CETERA® INVESTMENT MANAGEMENT

COMMENTARY

September 20, 2021

Markets Find More Concerns

- U.S. equities have enjoyed a strong 2021 but valuations are pricing in perfection.
- New market concerns, on top of existing ones, will continue to increase risks.
- Expect market volatility to rise as these risks coupled with high valuations weigh on investors.

Throughout most of 2021, U.S. equities have risen despite a growing list of concerns. With the S&P 500 trading at valuations not seen since the technology bubble period, a lack of a 5% pullback in this index since October of 2020, and September being the worst month in terms of performance for this index, investors were already a bit jittery as this month began. Late last week and over the weekend, investor worries increased as fresh concerns helped to lead a global selloff that started in Asia and spread quickly to Europe and domestic financial markets, with riskier assets bearing the brunt of the weakness.

We have spoken about China growth slowing as a risk before and now this risk looks to be increasing. The global selloff that started primarily due to concerns around Evergrande Group, a Chinese real estate company with more than $300 billion in liabilities, which has an $83.5 million interest payment due later this week and another $47.5 million due next week. Given that Evergrande has 778 projects under way in 223 cities and the real-estate sector represents about 29% of the Chinese economy, investors fear that the potential fallout from this company could have global consequences such as a freezing of loans, widening credit spreads, a further sell-off in risk assets and sharp market fluctuations.

While the Evergrande news continues to evolve, other concerns that investors are pointing to this week include key events in Washington. Even as the economic rebound looks a bit uneven, this week the rate-setting Federal Open Market Committee meets, and Fed officials face the prospect of removing accommodations that have helped prop financial markets up since the start of the pandemic. Investors fear that this tapering could be the first step toward raising interest rates. Also, in Washington, Treasury Secretary Janet Yellen warned Congress that a failure to raise the debt ceiling soon would likely precipitate a historic financial crisis and reports continue to highlight big divisions between moderates and progressives over the size and scope of a reconciliation package.

While the triple concerns of a potentially shifting Fed policy, uncertainty around the debt ceiling and growing doubts around the next stimulus package could weigh on investors, we continue to be concerned about three larger headwinds that markets have not truly considered - peak economic growth, rising inflation and a slowing Chinese economy. As the economy progresses through the current recovery, expect to see slowing rates of change in economic data as the easy year-over-year comparisons roll off. While this is a normal transition in any recovery, given the extremes of this cycle, comparisons may deteriorate more swiftly than anticipated. Inflation may be less transitory than the Fed suggests, forcing central bank officials to raise interest rates faster than markets anticipate. Lastly, we worry that the Chinese economy, which was one of the first to exit the pandemic-led recession last year, is starting to slow and, as the world's second-largest economy, could add to investor angst. Case in point, last week we saw August retail sales and industrial output reports in China miss expectations.

With market risks rising, we continue to anticipate more volatility in the near term. Any disruption to current expectations could be a headwind for stocks, and stock market valuations priced to perfection could amplify this volatility. We may see a stock market correction at some point this year, but we still don't expect a big sell-off as we saw in early 2020. We maintain that diversification is the key in this market. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

About Cetera® Investment Management
Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group
"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 200 N. Pacific Coast Highway, Suite 1200 El Segundo, CA 90245-5670

Disclosures
Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your advisor is registered with. Please consult with your advisor for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market. Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing

Glossary

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The S&P SmallCap 600 seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.