Monthly Market Update – November 2021

Provided by Asset Consulting Group

Global Economy

Global equities and other risk assets closed November down after a late-month flight to safety triggered by news of a new Covid-19 variant of concern. The selloff hit markets already made vulnerable by a worsening Covid outbreak In parts of Europe, high inflation, and central bank tightening. In a heavily-telegraphed move, the Fed announced its tapering plan at the November 2-3 Fed meeting. The Fed's initial timeline suggested a finish to tapering in June 2022, though hawkish comments from Fed Chair Powell at the end of the month have raised expectations for an accelerated timeline, and the market is now pricing in rate hikes by mid-2022. Economic news trended positive overall, with strong consumer spending and a decline in unemployment from 4.8% to 4.6% after October payrolls beat expectations. Additionally, the long-discussed infrastructure bill was passed, which includes $550 billion in new spending. The House also passed the "Build Back Better" plan, but the bill has yet to pass the Senate. All was overshadowed, however, by the month-end reveal of the Omicron variant, which prompted new travel restrictions over concerns the variant was more transmissible and would evade vaccines. Confirmation of the variant's transmissibility and virulence will be key in the coming weeks, but Omicron is likely to be manageable given accumulated experience with the virus and initial reports of milder symptoms than Delta.

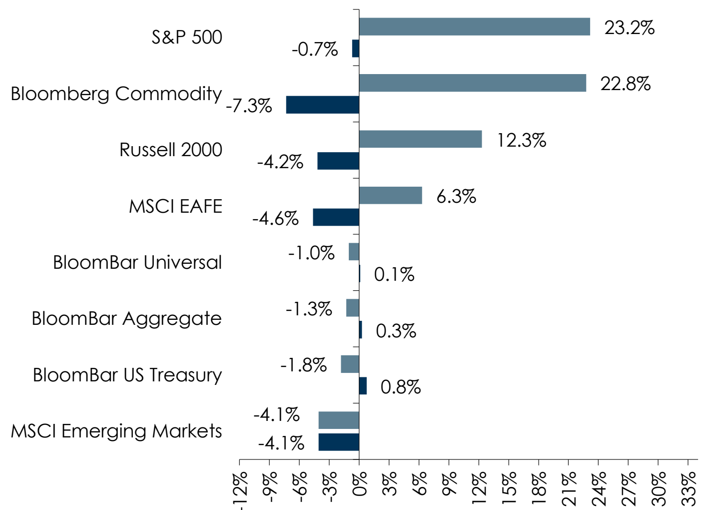
Global Markets

- **Global Equity –** Equity indices were down in November and volatility rose following new Covid containment measures in response to rising cases in Europe and the introduction of a new variant. Earnings continue to be supportive with projections for S&P 500 earnings growth for calendar year 2021 at ~45%. However forward momentum on earnings appears to be peaking, particularly in emerging markets where slowing growth in China and low Covid tolerance are weighing on projections. The disruption caused by Omicron highlights the declining risk tolerance in an environment of peaking growth, tighter central bank policy, and high inflation. Equities still retain some appeal, as valuations have become more favorable in recent months, particularly in non-US regions and US Small Caps, and a well-positioned consumer should continue to support earnings. Relative valuations also favor equities over credit given low interest rates and tight credit spreads.

- **Global Fixed Income –** Fixed income indices were mixed as US Treasuries rallied and spread sectors were flat-to-down. The US Treasury curve flattened as investors considered the potential for sooner than expected rate hikes and the impact of the new Covid variant on economic growth. Credit spreads were impacted by the risk-off sentiment, with investment grade widening 12 bps and high yield 50 bps wider. Nonetheless spreads remain low relative to history. Core fixed income investing remains a challenge with nominal yields trailing current inflation across the entire treasury curve and most grades of corporate credit. Although credit spreads remain tight, a robust economy and demand for income should continue to support spread sectors. ACG continues to value Absolute Return strategies that often benefit from volatility and can offer downside protection, while a marginally higher cash allocation provides portfolio flexibility.

- **Global Real Assets & Private Markets –** The third quarter was the best for US Core Real Estate since 2005, with all property sectors generating positive returns. Industrial properties continued to lead with apartment returns also strong while office, hotel and retail lagged. Global PE activity has been on a record-setting pace in 2021, and measures for private equity purchase price multiples remain elevated as managers look to deploy dry powder. The broad commodities index was negative, with energy taking a tumble on the variant news. CPI (+6.2%) and Core CPI (+4.6%) both hit their highest yearly increases in over 30 years while measures of future inflation expectations declined modestly with the 10-year inflation breakeven down 8 bps to 2.51% and the 5-year falling 12 bps to 2.81%.

Key Market Indices



Source: Bloomberg

	Current	20-Dec
US GDP (%)	2.10	4.30
US Unemployment (%) *	4.60	6.70
CPI (Core) (%)	4.60	1.60
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.45	0.92
S&P 500 Div Yld (%)	1.32	1.57
S&P 500 P/E (Trailing)	25.04	29.92
Gold/oz.	$1,773.60	$1,895.10
Oil (Crude)	$66.18	$48.52
Gasoline (Natl Avg)	$3.48	$2.33
USD/Euro	$1.13	$1.22
USD/GBP	$1.33	$1.37
Yen/USD	¥113.17	¥103.25

* Data as of November 30, 2021

Source: Bloomberg

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