

# Q3

Quarterly Market Review

Third Quarter 2021

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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

## Overview:

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# Beware of Shiny New Objects

Dear Partners,

For those of you whom I've never met, I've been in the investing business for over 25 years. I started at Goldman Sachs Asset Management, I was a portfolio manager at Jennison Associates, and I worked at a long/short hedge fund. During my investment career, I've seen lots of fads come and go and studied many more that came before my time. For my first letter, I thought I'd share with you a couple of stories I've recently come across.

Last month, I received the following email:

*"Hello,*

*Would you be interested to get a minimum of 10% monthly return on your investment?*

*We provide automatic computer algorithmic trading financial services with human supervision."*

Whenever you see something like this, you should run the other way—and fast! It sounds impressive, using computers and algorithms, in just the right balance (you wouldn't want the computers to run amok!). But if someone can really guarantee a minimum 10% monthly returns—why would they be trying to sell it to me? Just invest 10,000 of your own money at the "minimum" return (conservative, right?) and in ten years it will grow to almost \$1 billion! As Charlie Munger once said, "When any guy offers you a chance to earn lots of money without risk, don't listen to the rest of his sentence. Follow this, and you'll save yourself a lot of misery."<sup>1</sup>

Here's another story that I read recently (much of this is taken from a recent article by Matt Levine of Bloomberg News<sup>2</sup>). Someone (or a group of someones) bought a picture of a dog online for \$4 million.

True, this wasn't just any dog but an image of the original Shiba Inu dogecoin meme.

The picture carries no cash flows and no real exclusive rights — it is just a digital picture of a dog, anyone can copy it, use it and look at it. The "value" is from an exclusive pointer to the dog picture on some blockchain that says you bought it. These types of transactions are happening with increasing frequency, under the banner of a "non-fungible token" (NFT). For most of us, this part of the story (spending \$4 million on a digital picture just so you have proof you did it on some blockchain) would be crazy enough.

But this story gets even crazier. Three months after buying the NFT, the buyer decided to split the ownership into 17 billion "shares" and sold 20% of them for \$45 million, giving the original an implied total value \$225 million. In other words, in three months, they turned \$4 million into \$45 million in cash, plus an asset (the remaining 80% of the NFT) worth \$180 million. Sometimes these things work... until they don't.

This all reminded me of a different time period, and, of course, the artist formerly known as Prince<sup>3</sup>:

*I was dreaming when I wrote this  
So sue me if I go too fast  
But life is just a party  
And parties weren't meant to last*

*'Cuz they say two thousand zero zero party's over  
Oops out of time  
So tonight I'm going to party like it's 1999*

For those who don't remember, the stock market was partying in 1999. Back then, the new shiny object was anything that related to "eyeballs" on the internet.

<sup>1</sup> <https://www.suredividend.com/charlie-munger-quotes/>

<sup>2</sup> Levine, Matt "20% of a Picture of a Dog." *Bloomberg Opinion, Money Stuff*, September 9, 2021

<sup>3</sup> Prince. Lyrics to 1999. <https://www.azlyrics.com/lyrics/prince/1999.html>

# Beware of Shiny New Objects

(continued from page 3)

Indeed, despite being right about the internet changing the way we live today, most of those companies ended up being worth a fraction—often zero—of what they were trading for (a few exceptions like Amazon notwithstanding). Does anyone remember Webvan, Pets.com, or The Globe.com? What about AOL or Netscape Navigator?

As Spanish philosopher George Santayana once said, “Those who cannot remember the past are condemned to repeat it.” It could be eyeballs or houses or anything else (fractions of a picture of a dog?). Houses were an interesting one in that houses themselves aren’t new. But neither were tulips in early 1600s Holland. The point is that in eras where these things are happening, it is even more important to remember your long-term investment plan and to stick with it. Fear of missing out (or FOMO in the current vernacular), is not an investment plan.







It is scary sometimes to continue to invest, or even to stay invested, when markets become more volatile. But if we maintain our focus on long-term goals, and block out the noise, we will succeed in reaching our goals. Stocks are most often volatile in the short-term, but returns have been much smoother over the long-term. None of us need to tell you which is better to focus on for your health and wealth.

