September 2021
REVIEW & COMMENTARY

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CHASE INVESTMENT COUNSEL CORPORATION
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Markets Continued the Upward Trend

August 2021 Wrap Up

Thank you, Jerome Powell,

As most of you know, in a video address on August 27th originally scheduled to be delivered in-person at a symposium in Wyoming, Powell clarified what many pondered – how to end the era of balance sheet expansion and ultra-low interest rates without unduly scaring markets. Powell set a clear line between slowing and ultimately ceasing purchases of bonds and other fixed income securities and raising interest rates. It seems the world can tolerate the former so long as the latter – low rates – stick around.

As a result, markets continued the upward trend they have now been on for seven consecutive months. The S&P 500® Index rose 3.04% for the month, putting it up about 21.6% year to date (through August 31st).

August was good for "risk on" strategies. According to S&P Global, the two best-performing "factors" in August were momentum and growth, up 4.54% and 4.18% respectively. The two "worst" performing factors were High Yield Dividend Aristocrats and Low Volatility/High Dividend, up 1.35% and 1.51% respectively. The Financial sector was the best performing in August rising 5.14%, with Communications Services second and Utilities third, up 5.01% and 3.98% respectively. The three worst sectors were Energy (-2.04%), Industrials (1.15%) and Consumer Staples (1.40%).

According to poet T.S. Eliot "April is the cruelest month" of the year. For investors, however, September wins according to the Stock Trader's Almanac. It has historically been the worst month of the year for the Dow Jones, S&P 500 and NASDAQ indices. In the past 69 years, the S&P 500 has been up 32 times and down 37 times. The average loss, however, has been minimal – 0.4% over the period.

It is interesting to note Eliot penned his famous "April" line in his poem "The Wasteland" in 1919, during his recovery from the Spanish flu pandemic of 1918. Economies, both in the U.S. and abroad, generally are continuing to recover. However, it appears to have slowed a bit as Covid's delta variant spreads.

Markets continue to grapple with several factors. On the positive side, corporate earnings remain incredibly strong. S&P estimates S&P 500 companies will earn, in aggregate, about $200 per share in 2021, up 44% over 2020's $139 Covid influenced results. For 2022, S&P 500 earnings are expected to rise another 9% to $217. Also, on the positive side interest rates remain low, and they should through 2022.

Two big negatives are valuations and the specter of rising inflation. Using the S&P 2021/2022 estimates above, the index stands at 22.7x and 20.9x earnings respectively. This is well above the 15x-18x long-term averages. Inflation is now running at greater than 5% year-to-date, a level not seen in many years. There are arguments it will prove to be temporary.

(over)

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However, the rising cost of labor seems likely to persist and could ultimately affect corporate profits and thus markets. McDonald's franchisees in Oregon, for example, now hire people as young as 14 to staff restaurants. Some technical factors, such as narrowing market leadership, are also causes for concern. It remains an unpredictable world in many ways as well.

As always, we are open to discussion with anyone interested about our view of markets and our investment methodology.