

Looking Back: Q3 2021 in Review

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By Bill McKay, CFA, SVP, Head of Multi-Asset Class Investments

After a strong rally from the bottom in March 2020, markets finally stalled out during the third quarter of 2021. For the quarter, the S&P 500 rose 0.6%, TSX Composite rose 0.2%, MSCI AC World returned -1.1% and the MSCI Emerging Market Index returned -8.1%.

Equity markets had benefitted from a steady downtrend in interest rates which began at the end of March and ran until late August. This, combined with a recovering global economy and a solid earnings recovery, led most major markets to strong returns midway through the year. However, interest rates spiked significantly during September over concerns about inflation being persistent rather than transitory and the likelihood of rate hikes coming eventually (albeit not imminently) put downward pressure on equities during September. For the year-to-date period, the S&P 500 was up 15.9%, the TSX was up 17.5%, the MSCI AC World rose 11.1%, while the MSCI Emerging Market Index lagged significantly, returning -1.2%. From a style perspective, growth stocks continued to benefit from declining interest rates until late August and surpassed performance of value stocks on the year to that point, until the September spike in interest rates led to a reversal and value stocks again outperformed. For the first three quarters of the year, value stocks globally returned 13.8% while growth stocks globally returned 12.0%.

Interest rates experienced some trend reversal during the quarter. In Canada, the 10-year yield began the quarter at 1.39%, falling in early August to almost 1.10%, before spiking during September to end the quarter at 1.51%. There were similar moves in U.S. fixed income, with the 10-year Treasury yield beginning the quarter at 1.47%, falling in early August to below 1.20% before rising during September to end the quarter at 1.49%. During Q3, the FTSE Canada Universe Bond Index returned -0.5%, bringing the year-to-date returns to -4.0%, while the U.S. Barclays Aggregate Bond

Index returned 0.1% in Q3 and -1.6% year-to-date. In contrast, and as a result of their low sensitivity to interest rates and high sensitivity to credit spreads, Canadian preferred shares had another good quarter, up 2.8% in Q3 and now up 17.4% year-to-date.

In commodities, oil had a volatile quarter, starting at the \$74 level before selling off during the summer to the low \$60s, and then rallying strongly late in the quarter to end at the \$75 level. Gold was also quite volatile during the quarter, but ended September just slightly below where the quarter started. The Canadian dollar had been trending weaker over the quarter as well, moving from 1.24 at the end of June to around 1.27 at the end of September.

Equities suffered a bit of weakness late in Q3, but given the magnitude of the market rally over the previous year and a half, a bit of a pullback shouldn't be taken as much of a surprise. While the sharp move in rates in September seemed to take the market by surprise, on an absolute basis rates are still very low and supportive of valuations. Despite the strong performance of developed market equities in 2021, valuations have actually come down a bit as company earnings have outpaced the increase in market prices. On the balance of risk and reward, our positioning remains to be fairly neutral on equities.

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