ambwealth

Market Update

October 4th, 2021

September marked the worst month for the U.S. equity markets since March 2020. After a strong first day of October, markets are once again struggling to catch a bid. We saw equity markets move lower while yields broke out of their three-month consolidation phase moving to the upside. As we mentioned in multiple letters, we felt the technical backdrop for interest rates would clear itself up by the end of September. That seems to have happened with the 10-year touching 1.5% on Monday. There will be a lot of data points hitting the tape this week, which the market will have to digest as it tries to find direction.

Markets do not like uncertainty, and we currently have an abundance of it. We hope some of this will clear up this week as economic data begins to roll in. Purchasing Manager's Index (PMI) and payrolls will be a focal point for market participants. PMI data will be released on Tuesday and will give us an idea on how the economy did going into the end of Q3. We already downgraded our growth expectations for the 3rd quarter and this data will help identify just how much we did slow down.

Payrolls will give us a guide on what to expect from the Federal Reserve heading into what we believe will be a November tapering of asset purchases. Unless we see something catastrophic in the jobs number, we believe that timeline will hold. Wage growth has also been a key highlight the last few months. Even with the big payroll miss in August, rates moved higher as wage pressures were above expectations. So, as we look forward, the two key factors in the Friday report will be the headline payroll numbers along with wage growth, with the latter presently of more importance.

Inflation has been weighing on markets as of late. As we mentioned a few months ago, we felt inflation was stickier than what the Federal Reserve was portraying to market participants. So far, the data has confirmed this and Federal Reserve Chairman Jerome Powell stated as much to Congress last week. We have started to see companies come out and warn that they were not going to meet their 3rd quarter targets. All of them mentioned rising costs, margin pressure and supply chain disruptions as the culprit. This will be a fluid situation that will continue to change as we move further into the 4th quarter and into next year.

Politics have played a central roll in market uncertainty over the past few months. At the beginning of the year, it looked as if an infrastructure bill along with an infrastructure package would get passed through reconciliation pretty quickly, as the Democrats have a majority in both the House and Senate. The initial price tag would have been $4.5 Trillion. However, there are currently some internal rifts inside the Democratic party and this no longer looks like a possibility. Because of party infighting and a Republican party who has vowed not to support the Democrat's agenda, we are also dealing with a looming debt ceiling deadline. Treasury Secretary Janet Yellen gave a date of October 18, 2021 as the line in the sand before the U.S. Treasury would not be able to meet its obligation. The Treasury department has been operating through extraordinary measures but without an increase/suspension of the debt ceiling, the U.S. will default on its debt. We currently do not believe it will come to this. In our opinion the Democrats will come to an agreement, but we think the size of the package will be closer to $2 Trillion. Neither side will be happy, but we believe it will push the legislation through.

With all that is currently happening, we expect volatility in the markets to continue. We still favor quality value over growth in the equity markets and remain short in duration with our fixed income investments. Even with the recent selloff, valuations remain extremely elevated in pockets of the market which we are avoiding. We will be watching and keeping you updated on our thoughts as more data comes out. Sometimes we forget that an important aspect of a healthy market

135 South Madison Ave
Thomasville, GA 31799
229-225-1500
www.AMBwealth.com

is corrective activity. We need the market to flush out excess but at the same time it gives us the opportunity to put money to work.

We will continue to navigate this difficult environment to the best of our ability. As always, we at AMB thank you for your support and for allowing us to partner with you in reaching your financial goals.

Matthew J. Roach, CFA
Director of Portfolio Management