

# Weekly Market Recap

September 27, 2021

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	4,455	0.5%	18.6%
Dow Jones Industrial Average	34,798	0.6%	13.7%
NASDAQ	15,048	0.0%	16.8%
Russell 2000® Index	2,248	0.5%	13.8%
MSCI EAFE Index	2,353	0.2%	9.6%
10-yr Treasury Yield	1.45%	0.1%	0.5%
Oil WTI (\$/bbl)	\$73.94	2.7%	52.4%
Bonds*	\$115.41	-0.4%	-1.0%

Source: Bloomberg, FactSet

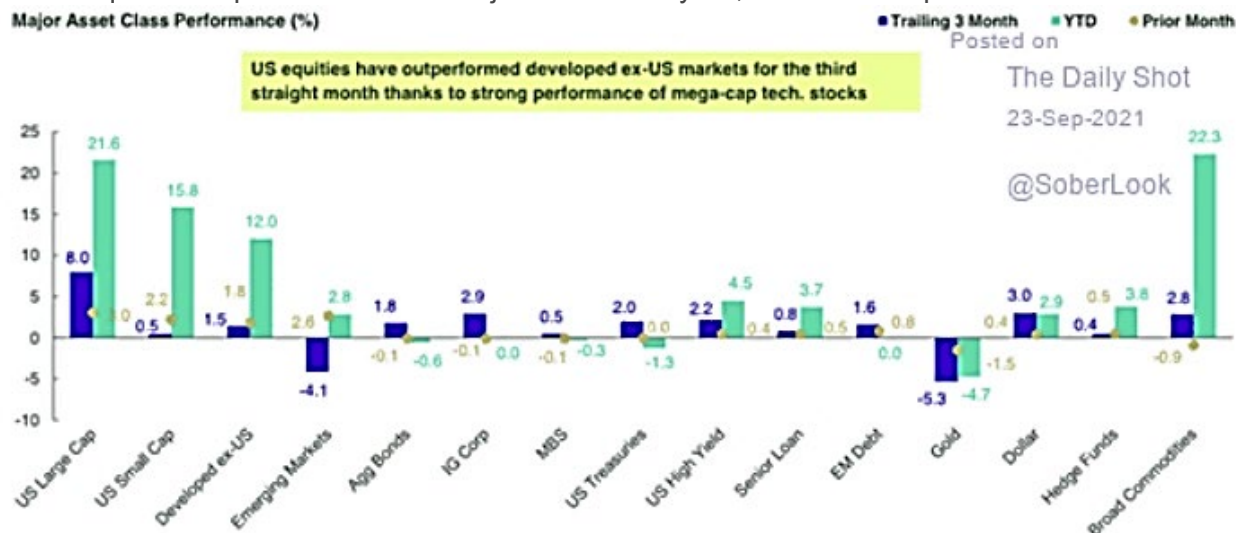
\*Bonds represented by the iShares U.S. Aggregate Bond ETF

## Last Week:

### U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) rose +0.5% after a generally in-line September Federal Reserve (Fed) meeting, resilient corporate earnings, still-possible fiscal stimulus, and the persistence of the “buy-the-dip” and “there-is-no-alternative” mantras improved sentiment for equities. The Fed maintained its policies, but a taper in the Fed’s \$120B/month asset purchase plan may be announced in November. China’s giant property developer, Evergrande, continued to have debt default concerns. However, investors generally believe that the Chinese government will avoid a disorderly collapse, and international contagion remains a low probability. House Democrats passed a short-term funding measure along with a suspension of the debt ceiling through 2022. Treasuries were weaker with the ten-year yield rising 0.07% to 1.45%, the dollar was stronger overall, West Texas Intermediate (WTI) crude oil rose +2.7%, and gold fell modestly.
- Weekly S&P 500 Index Sector Returns:
  - Energy (+4.7%) outperformed, as oil (WTI) rose +2.7%.
  - Financials (+2.2%) outperformed, led by banks and credit card stocks.
  - Information technology (+1.0%) rose, led by IT services, while software was mixed.
  - Industrials (+0.8%) rose, led by airlines, trucking, and aerospace and defense.
  - Consumer discretionary (+0.3%) underperformed, with weakness from Amazon (-1.1%), apparel, and homebuilders.
  - Materials (+0.1%) was flat, with weakness from industrial metals and precious metals stocks.
  - Health care (-0.4%) fell, led lower by weakness in hospitals, managed care, and biotech.
  - Communication services (-0.7%) fell, led lower by Disney (-4.1%) and **Facebook** (-3.2%).
  - Consumer staples (-0.3%), utilities (-1.2%), and REITs (-1.6%) underperformed, as investors favored less defensive-oriented sectors.

