity Wealth Management. Serenity Wealth Management is a separate and unaffiliated entity from Simplicity Wealth, LLC and Advisory Alpha, LLC.

© Advisory Alpha. Registration with the SEC or state does not constitute an endorsement of the firm by regulators, nor does it indicate that the adviser has attained a particular level of skill or ability. This content is for informational purposes only and does not intend to make an offer or solicitation for sale or purchase of any securities. Investing involves risk, including the potential loss of principal. No investment strategy, such as asset allocation or diversification, can guarantee a profit or protect against loss in periods of declining values. All investment strategies involve risk and have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals, and economic conditions may materially affect the performance of your portfolio. There are no assurances that a portfolio will match or outperform any particular benchmark. The performance information presented in the asset category section of this report is based on equal-weighted averages of the following Morningstar Categories: US Stocks (US Fund Large Blend, US Fund Mid-Cap Blend, US Fund Small-Blend), Foreign Stocks (US Fund Foreign Large Blend, US Fund Foreign Small/Mid Blend, US Fund Diversified Emerging Mkts), US Bonds (US Fund Intermediate Government, US Fund Inflation-Protected Bond, US Fund Corporate Bond, US Fund High Yield Bond, US Fund Bank Loan), Foreign Bonds (US Fund World Bond, US Fund Emerging Markets Bond), Hard Assets (US Fund Commodities Precious Metals, US Fund Commodities Energy, US Fund Global Real Estate, US Fund Real Estate), Hybrid Assets (US Fund Convertibles, US Fund Preferred Stock). © 2020 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar category data is provided for illustrative purposes only to demonstrate a hypothetical investment vehicle represented by a group of similar investments. Morningstar category data is an aggregation across actual funds contained in the category, but it is not possible to directly invest in a category. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Unmanaged indices are not available for direct investment. All data shown does not include internal fund expenses, trading costs, financial advisor fees or commissions, or taxes. This information is not intended to predict the performance of any specific investment or security. Past performance is no guarantee of future results.