**Thanks for your continued partnership with us.**

Avi and the SAM team

# Quarterly Market Summary

## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>3Q 2021</b>	<b>STOCKS</b>				<b>BONDS</b>	
	-0.10%	-0.66%	-8.09%	-0.08%	0.05%	0.09%
						
<b>Since Jan. 2001</b>						
Avg. Quarterly Return	2.4%	1.7%	2.9%	2.5%	1.1%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.4%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2021 Q1	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg data provided by Bloomberg.

# Long-Term Market Summary

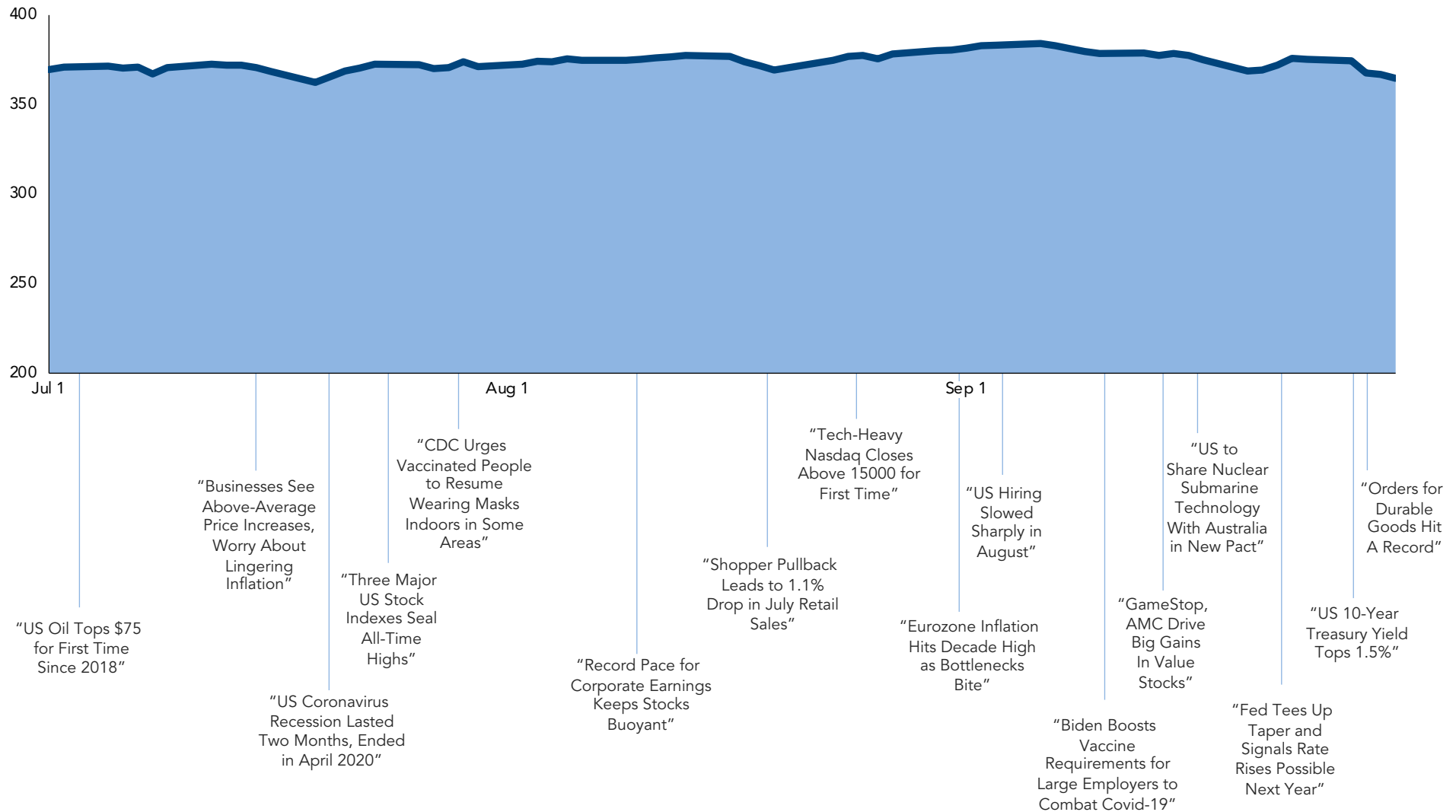
Index Returns as of September 30, 2021

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>1 Year</b>	STOCKS				BONDS	
	31.88%	26.50%	18.20%	31.61%	-0.90%	-0.54%
<b>5 Years</b>						
	16.85%	8.88%	9.23%	4.65%	2.94%	2.71%
<b>10 Years</b>						
	16.60%	7.88%	6.09%	8.70%	3.01%	3.87%

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2021



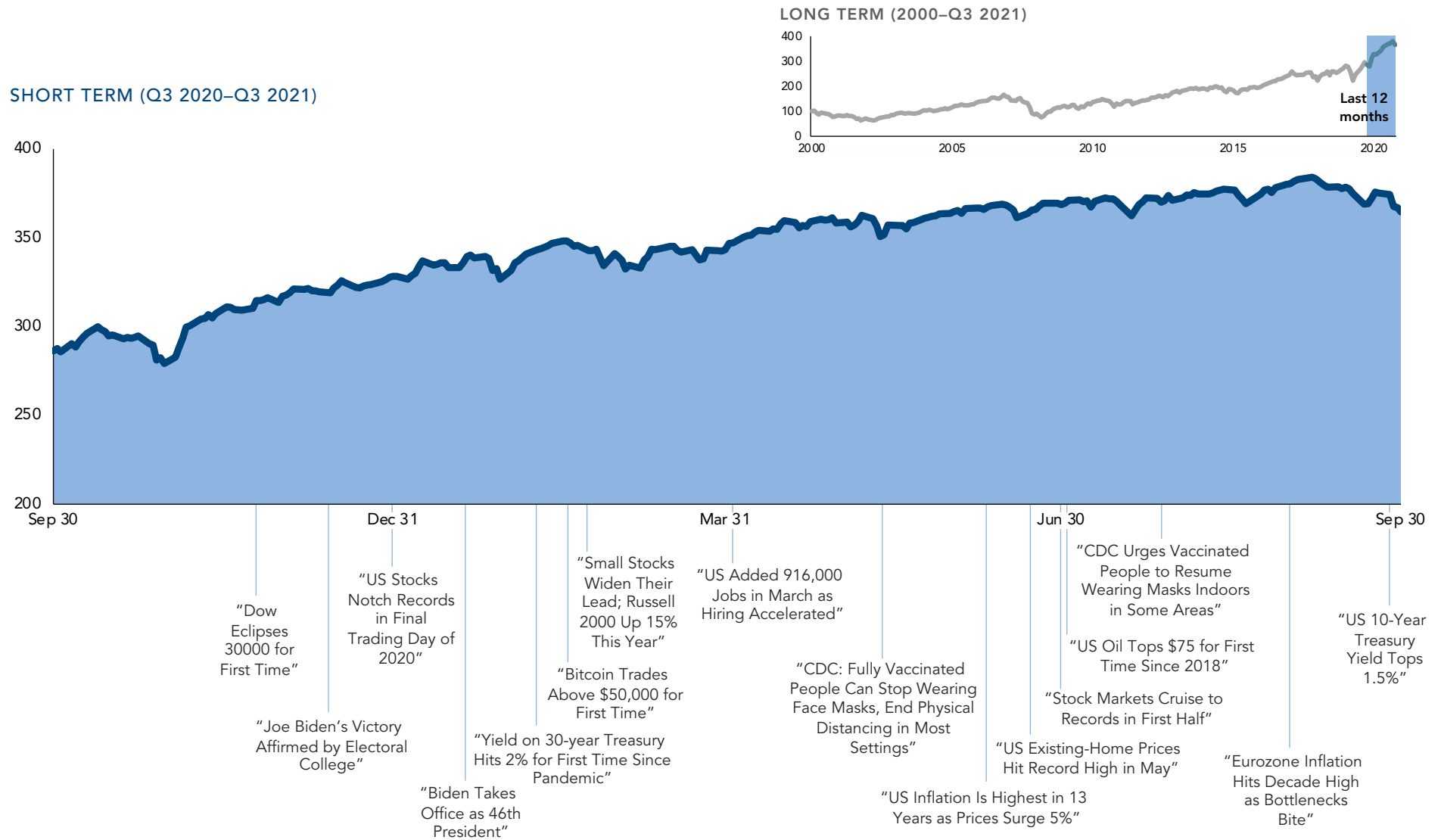
*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



