3rd Quarter 2021 Market Overview
Abundance of Shortages

These days, it seems like everything is in short supply. There are not enough workers. Not enough houses. Not enough flights. Not enough cars. Not enough semiconductor chips. Not enough materials. Not enough health care. There is even chatter that toilet paper and paper towels are in short supply.

The consequence of shortages are higher prices, or, the password for investing in 2021**: inflation**.

Inflation is a clear and present danger. This concern shook markets with the sharpest retreat of 2021, a near 5% drop in September.

Evidently, we suffer from a debilitated supply chain. Since goods and services are suddenly in short supply, prices escalate. Inflation causes interest rates to rise. Collectively, these forces threaten corporate earnings. Cloak all of this with a general sentiment of Washington DC ineptitude and you get a recipe for a stock market pullback, which has been happening.

The Delta variant depressed retail sales during the summer, but with Covid case levels abating, it is anticipated consumer spending will reawaken and demand for goods will push higher, which cold further exacerbate the shortages and therefore, inflation.

At present, most Wall Street research firms predict continued headwinds for stocks, especially if the current shortages do not moderate.

These tight supply channels point to downward revisions in company earnings estimates. The resulting inflation can also pinch profit margins. The economy expanded at a 6.70% during the second quarter but this is now forecasted to slow to just 2.3%for the third quarter.

The Federal Reserve has been one of the most supportive components to the market. Now, however, the Fed is indicating a taper process beginning in November which will reduce the supply of money printing.. This, along with the recent Fed president resignations, and Jerome Powell's pending re-appointment, have soured folks on the Fed as a supporting factor.

Pullback Mode

Consequently, a chill has finally come over the stock market. After seven straight months of gains for the broad market, stocks are pulling back and hopefully, setting up to offer a good buying opportunity.

At the end of the third quarter, the S&P 500 was down 5.80% from its peak. This is a relatively mild retreat, so far. As a comparison, the market fell 20% in Q4 2018. We had a breathtaking 35% plunge in March of 2020. Last fall, the S&P fell 8% in front of the election. So far, our correction is contained.

Many stocks that would be good long term investments have made sharp retreats, however. As of quarter end, Amazon is negative for 2021 and is down 7% from its high in Septemer of 2020. FedEx is down 13% for 2021. Retail behemouth, Walmart is down almost 12% in six weeks and is also in the red for 2021. The damage extends further down the food chain as work from home favorites Zoom Video and Pelaton are down 21% and 43% respectively.

These names and many others have sagged in price and may be approaching good entry points.

Market pullbacks are normal and common. They should be considered healthy for the long term uptrend of the stock market.

Peregrine Holdings and Strategy

Stocks can stage their best rallies *following* a sharp drop and this should make this current decline favorable for our managed accounts. An oversold condition also offers a compelling opportunity to re-evaluate client holdings and rearrange them into market leaders for the months ahead.

This process will spur a reallocation of client holdings from safer, defensive stocks with lower growth prospects, in exchange for stocks of companies with better growth prospects. The technology sector would be our primary target for investment.

Bond investments are still being avoided. Normally bonds cushion our client accounts and protects resiliency, but rising interest rates negate this hedge.

Holdings of defensive, staple stocks may continue as a core class of investment, although these weightings may be adjusted downwards in the fourth quarter since many of these stocks have failed to grow at all.

During volatility and the current downtrend in the market, continued defensive strategies will be employed until a more conclusive oversold condition is reached.

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