# Stegent Equity Advisors, Inc. Investment Letter

## Market Review
**October 2021**

The 3rd quarter of 2021 lacked the fanfare of its predecessors as U.S. stocks remained mostly flat. However, that is not to say there weren't any fireworks. The S&P 500 index continued to reach new all-time highs throughout early September but gave up most of the ground it had made in the backend leaving a 0.6% gain for the quarter. Energy stocks continued to bounce back as demands increased from the reopening with all sectors posting positive returns year-to-date. U.S. Bonds have taken a small hit after the Fed's policy shift and economic reopening. Overall, the S&P 500 index is up 15.9% year-to date thru 9/30 and 30.0% over the 12 months through Q3.

The MSCI U.S. Broad Market index was flat in Q3 and the Dow Jones Industrial Average declined 1.5%. The debate over whether the current environment calls for a wholesale commitment to growth stocks or value stocks has appeared to drop off of the media's radar. Growth Stocks are stocks whose issuing company is expected to grow at a significantly higher rate than the market. Value stocks are stocks that are statistically cheap as a multiple of its earnings or book value as compared to the overall stock market. Value stocks, typically those considered best suited to benefit from economic reopening, have outperformed so far this year. If their edge holds, it will be the first calendar year since 2016 that growth has given ground to value.

Abroad, China's crackdown on various sectors, namely tech and education, along with the news of Chinese real estate Giant Evergrande's default has caused emerging markets to tumble. While it is true that China makes up a huge chunk of the emerging markets picture, it does not tell the whole story. Emerging markets outside of China are up 9.2% year-to-date in contrast with China being down -16.6% over the same time period.

Supply-chain disruptions have been wreaking havoc across the country as the U.S. economy struggles to fully recover from the pandemic. These disruptions are fueling the increase in prices and growing shortage of goods. The factors contributing to the shortages can be summed up as a combination of supply-chain bottlenecks and significant decrease in the workforce. Across the board, economists are warning that the supply-chain strains are only going to tighten over the next 6 months before they have a possibility to catch a break.

Inflation has continued to rise in Q3 and may persist through the end of 2021. It is expected to be the highest rate of inflation since 1990. Additionally, the Fed seems likely to announce a "tapering" of quantitative easing in early November barring an unexpected turn of events. Implementation would follow shortly after the announcement with rate hikes getting pushed back to late 2022. With the Fed not raising interest rates anytime soon, inflation is likely to outpace their current forecast.

In summation, the best performing sectors in Q3 were financials, technology and REITs. With the worst performing sectors being defensive staples, materials and industrials. The S&P 500 has had over 50 record highs this year which historically does not bode well for returns the year following. However, we anticipate the economy will continue to recover and set the stage for further stock gains.

As always, we are grateful for the opportunity to continue to serve as your trusted advisor. Please reach out with any questions or concerns.

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