TC Wealth Partners LLC
Trust Company of Illinois

MATTERS OF TRUST

From the desks of William M. Giffin, CEO (left) and Kevin Rice, Senior Investment Strategist (right)

THE HIGHS, THE LOWS, AND EVERYTHING IN BETWEEN

The S&P 500 hit new all-time highs again in the third quarter. Investors looked past a resurgence of COVID-19 cases in the U.S. and instead focused on the positive combination of a resilient economic recovery, ongoing historic support from the Federal Reserve, and strong corporate earnings. Market volatility picked up during the final few weeks of September, however. It was a sharp reminder to investors that the transition to a post-pandemic "new normal" isn't always going to be smooth. As we move into the last quarter of the year, the U.S.'s economic recovery is steering into headwinds from policy, global growth uncertainty, and pandemic-related supply chain disruptions.

COVID

The Centers for Disease Control and Prevention reported that the 7-day average of new cases soared from a pandemic low of just under 12,000 in June to about 160,000 at the beginning of September (See Exhibit 1). Average daily deaths also increased from a low of about 200 in July to over 2,000 in mid-September. At the end of September new cases dropped to about 95,000 and deaths to about 1,300. But the numbers remain high; experts caution that further decline could be slow.

EXHIBIT 1: 7-DAY MOVING AVERAGE OF NEW COVID CASES IN THE U.S.

Source: TC Wealth Partners, Bloomberg.

We believe that inflation is likely to remain under upward pressure by factors related to the pandemic shock, but these effects are expected to ease in the coming months.

▸ *Our View*

We believe that an increase in vaccinations will help, but the United States has a long way to go. Only 64% of those eligible have received even one dose so far, and only 55% are fully vaccinated. Business confidence has declined from very elevated levels of Q2 but still remained high in Q3.

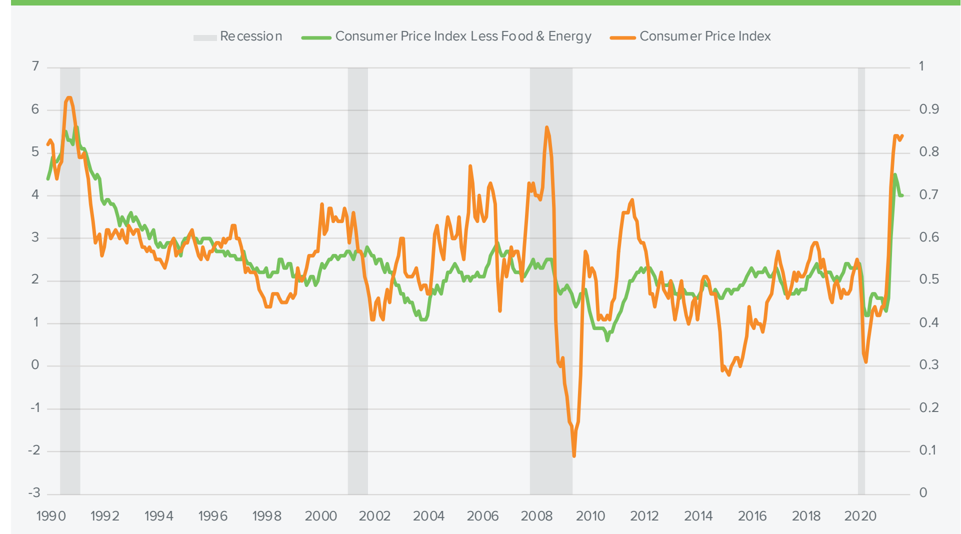
With widespread vaccinations weakening the link between infections and death and natural immunity rising, there have been fewer restrictions and lockdowns associated with the latest surge in cases. Still, businesses have pushed back return-to-office plans, and airlines have been reporting increased cancellations. As the Delta variant recedes, we expect government restrictions to ease and the recovery in service sector spending to continue. We believe this should coincide with a growth reacceleration heading into year end.