# World Asset Classes

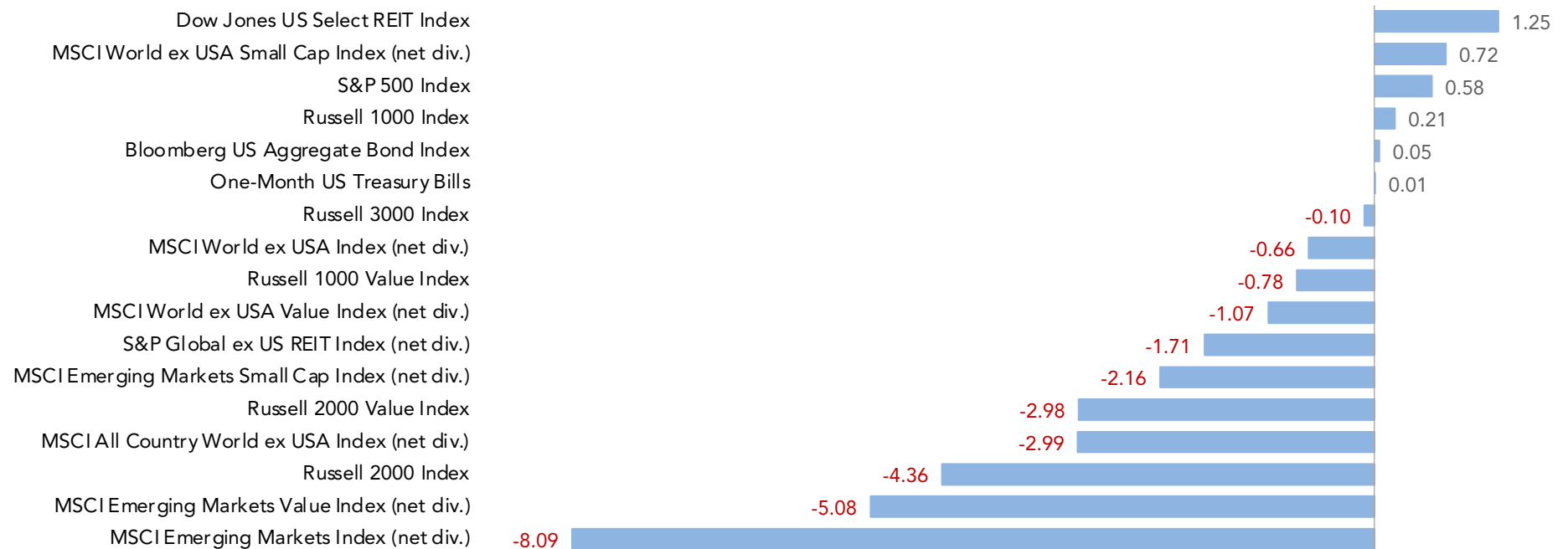
## Third Quarter 2021 Index Returns (%)

Equity markets around the globe declined in the third quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.

Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.

Small caps underperformed large caps in the US but outperformed in non-US developed and emerging markets.

REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



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# US Stocks

## Third Quarter 2021 Index Returns

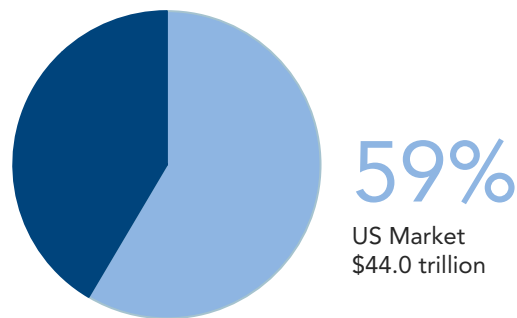
The US equity market was flat for the quarter and outperformed non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

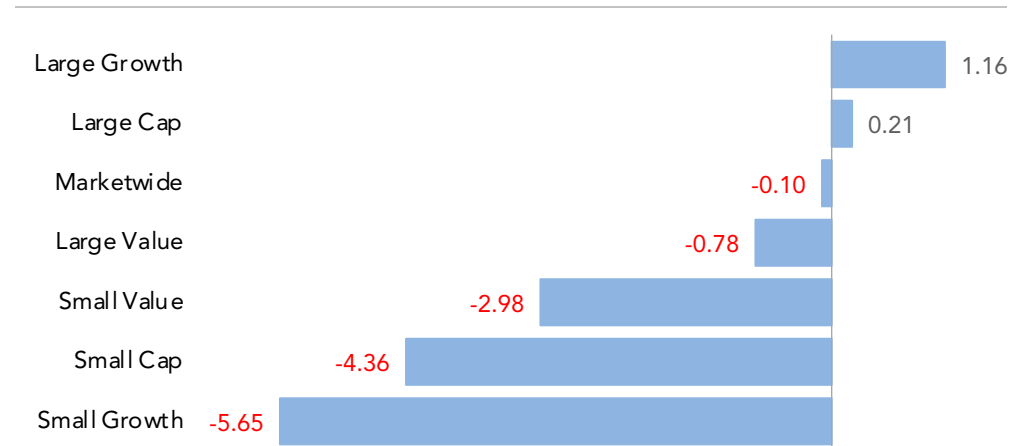
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

### World Market Capitalization—US



### Ranked Returns (%)



*\* Annualized*

Data Series	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Large Growth	1.16	14.30	27.32	22.00	22.84	19.68
Large Cap	0.21	15.19	30.96	16.43	17.11	16.76
Marketwide	-0.10	14.99	31.88	16.00	16.85	16.60
Large Value	-0.78	16.14	35.01	10.07	10.94	13.51
Small Value	-2.98	22.92	63.92	8.58	11.03	13.22
Small Cap	-4.36	12.41	47.68	10.54	13.45	14.63
Small Growth	-5.65	2.82	33.27	11.70	15.34	15.74

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved.

# International Developed Stocks

## Third Quarter 2021 Index Returns

Developed markets outside the US declined less than 1% for the quarter and underperformed US equities but outperformed emerging markets.

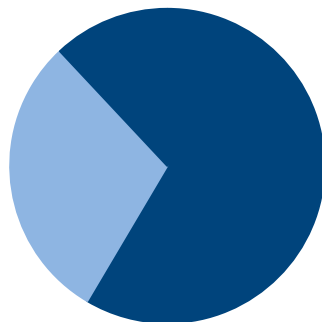
Value underperformed growth.

Small caps outperformed large caps.

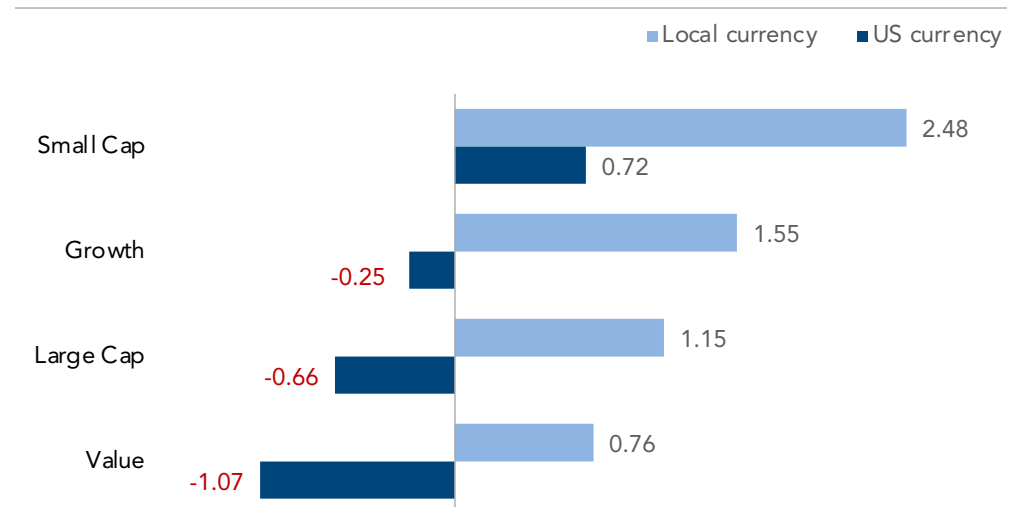
### World Market Capitalization—International Developed

