Vertex Planning Partners LLC

Quarterly Market Review

Q3

Third Quarter 2021

Economy

Monetary Policy

What's Happening:

With the economy recovering from the pandemic-induced shutdown, the Fed is expected to shift away from their current asset purchase program [1] which has added over $4 trillion to the their balance sheet [2]. Although not expected to raise rates until 2023 [3], "transitory" inflation readings look to be more sticky and the Federal Reserve is expected to move away from its ultra-accommodative stance.

What does this mean?

The Fed is taking initial steps to reverse its historic asset purchase program, which along with foreign central banks, have driven interest rates to their lowest recorded levels [4]. The effect has been a steady rise in asset prices, as the chase for yield has investors pushing up market valuations. In the best case scenario, earning growth over the next few years returns valuations to less lofty levels.

Fiscal Policy

What's Happening:

The Biden administration's latest measure, The American Jobs Plan, touts an ambitious infrastructure overhaul in the US by targeting both traditional roads and bridges, as well as transforming the US energy and transportation networks to emit less carbon to combat climate change as well as tackling social imbalances.

What does this mean?

A Democratically controlled Washington has passed a number of bills historic in both size and expediency. The current infrastructure bill has run into more resistance, as both the size and scope come into question.

Economy

Geopolitics

What's Happening:

China policy, both domestically and internationally, has impacted markets due to punitive actions against publicly traded technology and domestic for-profit education companies [(5)]. With particular concerns within the real estate markets, China has taken a substantial hit to their economic growth outlook.

What does this mean?

China always had a tenuous relationship with capitalism in the 21st century. After almost a decade at the head of the Chinese Communist Party, Xi Jinping has been actively consolidating power over the past year with the takeover of Hong Kong, crackdowns of private corporations and government officials, and most recently with the termination of tech IPOs and other for-profit ventures. The questions investors have is how far is the CCP willing to go, as China struggles with continued virus outbreaks, increasing food and energy inflation, and a world that is waking up to Chinese ambitions to overtake US influence overseas.

GDP

What's Happening:

GDP in Q2 2021 grew at a brisk pace of 6.6% [(6)], with estimates for the third Quarter falling to 2.3% as of 10/1 [(7)].

What does this mean?

After strong numbers at the beginning of the year, GDP growth stalled as year over year comparisons created difficult headwinds, and continued Covid outbreaks create supply-chain issues and a pullback in consumer activity.

Markets

Equity

US Equity markets began to fade in the quarter, with the S&P 500 eking out a .58% return while still being up 15.92% on a total return basis. International markets performed poorly as Emerging Markets sold off almost 8% due primarily to China, and International Developed stocks pulled back just under 3% [8].

Fixed Income

Bond prices remained steady after selling off in the first quarter, but continue to have a negative real yield (yield minus inflation) given the current Consumer Price Index (CPI) numbers [9].

Current Strategy

Reasons To Be Optimistic

Technological change and adoption across industries has accelerated with the financial stimulus provided by both Central banks and Governments. The role out of the vaccines is one such example of the power of innovation in the United States. Although supply chains are stretched and costs are increasing, many of these impasses can be seen as transitory as the pandemic's impact on economic activity fades in the future.

Reasons To Be Cautious

The biggest basis for concern, in the author's opinion, is that the uptick in inflation is persistent, and that along with the reversal of Federal Reserve policy actions, there is a selloff in treasury bonds, pushing up treasury yields. Although heightened equity valuations are unto themselves not causes for market corrections or bear markets, a sudden increase in interest rates could cause a re-rating of equity market prices. In less liquid markets, (more sellers than buyers in this case), the pendulum can swing too far in the other direction.

Strategy for 2021

We have added sector financial and energy equity strategies as well as firms with high quality balance sheets. On the asset class level, we have actively paired back our exposure to fixed rate bonds, adding to inflation protected treasury bonds and adjustable rate fixed income. We continue to focus on adding to our commodity exposure, both through direct commodities as well as energy equity holdings. We continue to favor tax managed strategies for taxable accounts to help offset the potential higher capital gains rates proposed in Washington.

Source

1) https://www.reuters.com/business/finance/investors-look-ahead-rate-hikes-with-fed-tapering-plan-all-certain-2021-09-23/

2) https://fred.stlouisfed.org/graph/?id=WALCL,WGCAL,WSHOIC,WSHOFDSL,WSHOMCB,WUPSHO,WUDSHO,WARAL,WALLNL,WAML1L,WPCL,WABPL,WASDRAL,WACBS,WFCDA,WAOAL,WLTLECL,WLFN,WLRRA,WLDLCL,WLDBTDL,WLODLL,WLTGAL,WACL,WLFOL,WLDOL,WLDACLC,WLAD,WCTCL,WCPIL,WCSL,WCPCA,WSRLL,WSHOL,WSHOTS,WSHOB,WSHOSNB,WSHOIIL,#0

3) https://www.cnbc.com/2021/08/04/fed-vice-chair-clarida-anticipates-rate-hikes-starting-in-2023.html

4) https://www.marketwatch.com/story/interest-rates-havent-been-this-low-in-5-000-years-11627644496

5) https://www.reuters.com/world/china/china-crackdown-wipes-hundreds-billions-off-top-companies-values-2021-09-13/

6) https://www.bea.gov/news/2021/gross-domestic-product-2nd-quarter-2021-second-estimate-corporate-profits-2nd-quarter

7) https://www.atlantafed.org/cqer/research/gdpnow

8)

	YTD	Q1	Q2	Q3
S&P 500 Total Return	15.92%	5.78%	8.95%	0.58%
M SCI ACWI Ex USA Total Return	6.28%	3.85%	5.38%	-2.88%
M SCI Emerging Markets Total Return	1.03%	2.54%	4.88%	-7.97%
Bloomberg Barclays US Aggregate	-1.55%	-3.37%	1.82%	0.05%

9) https://www.bls.gov/news.release/pdf/cpi.pdf