INFLATION

The consumer price index (CPI) rose 0.4% in September, as prices surged at the gas pump, grocery stores, and restaurants. Overall inflation rose 5.4% from a year ago, higher than we saw in August and the fourth consecutive month of inflation over 5% (See Exhibit 2). Core (excluding food and energy) prices rose 4% from a year ago. A drop in hotel room rates, airfares, and rental car rates were offset by a pickup in rental costs. The increase in housing rental costs is concerning because they are increasing faster than wages are rising; this will make it difficult for low-wage workers to continue to pay for housing.

The surge in gasoline and food prices alone has nearly wiped out the jump in wages for the lowest

EXHIBIT 2: CONSUMER PRICE INDEX (YEAR-OVER-YEAR CHANGE)



Source: TC Wealth Partners, Bloomberg.

1901 Butterfield Road, Suite 1000 • Downers Grove, IL 60515 • 630-545-2200 • TCWealthPartners.com

paid workers over the last two years. Used vehicle prices continued to recede but were still up nearly 40% from pre-pandemic levels. New vehicle prices surged 8.7% from a year ago, the fastest pace since September 1980.

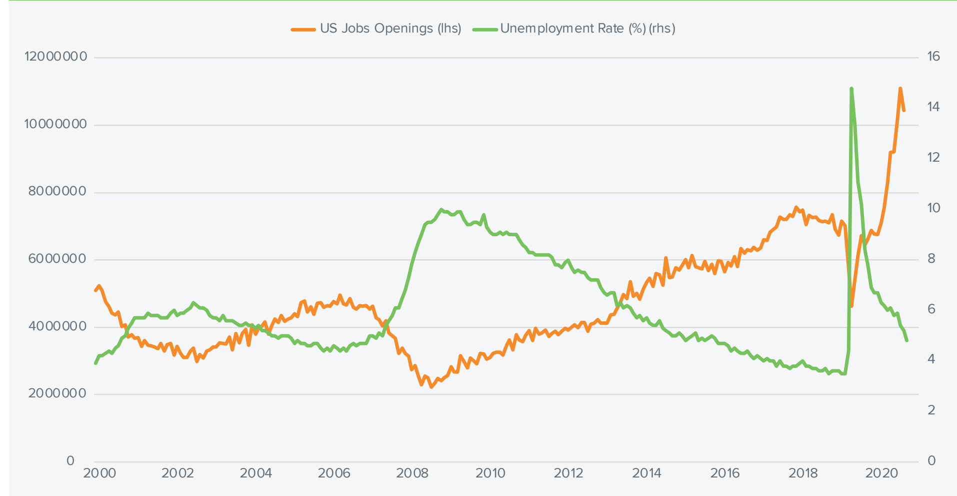
▶ *Our View*

Evidence is mounting that price pressures have broadened beyond the handful of items most directly connected to supply-chain issues or the reopening of the economy. However, the jury is still out if price pressures will continue to increase. In the near-term, we believe that inflation is likely to remain under upward pressure by factors related to the pandemic shock, but these effects are expected to ease in the coming months. However, we believe that inflation risks are weighted to the upside because of concerns that supply disruptions and labor shortages might last longer and might have larger or more persistent effects on prices and wages than we currently assume.

FEDERAL RESERVE

At its most recent Federal Open Market Committee (FOMC) meeting, which ended September 22nd, the Fed indicated it will likely begin reducing the pace of its bond purchases later this year and may begin raising short-term interest rates by the end of 2022. Despite consumer price inflation running at 5.3% in August, Fed Chair Jerome Powell said, after the latest meeting, that he expects to see relief in the coming months and over the course of the first half of 2022; he also said that inflation expectations are still

EXHIBIT 3: UNEMPLOYMENT DATA



Source: TC Wealth Partners, Bloomberg.

at levels consistent with the central bank's 2% inflation target.