- U.S. Equities outperformed other major assets this year, with the exception of broad commodities.



Source: The Daily Chart

- Shares of Chinese mega-developer Evergrande declined more than 80% in 2021, as investor concerns persist over the company's ability to pay interest on its debt.

## Evergrande shares have crashed more than 80% this year

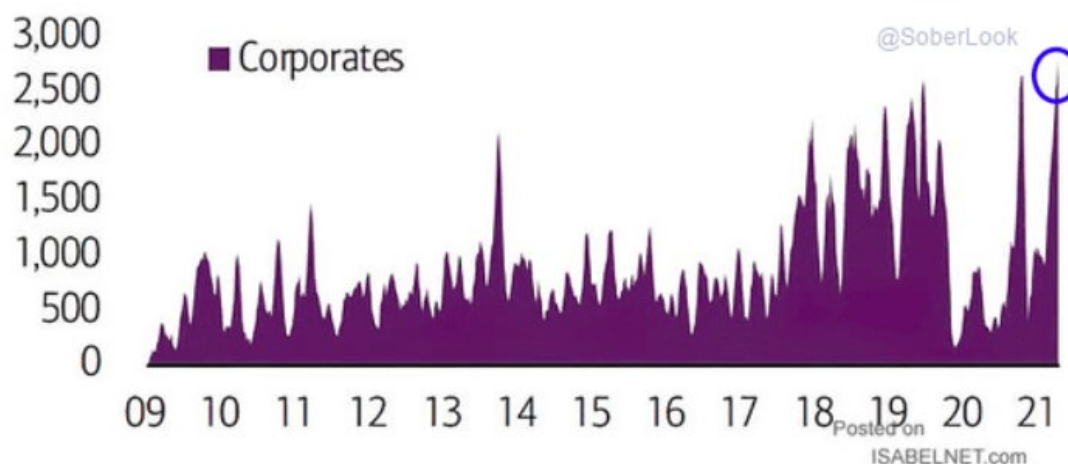


Source: CNN

- Corporate stock repurchases are nearing all-time highs.

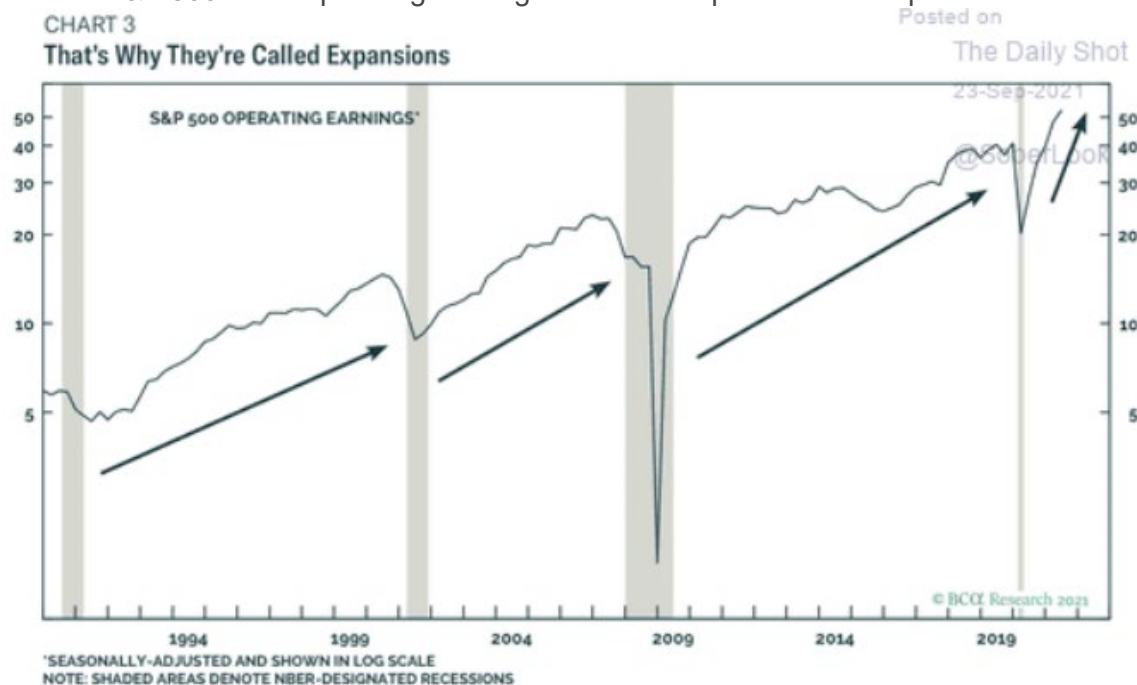
### Exhibit 32: Buybacks by corp. clients accelerating

