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Investment Review and Outlook

Financial market performance in the third quarter could be described as “in like a lamb and out like a lion.” The perennial seasonal summer stock market doldrums were characterized by low volatility and generally higher prices through July and August. But beneath the surface, there were a growing number of headline risks simmering that resulted in a fairly sharp pullback in September. Equity index averages ended the quarter with mixed performance. Meanwhile, the bond market saw yields creeping higher, which led to negative returns for that asset class.

So, which headline risks are driving the financial markets today? We believe the main concern facing investors is the acceleration in the Federal Reserve’s plan to taper its $120 billion in monthly bond purchases. Earlier in the year Chairman Jay Powell insisted that the Fed is not “thinking about thinking about” raising interest rates and was reluctant to set a date for pulling back on its purchases. Now the rhetoric from the Fed (as well as several other central banks) has become increasingly more hawkish. While uber-easy monetary policy was destined to normalize at some point, investors are becoming more concerned that inflationary pressures are broadening and that the Fed’s prior view of inflation being transitory is now being questioned.

We are increasingly concerned about a confluence of factors that could drive interest rates higher. That said, we believe our value investing philosophy to equity investing will prove valuable in a rising interest rate environment. Higher interest rates could be significantly more impactful on growth stocks that have benefited greatly from the secular decline in interest. Moreover, we expect that many of the cyclical stocks in our portfolios could perform well, despite the rise in interest rates.

There are other risks that are lurking in the background, including an economic slowdown in China. For the past two decades, China has been an exceptionally critical driver of global economic growth. Economic and political events in China do affect a number of industries. We currently have no direct investments in China and believe that our equity investments have minimal exposure to an economic slowdown in China.

Thanksgiving in October?

We will be celebrating our 25th anniversary in the investment management business in a couple of weeks. So, if I do my math correctly, this current quarterly “Investment Review and Outlook” represents our 100th, although who is really counting? Recently we wrote a piece in the *North Jersey Jewish Link* that expresses our deep gratitude to you, our esteemed clients (https://www.caplancapital.com/archived-commentary). We offer our sincerest thanks and gratitude for the trust you have invested in us.

We take our fiduciary responsibilities seriously and endeavor to treat all our clients and their portfolios with a high standard of care. For those who have been with us for many of the past 25 years, you have experienced first hand the benefits of having a disciplined strategy and allowing us to navigate the waters through uncertain times. We have helped our clients weather a number of major cycles and events, including the dot.com bust, the tragic events of 9/11, the 2008 financial crisis and the more recent economic shutdown in the wake of the global pandemic.

Looking forward, you can be assured that we will maintain our focus and rigor of our investment management process. Moreover, we plan to continue to enhance our client services and engagement. We truly value your continued support and we aspire to deliver the high level of service that you so well deserve. So, Happy Anniversary to you! We look forward to serving your needs for many years to come.