View From the Top

NOVEMBER 8 2021

Quartz Partners Investment Management's weekly update summarizing key data and highlights from the market week.

QUARTZ PARTNERS INVESTMENT MANAGEMENT

MARKET DATA as of 11/5/2021

Index	Level	4 week %	YTD %
S&P 500	4698	8.2	18.7
Nasdaq Composite	15972	10.7	23.9
Dow Jones Industrials	36328	5.9	18.7
Russell 2000	2437	9.4	24.4
MSCI EAFE	2372	5.0	10.5
MSCI EMERGING	1264	2.3	-0.3
BarCap US Agg Bond TR		0.7	-1.0
BarCap US High Yield TR		0.5	5.0

1.53%	10-year Treasury Yield
3.09%	30-year Fixed Mortgage Rate
$84	Oil Price
$3.48	Gasoline Price (national)
2.9%	5 Year Inflation Expectations
319	High Yield Spread (bps)
$1,778	Gold Price
$65,544	Bitcoin Price

QUARTZ PARTNERS P.R.I.C.E. MATRIX: MACRO OUTLOOK

3-6 MONTH OUTLOOK

NEGATIVE | NEUTRAL | POSITIVE

- POLICY
- RISK PERCEPTION
- INFLATION & INTEREST RATES
- CREDIT & LIQUIDITY
- EARNINGS & ECONOMY

P.R.I.C.E. QUICK TAKES

POLICY: market expects zero rates thru 2021, reinforced by communications from Federal Reserve; fiscal policy escaped the negative catalyst of tax hikes via pared down infrastructure bill; Fed taper expected to be digested unless inflation rises to levels that require rate hike....**RISK PERCEPTION**: Exuberance remains in extreme territory, the 2020-? market period will be looked back upon similar to the late 1990s; expect any bad news to have a large effect on asset prices in the short-term....**INFLATION & INTEREST RATES:** the 5-year TIPS breakeven spread has risen steadily since April despite a narrowing 2/10 yield curve; I&I has become the key headwind for the market and could require intervention by the Fed in the form of Operation Twist (sell short-end, buy long-end) or similar, although not currently at such extreme levels; the CPI has picked up steam, raising short-term inflation risk...**CREDIT & LIQUIDITY**: Historic liquidity driven by the Fed & US Treasury has driven high yield spreads down to 2019 levels; market expects most companies to be able to access capital markets to rollover debt and/or raise new capital...**EARNINGS & ECONOMY:** the SUPPLY chain is the #1 headwind for the global economy and has yet to be resolved. Watching retailers for ability to meet holiday demand in the face of these disruptions.

RISK WATCH: 10-year yield on the rise, inflation as the risk de jour, supply chain disruptions, "irrational exuberance" showing up in several market segments.

STYLE RETURNS - 4 WEEK

	Value	Core	Growth
Large	4.9	8.2	11.2
Mid	6.0	7.0	8.8
Small	8.2	9.4	10.7

STYLE RETURNS – YEAR TO DATE

	Value	Core	Growth
Large	23.7	25.6	27.2
Mid	27.5	24.4	18.9
Small	35.6	24.4	14.1

FACTOR RETURNS

	4 week %	YTD %
MOMENTUM	8.6	19.2
SIZE	9.4	24.4
LOW VOL	5.4	15.5
DIVIDEND	4.6	16.5
QUALITY	9.2	25.4

TALKING POINTS

The stock market put in a strong performance last week, with the S&P 500 climbing 2.0% (hitting a new all-time high on Friday) and the Nasdaq Composite jumped 3.1%. Small cap stocks were particularly favored, with the Russell 2000 Small Cap Index surging over 6%. The Consumer Discretionary (+5.0%) and Materials (+3.2%) sectors saw the biggest gains, while value plays Financials (-0.6%) and Health Care (-0.7%) stagnated. Treasury yields dropped sharply in the second half of the week – coinciding with the Federal Reserve decision – with the 10-year benchmark yield falling to 1.48% from a mid-week high of 1.60%. High yield bond spreads widened slightly last week from 315bps to 319bps.