Corporate clients (4 wk. avg, \$ mn)



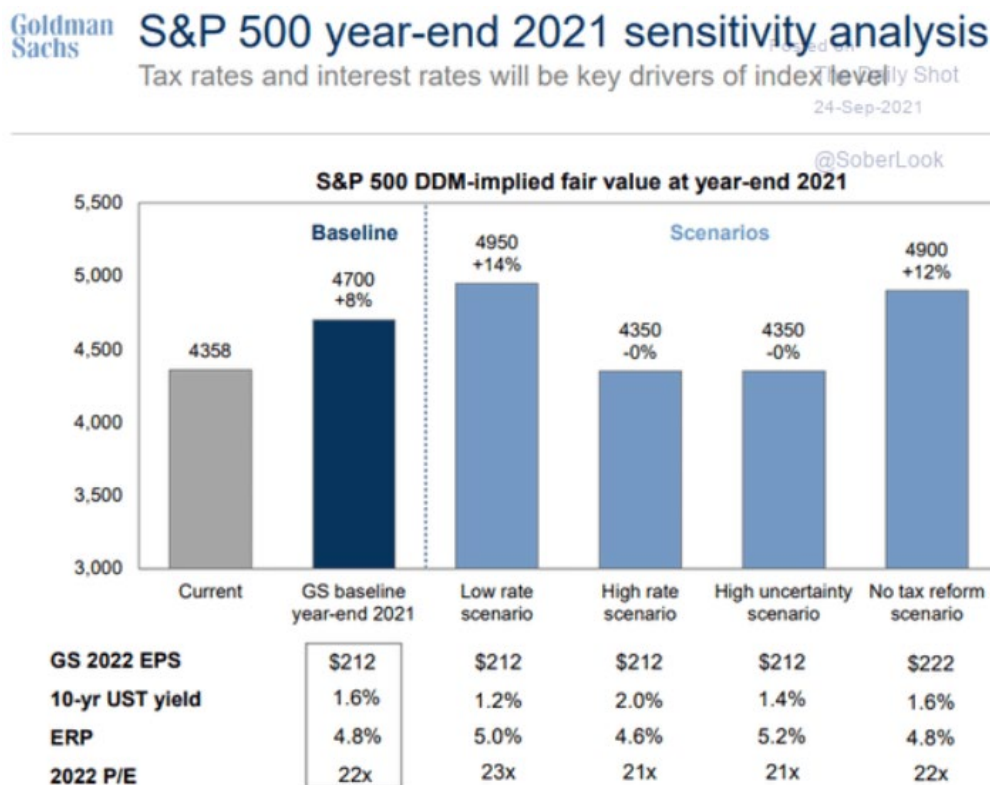
Source: The Daily Shot

- The recent S&P 500 Index operating earnings increase outpaced those of previous recession recoveries.