▶ *Our View*

We believe the official announcement of tapering will take place at the November FOMC meeting, with actual tapering starting soon thereafter. Fed Chair Jerome Powell indicated that he expected bond purchases to end by the middle of next year, implying a brisk rate of decline in purchases. In our view, tapering is unlikely to slow the economy, because markets are currently functioning well and the issues with the U.S. economy are centered around supply-chain disruptions from COVID. Once the Fed ends its bond buying program, they will begin raising the interest rates. We believe that the pace of the Fed's moves will become important to the outlook for bond yields.

UNEMPLOYMENT

The U.S. economy added 194,000 jobs in September, the smallest gain this year and well below

Despite the disappointing job gains in September, the unemployment rate fell more than expected, to 4.8%; it was a new post-pandemic low.

estimates. We are still down three million workers from February 2020 and woman make up 64% of those unemployed workers as they continue to struggle with childcare and transportation challenges even after schools have reopened.

Despite the disappointing job gains in September, the unemployment rate fell more than expected, to 4.8%; it was a new post-pandemic low (See Exhibit 3). However, that was driven by an unexpected drop in the labor-

force participation rate, indicating that more people left the workforce.

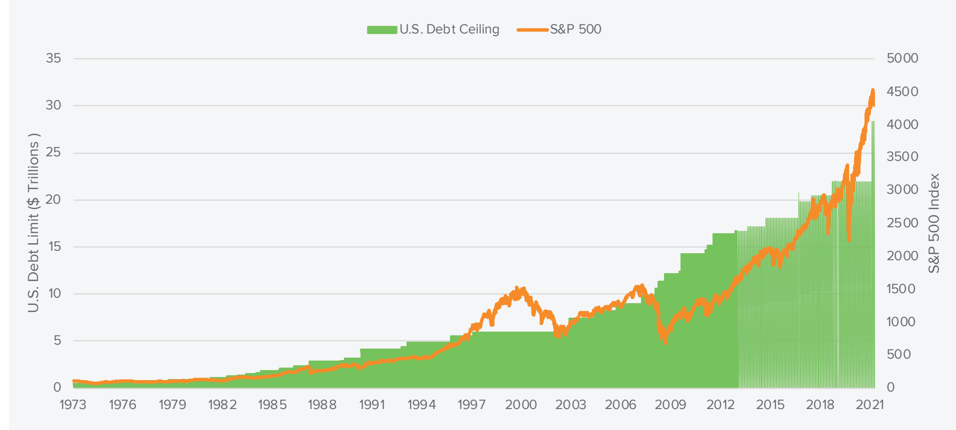
With labor shortages appearing to worsen, employers are boosting pay as they compete to attract workers. Average hourly earnings are now up 4.6% on a year-over-year basis, well above the 3.0% - 3.5% pace that prevailed pre-COVID. According to the most recent Job Openings and Labor Turnover Survey, or JOLTS report, the quit rate is now at 2.9% – its highest level since December 2000. The quit rate has been seen historically as a level of confidence from workers who feel they are secure in finding employment elsewhere, though labor dynamics have changed during the COVID-19 crisis. Workers have left their jobs because of health concerns and childcare issues unique to the pandemic's circumstances.

▶ *Our View*

With job openings at record levels, the expiration of pandemic benefits, and improving delta-variant trends, we think that hiring will pick up in the coming months, but the path towards returning to full employment will not be a straight line.

The expiration of supplemental unemployment insurance at the end of August had been expected to accelerate the re-entry into the workforce. But so far, this wave of re-entrants has failed to materialize, as evidenced from states that ended additional unemployment payments several months ago. In the coming months, with schools more fully reopened and as households spend the last of their stimulus, we believe the participation rate may edge higher. We also believe wage pressures will remain elevated in the coming months.

EXHIBIT 4: U.S. GOVERNMENT DEBT LIMIT AND THE STOCK MARKET



Source: TC Wealth Partners, Bloomberg.