Citing inflation rates at or above 2% and general progress towards its goals, **the Federal Reserve announced that it will begin tapering its monthly asset purchases**, winding down the massive Quantitative Easing program it launched during the COVID market crisis. The Fed is still scheduled to purchase a total of $105 billion in Treasuries and mortgage-backed securities in November, down $10 billion from the previous month. Purchases will continue to fall by $15 billion per month ($10bn for Treasuries and $5bn for MBS) until the program is ultimately ended. The stock market took the news well for several possible reasons:

1. The taper has been telegraphed for months and the market was widely expecting the announcement.
2. FOMC Chair Powell maintained his stance that inflation is "transitory," which hints at continued dovish policy stance.
3. Related to #2, the market does not expect QE tapering to be joined by rate hikes for the foreseeable future: according to the CME's FedWatch Tool, the futures market is betting that the first rate hike will not occur until June or July of 2022. Given current levels of the stock market, inflation, and job growth, ZIRP for another 7-8 months minus the full extent of monthly asset purchases still describes a particularly accommodative Federal Reserve.

Congress passed a bipartisan, $1.2 trillion spending bill on Friday, paving the way for $550 billion in spending on America's bridges, roads and other aging infrastructure. The more partisan aspects of the original concept put forth by Democrats, most notably tax legislation aimed at the ultra-wealthy, was not included in the pared down bill, although many expect follow-up proposals addressing tax rates in the coming months.

THE WEEK AHEAD Jerome Powell Speech (Mon) • US Producer Price Index (Tue) • US Consumer Price Index (Wed) • Banks Closed: Veteran's Day (Thu)

Data Source: Morningstar, Federal Reserve, coindesk, US Energy Information Administration, Yardeni Research (sector performance).

5-year inflation expectations are calculated as the yield difference between US Treasury Securities and Treasury Inflation-Protected Securities (TIPS) of the same maturity. High Yield Spreads are based on the ICE BofaML US High Yield Bond Index.

BENCHMARK INFORMATION

Large Value: Russell 1000 Value TR USD
Large Blend: Russell 1000 TR USD
Large Growth: Russell 1000 Growth TR USD
Mid Value: Russell Mid Cap Value TR USD
Mid Blend: Russell Mid Cap TR USD
Mid Growth: Russell Mid Cap Growth TR USD
Small Value: Russell 2000 Value TR USD
Small Blend / Size: Russell 2000 TR USD
Small Growth: Russell 2000 Growth TR USD
Momentum: MSCI USA Momentum NR USD
Quality: MSCI USA Quality NR USD
Dividend: MSCI USA High Dividend Yield NR USD
Low Volatility: MSCI USA Minimum Volatility (USD) NR USD

BENCHMARK DEFINITIONS

BBgBarc US Agg Bond TR USD: This index is comprised of approximately 6,000 publicly traded bonds including U.S Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years.
BBgBarc US Corporate High Yield TR USD: Includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million, and at least one year to maturity.
DJ Industrial Average TR USD: Computed by summing the prices of the stocks of 30 companies and then dividing that total by a split-adjusted value.
MSCI EAFE NR USD: This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.
MSCI EM NR USD: captures large and mid cap representation across 27 Emerging Markets (EM) countries*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
MSCI USA High Dividend Yield NR USD: The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.
MSCI USA Minimum Volatility (USD) NR USD: composed of U.S. equities that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market.
MSCI USA Momentum NR USD: measures the performance of U.S. large- and mid-capitalization stocks exhibiting relatively higher momentum characteristics.
MSCI USA Quality NR USD: The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.
NASDAQ Composite TR USD: The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.
Russell 1000 Growth TR USD: Tracks the companies within the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.
Russell 1000 TR USD: Consists of the 1000 largest companies within the Russell 3000 index, which represents approximately 98% of the investable US equity market. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose.
Russell 1000 Value TR USD: Tracks the companies within the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.
Russell 2000 Growth TR USD: Tracks the companies within the Russell 2000 Index that have higher price-to-book ratios and higher forecasted growth values.
Russell 2000 TR USD: Consists of the 2000 smallest companies in the Russell 3000 Index.
Russell 2000 Value TR USD: Tracks the companies within the Russell 2000 Index that have lower price-to-book ratios and lower forecasted growth values.
Russell Mid Cap Growth TR USD: Tracks the companies within the Russell Midcap Index with higher price-to-book ratios and higher forecasted growth values.
Russell Mid Cap TR USD: Measures the performance of the 800 smallest companies in the Russell 1000
Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
Russell Mid Cap Value TR USD: Tracks the companies within the Russell Midcap Index having lower price-tobook ratios and lower forecasted growth values.
S&P 500 TR USD: A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market. TR (Total Return) indexes include daily reinvestment of dividends.

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