THE CAPITAL MARKETS

New Covenant Trust
A Subsidiary of the Presbyterian Foundation

Issue 10 | October 2021

The Dow Jones Industrial Average (DJIA) finished September at 33,844 down -4.29% for the month, up +10.58% year-to-date. The S&P 500 closed September at 4,308, down -4.76% for the month, up +14.68% so far for the year. The NASDAQ Composite lost -5.31% in September, still up +12.11% for the year. Small-company stocks as measured by the Russell 2000, ended September down -3.05% for the month, up +11.62% year-to-date. Energy (+10.01%) was the best performing sector in September.

"Investors have been focused on surging energy prices, concerns about inflation and negotiations on the debt ceiling. Lawmakers struck a deal for a short-term extension to the debt limit... stoking a rally in the stock market."

(The Wall Street Journal, *Stocks Waver After Jobs Report,* Anna Hirtenstein, October 8, 2021)

MARKETS TAKE A BREATHER ON INFLATION FEARS, UNCERTAINTY IN CONGRESS

Moderate volatility returned to the markets in September, with multiple daily swings greater than 1%, ending the lowest returning quarter since the COVID-19 pandemic began. Immediate resistance to the market's steady climb included renewed inflationary concerns as global supply chain issues persist, feeding off each other and affecting a growing range of industries, and uncertainty in Congress as infrastructure and reconciliation bills were debated and a debt ceiling deadline loomed. Other factors include already high and stretched valuations for stocks and companies citing a persistent difficulty in hiring and filling open positions. Many observers have been encouraged by an apparent decline in the latest Delta surge of COVID-19, increased vaccination rates through the past few months, and by Congress appearing to avoid a debt ceiling crisis for now.

At this stage, many expect that the biggest dangers to the ongoing economic recovery are supply dynamics, or issues with products and services being available to meet demand, rather than a lack of consumer demand or spending power. As with many economic factors, especially during the COVID-19 pandemic, much remains uncertain and can change quickly. While volatility picked up and September saw losses, regular readers will know that this has been expected for some time, and is not surprising with markets at these levels. Investors are encouraged, as always, to evaluate performance in the context of your investment time horizon, which is often very long term. There are likely to be additional draw-downs from here at current market levels and with elevated uncertainty around a number of issues. There remains however, many healthy underlying fundamentals behind this ongoing economic recovery. We would encourage investors to view September's market action as a very normal part of a long-term investing experience. Please don't hesitate to reach out to us if we can help ensure that your equity risk levels match your investment time horizon and risk profile.

"Just don't expect the same kind of earnings season we've experienced since Covid. Since the lockdowns, U.S. corporations have, for the most part, reported massive earnings growth and sizable 'beats,' but something has changed. Analysts have stopped revising their earnings expectations higher and have been lowering them instead. Earnings are still expected to rise more than 20% from the third quarter one year ago, although the rate of growth is slowing. And with stocks still pricey- the S&P 500 is trading at 20.6 times 12-month forward earnings- there is little room for error. 'There are a lot of adjustments that need to go on,' says Dave Donabedian, chief investment officer at CIBC Private Wealth US. 'The market has more downside than upside in the near term.'" (Barron's, *The Trader*, Ben Levisohn, October 10, 2021)

DISAPPOINTING JOBS NUMBERS FOR SEPTEMBER CONFOUND ECONOMISTS

The U.S. economy added 194,000 jobs in September - well short of economists' expectations for 500,000. The report may have included some statistical noise, with seasonal adjustments for back to school likely to have held back the public sector numbers, and the survey having taken place as the Delta surge was peaking. Even so, the report does include some discouraging insights, including data showing that labor force participation contracted for the month and is still 3 million workers below pre-pandemic levels. The unemployment rate falling to 4.8% from 5.2%, usually a good sign, was due to this less positive development. An ongoing tightness in the labor force and persistent headwinds to workers returning is showing signs of increasing supply chain and inflationary pressures. Enabling workers to safely return to the labor force will be an important and closely watched factor in future reports.

Market Metrics

INDEX OR METRIC	CLOSE AS OF 08/31/2021	CLOSE AS OF 09/30/2021	CHANGE PREVIOUS MONTH END	2021 YTD % CHANGE
Dow Jones Industrial Average	35,360.73	33,843.92	-1,516.81	+10.58
S&P 500	4,522.68	4,307.54	-215.14	+14.68%
NASDAQ Composite	15,259.23	14,448.58	-810.65	+12.11%
RUSSELL 2000	2,273.77	2,204.37	-69.40	+11.62%
Fed Funds Rate	0.00%-0.25%	0.00%-0.25%	UNCHANGED	
2-Year Treasury	0.20%	0.28%	+0.08%	
10-Year Treasury	1.30%	1.52%	+0.22%	
Crude Oil $ per Barrel	$68.50	$75.03	+$6.53	+54.64%
Gold $ per Troy oz.	$1,818.10	$1,757.00	-$61.10	-7.26%
UK Point in U.S. $	$1.3763US=1£	$1.34844US=1£	$ STRONGER	-1.36%
Euro in U.S. $	$1.1805US=1€	$1.1590US=1€	$ STRONGER	-5.28%
Canada $ per U.S. $	$1.2636C=$1.00US	$1.2668C=$1.00US	$ STRONGER	-0.56%
Japan Yen per U.S. $	106.716¥=$1.00US	105.502¥=$1.00US	$ STRONGER	+8.07%