DEBT CEILING

Congress approved a short-term increase in the federal debt ceiling, heading off fiscal calamity and putting an end for now to tense negotiations between the two major parties. The bill increases the borrowing limit by $480 billion, an amount the Treasury Department estimates should keep debt payments flowing until sometime in December. The December deadline was a compromise between Republicans and Democrats, but the path for a longer-term solution remains unclear.

> *Since the end of World War II, Congress and the President have modified the debt ceiling nearly 100 times.*

▶ *Our View*

Regular legislative modifications to the debt limit have been enacted since the debt limit was first created in 1917. Since the end of World War II, Congress and the President have modified the debt ceiling nearly 100 times (See Exhibit 4). We believe that the debt ceiling will be modified again—before the December deadline—because it is in the interest of both parties that they work together to determine a solution.

With the upcoming November 2022 elections, Democratic lawmakers fear that a Republican boycott of future efforts to raise the debt ceiling will leave them exposed to political attack ads that accuse Democrats of disregard for the ballooning debt, while Republican lawmakers fear that Democrats can accuse them of being willing to let the country default on its debts.

EVERGRANDE

Evergrande is one of China's largest real estate developers and owns more than 1,300 projects in more than 280 cities across China. Evergrande expanded aggressively to become one of China's biggest companies by borrowing more than $300 billion, an amount equivalent to around 2% of China's GDP.

Last year, Beijing brought in new rules to control the amount of debt owed by big real estate developers. The new measures led Evergrande to offer its properties at major discounts to ensure money was coming in to keep the business afloat. Now it is struggling to meet the interest payments on its debts.

This uncertainty has seen Evergrande's share price tumble by around 80% this year. Over the past few weeks, the People's Bank of China has injected some cash into the financial system, to help settle nerves. In a statement, the central bank also vowed to "maintain the healthy development of the real estate market and safeguard the legitimate rights and interests of housing consumers."

▶ *Our View*

Questions remain about Evergrande's interest payments and the way a potential debt restructuring will look. Nevertheless, the direct exposure to Evergrande's debt owned by non-Chinese creditors and investors does not appear large enough to threaten the financial stability of the global banking system. We believe that Evergrande will likely impact China in the short-term as economic growth is likely to suffer from a slump in construction activity.

DOMESTIC EQUITIES

U.S. equities notched up a small positive return in Q3. Strong earnings had lifted U.S. stocks in the run-up to August when the Fed seemed to strike a dovish tone, confirming its hesitance to tighten policy too fast.

EXHIBIT 5: DOW JONES INDUSTRIAL AVERAGE PERFORMANCE (1900-2020)			
MONTH STARTING	Month Ending	% Times Up	Average
Dec	Jan	66%	2.20%
Jan	Feb	59%	0.80%
Feb	Mar	52%	0.50%
Mar	Apr	64%	2.00%
Apr	May	59%	1.30%
May	Jun	53%	0.10%
Jun	Jul	60%	1.60%
Jul	Aug	53%	2.40%
Aug	Sep	58%	-0.10%
Sep	Oct	48%	-0.70%
Oct	Nov	63%	1.40%
Nov	Dec	72%	2.60%

Source: TC Wealth Partners, Bloomberg.

September ranks as the worst-performing month for the S&P 500 over both the last ten and twenty years, and it is the only month with negative average returns over each period.

However, growth and inflation concerns late in the quarter meant U.S. equities retraced their steps in September, and it lived up to its reputation as being the weakest month of the year for the stock market (See Exhibit 5). The S&P 500 finished with just its second monthly loss of 2021 and the worst month since March 2020. September ranks as the worst-performing month for the S&P 500 over both the last ten and twenty years, and it is the only month with negative average returns over each period. For the quarter the Dow fell 1.46% and the Nasdaq dropped 0.22% while the S&P 500 gained 0.58%.

