THE PRIVATE CLIENT GROUP
BALANCING LIFE & WEALTH

ECONOMIC & MARKET INSIGHTS

An Executive Summary for October 2021

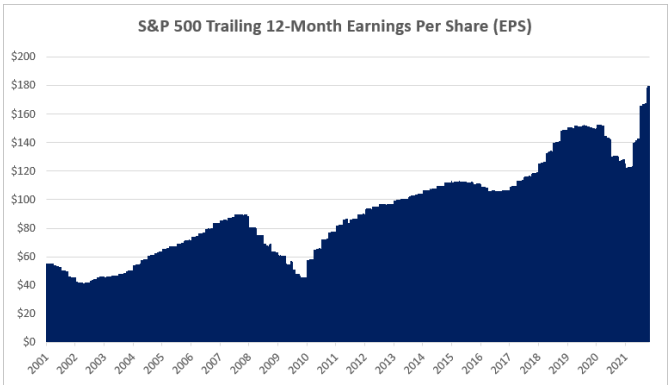
The recovery continued its path upwards in October, although the road forward seems to be less of a smooth ride. Economic activity, measured by a variety of metrics, was robust as more of the world is vaccinated and the pandemic transitions to an endemic. Mobility has increased in many developed countries as large-scale vaccination campaigns limit the risks of new breakout infections. As economic activity increases, supply across many areas of the economy has struggled to play catch-up. Restrained supply across manufacturing and services has pushed prices up across the board, translating to the highest inflation figure (as measured by CPI) since 1991. Energy prices have soared in response to similar factors. Brent crude rose to over $80 per barrel, while natural gas prices rose to their highest level since 2008. A steadily falling unemployment rate paired with a shortage of workers, has awoken previously tame wage growth, adding yet another upward price pressure that permeates through many areas of the economy.

The Federal Reserve (Fed) has held the view that much of the recent inflationary pressures are transitory. While this still may be the case long-term, the consensus seems to be that higher inflation may be around for longer than expected. In response to recent data, the Fed announced that it plans to taper its bond-buyer program to help moderate price pressures. Tapering will help limit the expansion of the Fed's balance sheet. New messaging could also pave the path for future rate increases, potentially as soon as next year after the bond purchasing program is wound down. Periods of Fed rate hikes have historically been a headwind to bull markets. Extending the run in risk assets will require the Fed to walk the dangerous tightrope of pulling back support at a pace that isn't too fast as to stifle the recovery, but not too slow whereby inflation and asset valuations would reach levels of excess.

Outside of the U.S., the growth picture is more mixed. In Europe, some of the positive momentum has slowed as supply shortages have held back manufacturing in certain key areas, such as automotives. The European Central Bank (ECB) finds itself in a similar position to the Fed, and for now, has delayed when it will start tapering. The Bank of England is a bit further along and could start hiking rates as soon as this year. In Japan, the decrease in infections following its vaccination campaign has given a jolt to its recovery. While China was initially one of the first major nations in the world to emerge from the pandemic, its growth has recently started to decelerate. The health of China's property sector has also come into question following distress within one of the largest property developers. While some of these concerns have eased, Chinese authorities are likely to introduce new regulations to rein in areas of economic excess and limit potential contagion.

Most risk-oriented financial assets had a strong month backed by an impressive start to the third-quarter earnings season. Strong gains were enough to push many major U.S. equity indices to fresh all-time-highs. More cyclical portions of the market, such as energy and financials, were among the top performing areas which added to already impressive year-to-date gains. International equity markets also rose over the month, but generally lagged U.S. counterparts. Emerging markets have struggled in 2021 due to additional pandemic-related hindrances to their recovery and further regulatory measures from the Chinese government. Overall, fixed income markets have had a tougher time, responding to an uptick in inflation and rates. U.S. Treasury 10-year yields surpassed 1.7% during the month for the first time since May, before retreating lower. While headline returns were muted, municipals modestly lagged other areas of the bond market including treasuries and taxable investment-grade bonds.

As we enter the final months of 2021, global growth is robust as the pandemic recedes, but new hindrances to the continuation of the recovery have emerged. Notably, inflation has spiked to levels not seen in decades and many major global central banks are preparing to curb monetary intervention. As was the case with much of the last two years, the dispersion of outcomes appears higher than usual. As a result, it remains a time to ensure that portfolios are properly diversified and appropriately aligned with long-term goals.