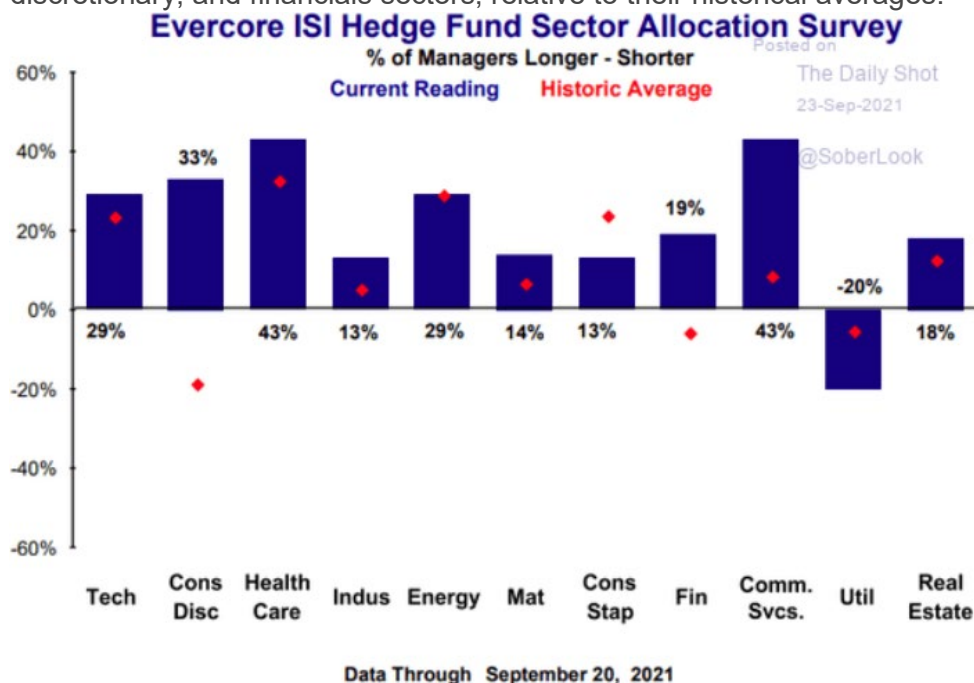
Source: The Daily Shot

- Goldman Sachs' baseline S&P 500 Index target is 4,700. The chart below depicts potential valuation changes to the year-end S&P 500 under various economic scenarios.



Source: The Daily Shot

- The chart below suggests that hedge funds are significantly overweight communication services, consumer discretionary, and financials sectors, relative to their historical averages.