▶ *Our View*

We believe that the upcoming shift by the Fed to start withdrawing stimulus will be a catalyst for increased market volatility, but we believe any market pullbacks will prove to be temporary. In our view, the combination of strong GDP growth, rising corporate profits and still-low interest rates will continue to support an enduring bull market in the coming months.

INTERNATIONAL EQUITIES

Internationally, foreign markets declined 0.33% in the third quarter as measured by the MSCI EAFE Index (See Exhibit 6). Emerging markets initially declined sharply on concerns that rising COVID-19 cases would derail the global recovery. But late in the quarter they fell even further on Chinese growth worries that stemmed from the Evergrande debt issues. For the quarter the MSCI EM Index dropped 8.03%. Foreign developed markets, meanwhile, declined modestly during the final few weeks of the quarter on general global growth concerns combined with potentially higher global interest rates.

▶ *Our View*

We believe that the Euro area looks on track for a return to above-trend growth over the fourth quarter and into 2022 as the European Union's pandemic recovery begins to disburse stimulus payments. Our long-term view for emerging markets has always been for higher economic and earnings growth, but that has not played out since COVID-19 shut down the world. We do think emerging markets will offer higher growth in the future, but the timing is uncertain given poor vaccination rates across many countries and the challenges presented by the recent Chinese crackdown and the broader economic slowdown.

FIXED INCOME

Most bond indices were solidly higher through mid-September as investors rotated to safety following the rise in COVID-19 cases in July and August. But in late September, the combination of the Fed confirming that tapering will begin this year and the still-high inflation statistics weighed on fixed-income markets during the final few days of the third quarter; this erased most of the quarter-to-date returns for many bond indices. The yield on the 5-year U.S. Treasury note ended at 0.31%, the 10-year finished at 0.64% and the 30-year was at 1.46%.

The combination of the Fed confirming that tapering will begin this year and the still-high inflation statistics weighed on fixed-income markets during the final few days of the third quarter.

▶ *Our View*

We expect longer-term Treasury yields to continue to move higher, but in smaller steps. Longer-term yields are driven largely by market expectations for inflation and economic growth, and we expect 10-year Treasury yields to rise later this year and in 2022 as economic growth continues and inflation rises. We continue to stress that fixed income is principal protection first and income second. We believe that active management is crucial right now because duration risk is high, yields are low, and default risk remains elevated.

CONCLUSION

All of us at TC Wealth Partners/Trust Company of Illinois are so appreciative to serve you through all of the ups and downs and unknowns that our country and world are facing. We will continue to keep you updated with our views as new events unfold. We urge you to keep a long-term perspective, review your financial plan, and have conversations with your advisor about plotting your course. Please take care and be safe! ■

NOTEWORTHY

ATTENDED

KATHLEEN SCHELLING
RIA Compliance Consultants Annual (Virtual) Conference
August 2021

DEBRA L. GREGORASH
Illinois CPA Society Annual (Virtual) Conference
August 2021

KIMBERLY O'BRIEN
Morningstar Investment (Virtual) Conference
September 2021

JILL L. WARD
Savvy Social Security & Medicare Planning (Virtual) Workshop
September 2021

SPONSORSHIPS

SPECTRIOS ANNUAL GOLF CLASSIC
Prairie Landing Golf Club
West Chicago, IL
September 2021

TUSKEGEE NEXT RED TAIL BALL
DuPage Airport
West Chicago, IL
September 2021

SHINE BRIGHT LIKE A DIAMOND AID BENEFIT AUCTION
Fishermen's Inn
Elburn, IL
September 2021

