3Q 2021

Quarterly Investment Commentary

Summary of Quarterly Market Performance

By: Kendra Rasner

Wave after Wave

The second half of 2021 was kicked off by another wave of the Coronavirus as the delta variant popped up in places that had previously been virus-free for months. Mask requirements returned to many indoor spaces, this time alongside vaccine mandates. Global labor shortages coupled with supply chain disruptions continued to put upward pressure on prices, and volatility returned to equity markets in September.

It turns out restarting the economy doesn't work quite as well as restarting a computer. Pandemic driven shutdowns continued to wreak havoc on supply chains. The semi-conductor shortage continued to dominate headlines as automakers and tech companies felt the most pain. According to a recent piece from Bloomberg, the average vehicle has approximately 1400 semiconductor chips and the current shortage has cost automakers upwards of $200 billion. Tech companies felt the crunch too, Apple Inc. cut their production target for the newest version of the iPhone by millions. Factory closures, overburdened ports, overworked truck drivers, and generally tight labor markets have led to empty shelves and higher prices for some products.

Based on the items tracked via the Consumer Price Index, prices ticked up slightly higher than anticipated in September. The index was up 0.4% during the month and 5.4% on a year-over-year basis (4.0% excluding the volatile food and energy prices). Increased prices for consumers have investors and consumers alike asking the pressing question, is inflation transitory or not? Fed Chair, Jerome Powell, acknowledged during the Federal Open Market Committee's September meeting that the bottlenecks in supply chains may in fact hold inflation higher for a bit longer than originally anticipated.

At the epicenter of global supply crunches, was the world's largest trading nation, China. There has been no shortage of headwinds for China as of late, including actual power shortages that have stalled manufacturing across the board from semiconductors to steel. Gross domestic product (GDP) growth slowed considerably from the previous quarter as the country battled an intensifying housing slump, incited by the debt disaster at Evergrande Group. Moreover, Chinese authorities introduced new regulations that had a multibillion-dollar impact on tech stocks.

Increased scrutiny by Chinese regulators sent ripple effects through global markets. The MSCI All Country World Index, which tracks large and mid-cap equities across 20+ developed markets and 25+ emerging markets, fell during the quarter, after a sharp drop of over 4% in September. The MSCI Emerging Market Index sustained losses of over 8% during the quarter, pulling the index into negative territory for the year.

U.S. equities were not spared from the global slowdown. The S&P 500 index posted negative returns of 4.8% in September, its first monthly loss since January and its largest one-month drop since March 2020. The Dow Jones Industrial Average and tech heavy NASDAQ also posted negative returns for the month of September. However, all three major U.S. equity indices remained positive year-to-date. The S&P 500 index was still up 14.7% for the year at the end of September.

Fixed Income returns were muted. High yield fixed income continued to outperform within the asset class, with the Bloomberg US 1-5yr High Yield index up over 5% so far for the year. The US 10-year Treasury note, a

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Trust Administration
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880 Munson Ave, Suite B
Traverse City, Michigan 49686

web: www.omtrust.com
Tel: 866.587.4100

key benchmark for other borrowing rates and global sentiment, was little changed, up just slightly over the quarter.

Job growth was a different story, with significant gains occurring during the quarter. Despite looming inflation concerns, over 1 million jobs were added in July and the U.S. unemployment rate dropped by half a percent. Noteworthy job gains occurred in the leisure/hospitality and retail sectors. And while job growth did slow in September, the unemployment rate dropped another 0.4 percentage points to end the quarter at 4.8%, down over 1% from June 2021.

Overall, global supply chain disruptions and labor shortages caused by the Coronavirus pandemic continued to put upward pressure on prices. With so much of the world relying on global trade in one way or another, the upcoming holiday season may exacerbate already pressed ports and inflation will likely linger through the first half of 2022. Equity markets, however, remain buoyant. We are after all coming out of a worldwide pandemic with extraordinarily dispersed recovery. We are actively monitoring the many factors at play, but the reopening of a very interconnected global economy is naturally expected to have a few swells.

Return information provided as of September 30, 2021. Data provided by Morningstar Direct, Factset and Morningstar Office.

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