Investment Environment & Outlook

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Sabal Trust

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Market & Economic Environment

Historically, September has challenged investors, which held true once again. As market prices pushed higher this summer, a growing number of risks converged during the month. Some variables that exerted their influences included the economic impact of the Delta variant, inflationary pressures, supply chain disruptions, the specter of higher taxes and bitter partisan fighting in Washington D.C. Even with market averages hitting new all-time highs, we expressed concerns over investor complacency and discussed the need for patience and discipline. Our current positioning skews towards safety, bolstering the likelihood of better performance in a challenging market environment.

CONSUMER CONFIDENCE

Consumer confidence directly influences spending. Confidence fell again last month to a seven-month low as consumers pulled back on purchasing activity. The upcoming holiday season will rely on a confident, healthy consumer that is willing to spend. If consumers do not remain engaged, it could create economic headwinds.

VOLATILITY

Since 1950, the S&P's average return for the month of September has been negative while all other months are positive. Last September and October, markets pulled back approximately -6.0%. Distress over potential contagion from Chinese property developer Evergrande and uncertainty about fiscal and monetary policy fueled recent selling activity. The primary tool we use to manage risk is asset allocation. During periods of elevated volatility, review stock, bonds and cash levels in your portfolio to ensure you are properly positioned to accomplish your goals and objectives.

LABOR MARKETS

Recent labor market reports have disappointed as the Delta variant weighs on the job market. As companies struggle to fill job openings, they must resort to boosting wages to attract talent. Average hourly earnings pushed higher to an annualized rate of 4.3%. Some of this gain comes from lower paying jobs that were hit the hardest during the pandemic. Future labor market reports will influence tapering and interest rate decisions.

INFLATION

The growth rate of inflation moderated for the second straight month and touched its lowest level since January, which could support the Federal Reserve's transitory inflation outlook. Yet, cyclical inflationary pressures remain elevated, as companies across a wide range of industries continue to report higher input costs. More time is required to tell if these pressures are permanent or not.

SUPPLY CHAINS

Shortages of available goods for purchase, the inability to adequately stock inventory, and upward pressure on prices continue to create headaches for consumers, companies and policy makers. Closing manufacturing facilities during the COVID lockdowns inevitably would take time to restart as production normalized. The surge of global demand with reopening placed additional pressures on already stressed supply chains. Now, the Delta variant is creating new disruptions that will take time to work themselves out.

MANUFACTURING ACTIVITY

Manufacturing is highly correlated with business expenditures and economic growth. Demand remains strong and manufacturing continues to rebound. While some of the higher input costs, due to elevated commodity prices, are starting to subside, the shortage of workers and bottlenecks within supply chains continues to drag on overall production levels. Time should ease these pressures, but lingering supply constraints resulting in higher input costs could accelerate a policy response.

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Fixed Income Observations

Inflationary pressures appear to be everywhere. Companies across the economic spectrum are reporting higher input costs, which supports the argument that cyclical price pressures are real. Even as the Federal Reserve adheres to their transitory narrative, risks of higher inflation are quickly becoming a reality, which could cause policy makers to pivot their policy sooner than expected. While Federal Reserve Chairman Powell better defined the tapering timeline, as we have said before, reducing bond purchasing activity is not the same policy shift as raising interest rates. However, market volatility could remain elevated as investors sort through the changing environment.

YIELD CURVE

- In September, the Federal Reserve surprised markets with a hawkish tilt, signaling a scaling back of asset purchases to start sooner than anticipated and at an accelerated pace. Tapering is expected to begin as soon as November. The FOMC announcement, coupled with unexpected resignations of two hawkish Federal Reserve Presidents brought added volatility to the credit markets.

- Most bond indices posted losses in September, turning Year-to-Date returns negative. As the Federal Reserve starts withdrawing policy support, yield volatility will likely continue, which could pressure bond prices and weigh on future performance.

- In the current environment, a measured approach is always prudent. We continue to recommend against compromising credit quality in search for better yields.

United States Treasury Yield Curve

09/30/2021 - Yield
08/30/2021 - Yield
09/30/2020 - Yield
09/30/2019 - Yield
24-Mo Ago
1-Mo Ago
Sep'21
12-Mo Ago
2.5
2.0
1.5
1.0
0.5
0.0
M 2M 3M 6M 1Y 2Y 3Y 5Y 7Y 10Y 20Y 30Y

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