EXHIBIT 6: MARKET PERFORMANCE

S&P 500 SECTORS	Q3-2021	YTD	1Yr	3Yr	5Yr	10Yr
Utilities	1.78%	4.20%	11.06%	10.28%	9.11%	10.58%
Real Estate	0.88%	24.38%	30.52%	14.70%	10.21%	11.18%
Materials	-3.51%	10.49%	26.48%	13.36%	12.94%	12.82%
Information Technology	1.34%	15.28%	28.90%	27.23%	28.40%	23.11%
Industrials	-4.22%	11.48%	28.95%	9.79%	12.47%	14.96%
Health Care	1.43%	13.45%	22.56%	12.38%	14.17%	17.05%
Financials	2.74%	29.04%	58.97%	13.30%	16.57%	16.94%
Energy	-1.72%	43.10%	82.83%	-6.82%	-1.59%	2.11%
Consumer Staples	-0.31%	4.69%	11.34%	11.92%	8.55%	11.92%
Consumer Discretionary	0.01%	10.28%	19.15%	16.26%	18.98%	19.52%
Communication Services	1.60%	21.59%	38.39%	20.06%	12.53%	12.41%
DOMESTIC EQUITY INDEXES	**Q3-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Russell 2000	-4.36%	12.40%	47.65%	10.50%	13.42%	14.61%
Russell Midcap	-0.93%	15.16%	38.09%	14.19%	14.36%	15.51%
Russell 1000 Growth	1.16%	14.29%	27.31%	21.98%	22.82%	19.66%
Russell 1000 Value	-0.78%	16.12%	34.98%	10.04%	10.91%	13.49%
NASDAQ	-0.22%	12.67%	30.33%	22.71%	23.42%	21.01%
S&P 500	0.58%	15.91%	29.98%	15.97%	16.87%	16.61%
FIXED INCOME INDEXES	**Q3-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Global Aggregate ex. U.S.	-1.59%	-5.94%	-1.15%	3.17%	1.10%	0.90%
U.S. Aggregate	0.05%	-1.55%	-0.90%	5.35%	2.94%	3.01%
Treasury	0.09%	-2.50%	-3.30%	4.89%	2.23%	2.20%
High Yield	0.89%	4.53%	11.28%	6.90%	6.51%	7.42%
TIPs	1.75%	3.51%	5.19%	7.44%	4.33%	3.12%
Municipals	-0.27%	0.79%	2.63%	5.06%	3.26%	3.86%
Asset Backed Securities	0.05%	0.23%	0.59%	3.50%	2.36%	2.12%
Mortgage Backed Securities	0.10%	-0.67%	-0.43%	3.85%	2.17%	2.40%
Commercial Mortgage Backed Securities	-0.03%	-0.25%	0.99%	5.71%	3.36%	4.16%
INTERNATIONAL EQUITY MARKETS	**Q3-2021**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
MSCI World	0.10%	13.45%	29.41%	13.74%	14.37%	13.33%
MSCI ACWI	-0.95%	11.48%	27.99%	13.15%	13.79%	12.52%
MSCI ACWI ex U.S.	-2.89%	6.27%	24.47%	8.57%	9.49%	8.03%
MSCI EAFE	-0.33%	8.84%	26.36%	8.22%	9.42%	8.69%
MSCI EM	-8.03%	-1.16%	18.52%	8.91%	9.58%	6.45%
MSCI Europe	0.84%	16.79%	29.47%	8.51%	8.79%	10.35%
MSCI Asia Pacific	-4.32%	0.60%	18.67%	8.94%	10.11%	8.79%
MSCI North America	0.28%	15.47%	30.70%	16.44%	16.92%	16.13%
MSCI EM Asia	-9.53%	-4.09%	14.22%	10.31%	11.05%	8.85%
MSCI EM Latin America	-13.22%	-5.36%	27.66%	-1.06%	2.17%	-0.82%
MSCI EM Europe & ME	4.28%	21.16%	41.10%	8.09%	7.23%	3.28%

Source: TC Wealth Partners, Bloomberg.

TC Wealth Partners LLC

Trust Company of Illinois

Investment advisory services provided through TC Wealth Partners, LLC, an investment advisor registered with the U.S. Securities and Exchange Commission. Trust services and retirement plan services are provided by the Trust Company of Illinois, a trust company chartered by the Illinois Department of Financial and Professional Regulation. Past performance is not indicative of future results.