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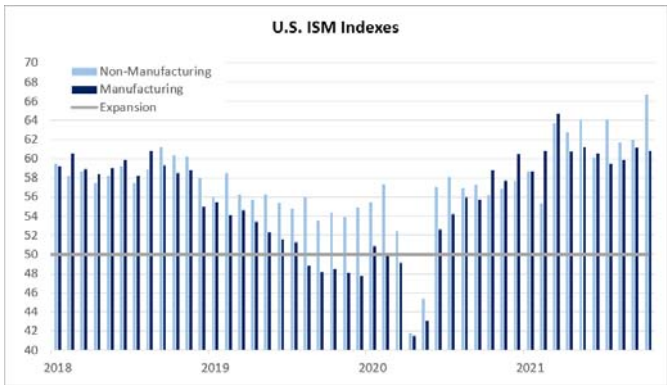

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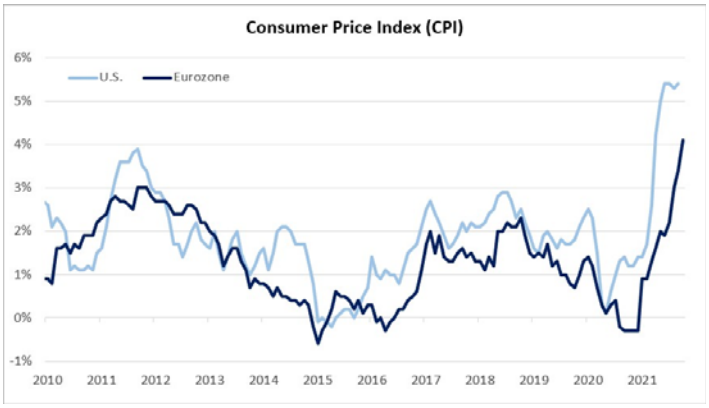

U.S. Bureau of Labor Statistics

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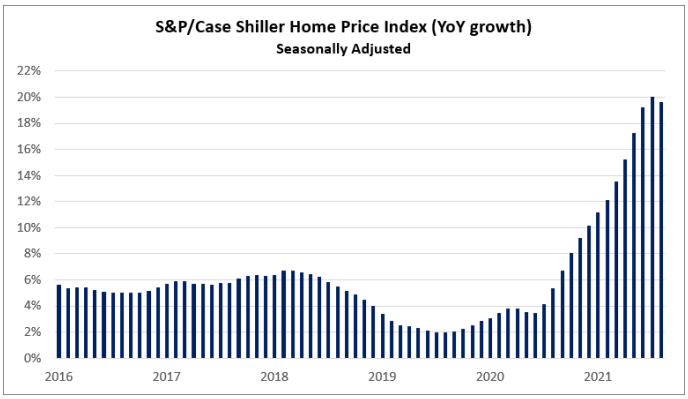
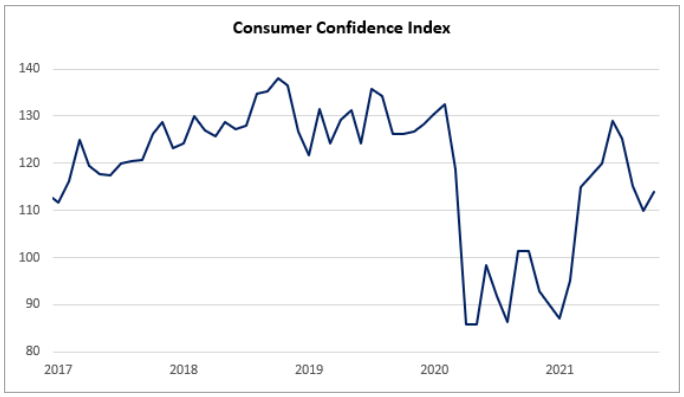


S&P / Case Shiller



Conference Board

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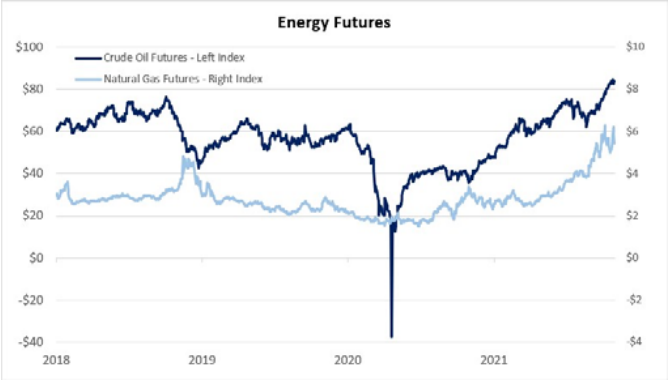

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The S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System’s businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System’s businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.

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