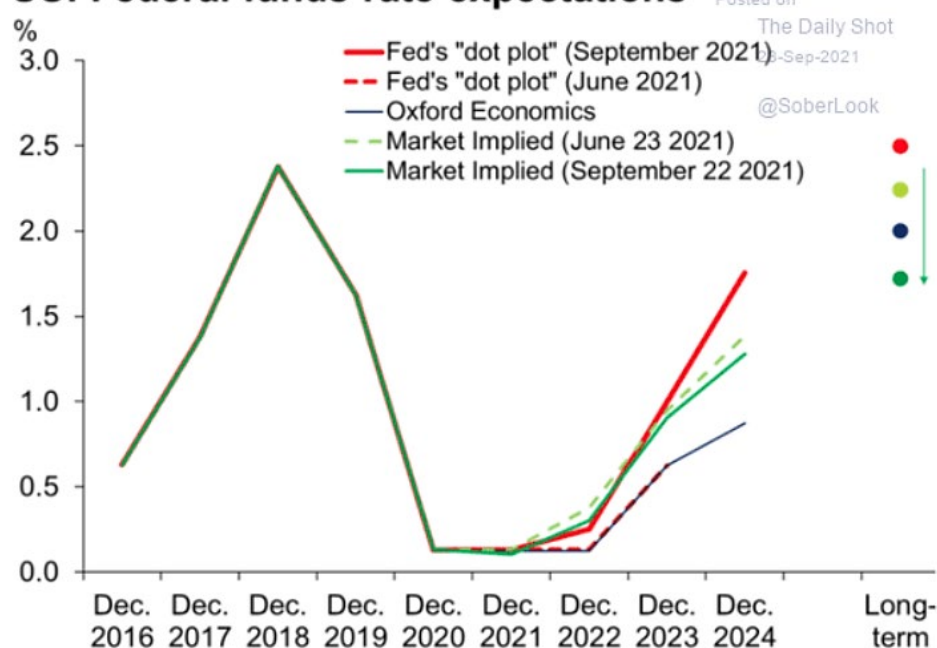


Source: The Daily Shot

## Fixed Income Markets

- Federal Reserve's interest rate trajectory now exceeds above market expectations.

### US: Federal funds rate expectations



Source: FactSet

- The longer end of the Treasury curve continues to flatten.

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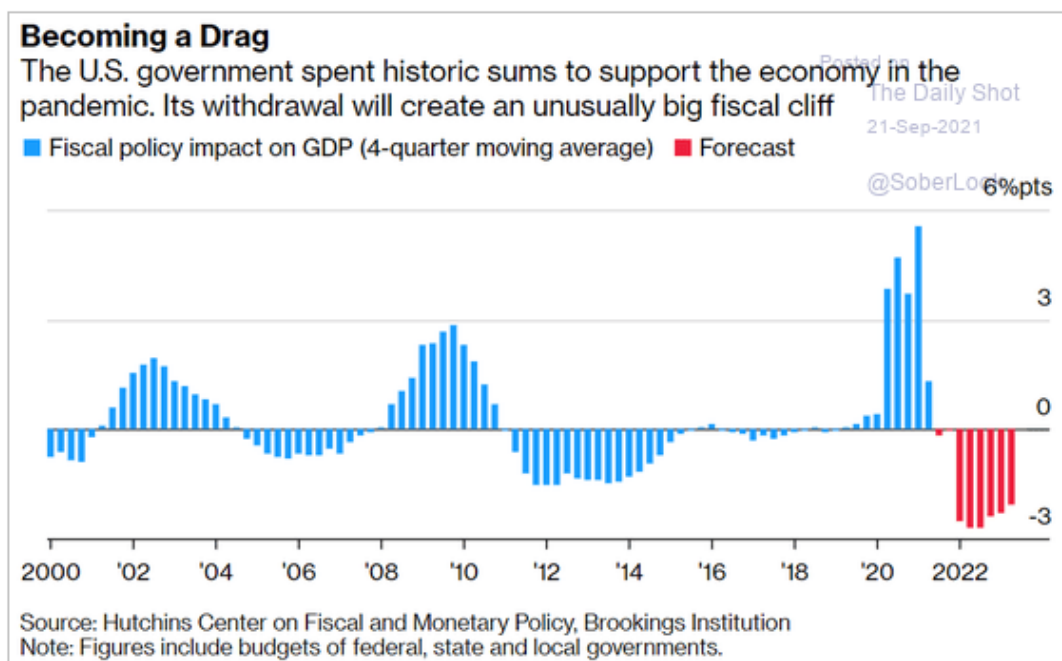
### US 30yr - 5yr Government Bond Spread





