THE OCTOBER EFFECT

NOVEMBER 2021

As we fall back to standard time and the days get shorter, we will take this opportunity to look back at the month of October and the issues facing us as we head towards year end. The S&P 500 added 6.9% in October, the largest one-month gain since November 2020.[1] We also saw multi-year highs in inflation readings and energy prices,[2] as well as better-than-expected corporate earnings.

As of October month-end, 82% of companies reported earnings above estimates, exceeding the five-year average of 76%. On average, that outperformance has been 10.3% higher than estimates (compared to a five-year average of 8.4%)[3].

Where will things go from here?

QUICK TAKE

October was a great month for markets, but inflation has continued to spike and the Fed just announced the first steps towards reining in monetary policy. We're also seeing a bit of a mixed bag of data for U.S. consumers and are monitoring the ongoing tax policy negotiations occupying policymakers in Washington D.C.

Index Returns
(October 2021 and Year To Date)

Bloomberg Barclays Aggregate Bond Index US investment grade bonds	-0.03% for October*	-1.58% for the year*
S&P 500 Index Large US Equities	6.91% for October*	22.61% for the year*
MSCI World Index Large/mid developed world equities (ex-US, CAN)	5.69% for October*	19.89% for the year*
MSCI Europe Index Large/mid developed european equities	4.54% for October*	15.66% for the year*
MSCI Emerging Markets Index Global emerging market equities	1.00% for October*	-0.00% for the year*

* As of October 31, 2021

Inflation Jumps (Even More)

October was a fantastic month for investors, but worries about inflation (as well as actual inflation readings) could put pressure on both the Fed and on markets—not to mention consumers.

In September, the U.S. Core Personal Consumption Expenditures index jumped 4.4% year-over-year, the fastest pace in 30 years.[4] This index tracks prices for domestic purchases and is watched closely by the Federal Reserve.

We've talked about inflation before, which the Fed has stated is "expected to be" transitory. The Fed also recently announced that it will begin tapering its asset purchases in November, an initial step towards reining in monetary policy.[5]

The question is *how* transitory inflation will be—and what it means for consumers in the meantime.

Milk price inflation (4% in the last year) has gotten a bit of press recently, but consider that boneless chuck roast prices are up 28%. Consumers with cars are also feeling prices at the pump—gas is up 61% from a year ago.[6]

These kinds of changes could be impacting some of the decline in financial security reported among Americans. A recent survey found that 38% of U.S. households reported facing serious financial problems in recent months, with nearly one-third of respondents saying they were worse off now than at any other time since the start of the pandemic.[7]

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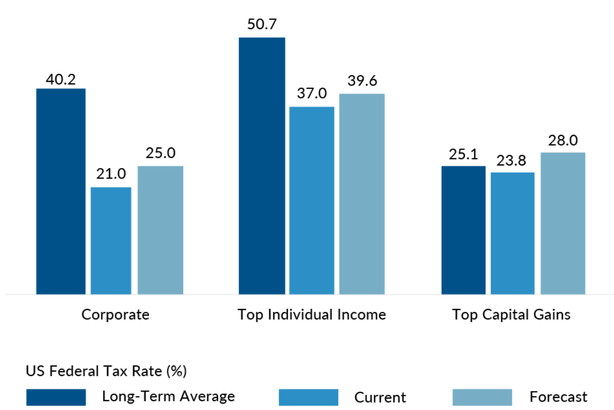
Personal Consumption Expenditures

Note: Seasonally adjusted at annual rates
Source: Commerse Department

We're also seeing a divergence in the labor markets. In October, the number of job openings reached close to a record high, with an increase of 62% over the past year.[8] However, overall hiring has declined, Americans are quitting at a record rate, and the labor force participation rate remains low at 61.6% (a rate last seen in 1976).[9,10]

Lack of childcare due to daycare closures is partly to blame, and women have dropped out of the workforce in droves, sparking the lowest female labor force participation rates since the 1970s.[11] It's hard to say how this will play out over the coming months with the new availability of a children's vaccine for COVID-19, but overall we think it's safe to say that the complexities in the labor market will likely persist.

Expectations vs. Reality



Source: Economic Policy Institute, Tax Foundation, GIR, and Goldman Sachs Asset Management

Tax Changes on the Horizon?

Another issue we are following closely is tax policy. With public spending at record highs and tax rates at historical lows, it stands to reason that tax rates will revert to historic averages.[12] How this evolves, of course, remains to be seen—current proposals have higher rates on capital gains, tax increases on annual income over $10 million and greater corporate taxes.

While we'll need to wait and see the direction of negotiations in Congress, we are closely watching the situation and consulting with our network of accounting specialists on potential risk areas and year-end planning opportunities for clients.

Overall, it's clear to us that the process of emerging from the pandemic is far from over—with higher short-term inflation and labor market challenges, we'll likely continue to feel the impact for some time. We will continue to provide as much insight and information on these matters as we can, including the continuation of our educational webinars.

If there are any questions or topics you'd like us to cover, please don't hesitate to let us know! We love hearing from you about what's on your mind.

Please call us to schedule your year-end meeting if we have not already reached out to you. One thing that is constant is change and our goal is to stay ahead of possible changes and help you plan accordingly.

The Bloomberg Barclays U.S. Aggregate Bond Index measures the investment-grade U.S. dollar-denominated, fixed-rate taxable bond market and includes Treasury securities, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

The S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe and covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 emerging markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP is the most commonly used measure of economic activity.

SOURCES

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2. https://www.wsj.com/articles/soaring-energy-prices-raise-concerns-about-u-s-inflation-economy-11633870800
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12. Goldman Sachs Asset Management

Performance table sources:

BBAB: https://performance.morningstar.com/Performance/index-c/performance-return.action?t=XIUSA000MC

S&P 500: http://performance.morningstar.com/Performance/index-c/performance-return.action?t=0P00001G7J&region=usa&culture=en-US

MSCI: https://www.msci.com/end-of-day-data-search