October 2021

PRATT WEALTH MANAGEMENT

Not So Fast

The “great re-opening” began to stall during the third quarter, ushering in a wave of volatility in the stock market. July and August were rather calm, rising steadily before peaking on September 2nd. A slow decline followed the next few weeks, accentuated a sharp increase in volatility during the last two weeks the quarter; driven by rising rates, inflation fears, and chaos in the Chinese property market. The S&P 500 ultimately ended the month of September down nearly 5% but managed to remain slightly positive for the last three months overall. The DOW and NASDAQ did not fare quite as well, both dipping into negative territory for the quarter, however all major market stock indexes remain positive for the year.

It should be unsurprising that September was negative, as it has historically been the worst month for US stocks. In fact, when looking at average US stock returns by calendar month going back to 1926, September alone has a negative average. Those declines and subsequent rebounds likely contributed to November – January being the three-month period that has historically experienced the largest gains.

International markets moved nearly in lockstep with their US counterparts, though with slightly more muted growth during the summer leading to a slight loss for the quarter. Recent headline news from the UK surrounding gas and drug shortages added to the instability.

Interest rates jumped early in the year and steadily worked their way back down until early August. We’ve seen a gradual increase since, which has put pressure on bond prices. For now, rates remain below the levels reached back in April and credit spreads remain narrow, a sign that the market sees a low probability of companies defaulting any time soon. The aggregate bond index finished the third quarter essentially flat and remains slightly negative for the year.

A US government shutdown was averted in the final hours of September, but congress failed to address the nearing debt ceiling. While the debt ceiling debate often elicits calls to cut back on government spending, lifting the limit does not actually authorize any new spending – it simply allows the US to finance existing obligations. Congress has acted to adjust the ceiling 78 times since 1960 and we anticipate they will again – though likely not until around the time that the Treasury exhausts its borrowing capacity, which could be in late October or early November. While politicians like to grandstand, it’s widely recognized that the ramifications of not lifting the limit and allowing the US to default could be an economic catastrophe.

Geopolitical risks aside, there’s reason to be optimistic about the economy as year-end approaches. The Conference Board Leading Economic Index has continued to rise and we’re likely to see stronger job gains this Fall. Vaccination rates are edging up, enhanced unemployment benefits expiring, and schools are reopening in-person, making more parents available to reenter the workforce. Global supply chains are still in recovery but should see continued improvement as time moves along.

As always, please let us know of any questions or concerns. We are available to visit in-person, via Zoom, or on the phone.

The PWM Team

Market Update

Market index returns for the third quarter and year of 2021:

	Q3	YTD
DOW	-1.46%	+12.12%
NASDAQ	-0.23%	+12.66%
S&P 500	+0.58%	+15.92%
MSCI EAFE	-0.45%	+8.35%
Barclays Agg	+0.05%	-1.55%

Homes Rise

The value of a single-family home in the US increased by an average of 17.4% over the 12 months from 6/30/20 to 6/30/21.

Fourth Quarter

Over the last 30 years, the S&P 500 index has gained an average of +4.78% over the final three months of the year, the best gain of the four quarters. 24 of the last 30 fourth-quarters have been positive.

Retirement Uptick

3.2 million Americans retired in 2020, a 56% increase over the average of 2.05 million who retired over the previous 8 years.

Connect With Us

@prattwealth

@prattwealthmn

Visit us at:

www.prattwealth.com

connect@prattwm.com
507.388.0770

Main Office
1651 Commerce Dr
North Mankato, MN 56003

Metro Office
2315 Waters Drive
Mendota Heights, MN 55120

Statements regarding stock market returns refer to the S&P 500 index and bond index returns refer to Barclays Aggregate Index.
S&P 500: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.
The Barclays US Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market
The Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East.
DJIA- A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including stocks that trade on the New York Stock Exchange
Nasdaq- A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.