## U.S. Economic and Political News

- The September Fed held policy steady, but said a taper in the Fed's \$120B/month asset purchase plan may soon be warranted, assuming the economy continues to improve. Chair Powell noted that, in his mind, the "substantial further progress" test for employment was all but met, and that it would not take a "knockout" jobs report to bring the economy across the line. He said there was broad agreement among policymakers for the tapering process to begin soon, implying that it may be announced at the Fed's November meeting, and he said that it would conclude mid-2022.
  - The meeting also featured the release of a new Summary of Economic Projections (SEP), showing a split among policymakers on whether to increase interest rates in 2022, but seeing 17 of 18 members forecasting at least one rate hike in 2023.
- August new home sales, permits, and housing starts all rose, while the month's existing home sales pulled back after rising for two months.
- Weekly jobless claims came in ahead of expectations, but remained below 400K for the ninth consecutive week.
- Following an FDA recommendation for COVID-19 vaccine boosters for those over 65 and others at high risk, CDC Director Walensky authorized the booster shots for all adults with high occupational risk (such as healthcare workers and teachers).
- Last weekend, Treasury Secretary Yellen weighed in on the debt-ceiling debate by writing a WSJ opinion column arguing that a U.S. default would likely precipitate a historic financial crisis that would compound the damage from the continuing public-health emergency.
- Fed Chair Powell said he was not aware of regional Fed Presidents Kaplan and Rosengren's trading activities. He added that the Fed's rules in this area are insufficient and that the bank will make changes.
- A large fiscal cliff appears to be coming, as the unprecedented stimulus provided by the U.S. government during the onset of the COVID-19 pandemic is unlikely to be repeated in 2022 and beyond.



Source: Bloomberg

## International Markets and News

- The Chinese stock market (Shanghai Composite) ended a holiday-shortened week roughly flat, as the mounting debt crisis associated with China's Evergrande group was partially offset by several large cash injections by China's central bank during the week, helping reduce concerns about a disorderly debt resolution for the overleveraged developer.
  - Some of Evergrande's foreign bondholders did not receive their portion of USD 83.5M in interest payments by a Thursday deadline in U.S. time, leading the company to enter a 30-day grace period, after which it will be considered in default if payment is not made.
  - Strategists generally believe that Evergrande's bankruptcy or default will be orderly, and will not lead to a massive contagion throughout the world, as Evergrande's outstanding debt amounts to a negligible amount of the country's total banking assets, and Beijing is reportedly aiming for a "marketized default" with a well-managed restructuring.
- European markets (STOXX 600 Index) rose +0.3%, as optimism about a continuing economic expansion offset concerns regarding a gradual withdrawal of central bank support and the fears of Evergrande default.
  - Norway became the first Group of 10 (G10) country to tighten its monetary policy, with the central bank increasing its key short-term lending rate to 0.25% from 0.00%.
  - The Bank of England (BoE) kept its key rate unchanged at 0.10%. However, two policymakers voted for an early end to the quantitative easing program.
  - The Eurozone's September PMI (survey of economic activity) fell to 56.1 (above 50 signals expansion), from 59.0 in August and 60.2 in July, suggesting a slowdown in the pace of growth.
- Japanese equities (Nikkei 225 Index) fell modestly this week, as the ruling Liberal Democratic Party (LDP) views Taro Kono, the current Minister for Administrative Reform and Regulatory Reform, as the favored candidate to replace outgoing Prime Minister Suga in the September 29 presidential election.
  - As expected, the Bank of Japan made no changes to its long- and short-term interest rate policy, and confirmed its stance on maintaining asset purchases at current levels.
- In Germany, the Social Democrats narrowly beat Merkel's conservative bloc, creating a messier path to coalition building.

## This Week:

- Corporate earnings reports will decrease this week, with notable earnings including, but not limited to: Micron Technology, Markit, Cintas Corp, Paychex, CarMax, McCormick & Co., Fastset Research Systems, SYNEX, Jabil Circuit, Smiths, Thor Industries, and United Natural Foods.
- U.S. Economic data:
  - Monday: Core Durable Orders, Dallas Fed index;
  - Tuesday: Wholesale Inventories, FHFA House Price Index, Case-Shiller Home Price Index, Consumer Confidence;
  - Wednesday: MBA Mortgage Purchase Applications, Pending Home Sales;
  - Thursday: GDP (Q2), Chicago PMI, Initial Claims;
  - Friday: Personal Income/Personal Consumption, Manufacturing PMI, Construction Spending, ISM Manufacturing Index, Michigan Consumer Sentiment.

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®  
Executive Director

Griffith Jones, Jr.  
Executive Director



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**The S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

**The Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

**The Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**The NASDAQ Composite Index** is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

**The NASDAQ-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

**The MSCI EAFE Index** is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

**The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**The Nikkei 225** is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

**The Shanghai Stock Exchange Composite Index** is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

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