30%

International Developed Market  
\$22.2 trillion



### Ranked Returns (%)



### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	0.72	10.71	30.14	9.50	10.33	10.03
Growth	-0.25	6.99	20.50	11.93	11.21	9.64
Large Cap	-0.66	9.19	26.50	7.87	8.88	7.88
Value	-1.07	11.15	32.60	3.45	6.25	5.95

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# Emerging Markets Stocks

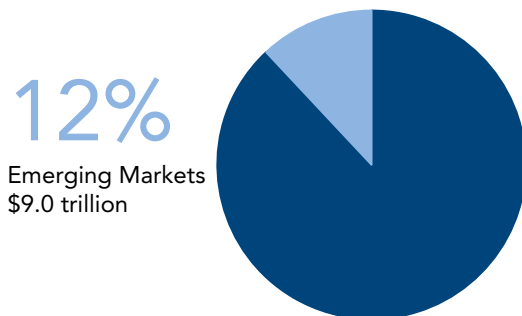
## Third Quarter 2021 Index Returns

Emerging markets posted negative returns for the quarter, underperforming the US and non-US developed equity markets.

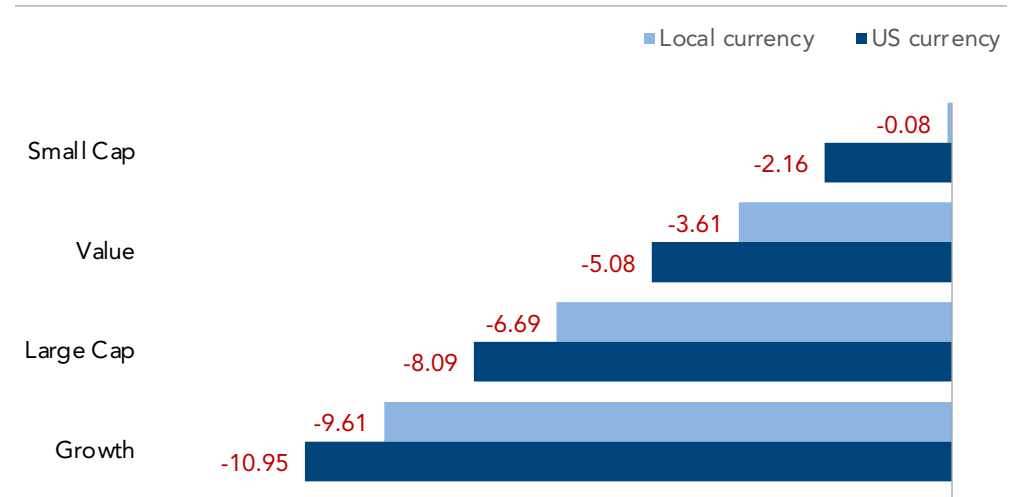
Value outperformed growth.

Small caps outperformed large caps.

### World Market Capitalization—Emerging Markets



### Ranked Returns (%)



### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	-2.16	17.20	43.24	13.11	9.75	7.21
Value	-5.08	4.43	28.43	4.77	6.87	3.79
Large Cap	-8.09	-1.25	18.20	8.58	9.23	6.09
Growth	-10.95	-6.46	9.28	12.15	11.36	8.23

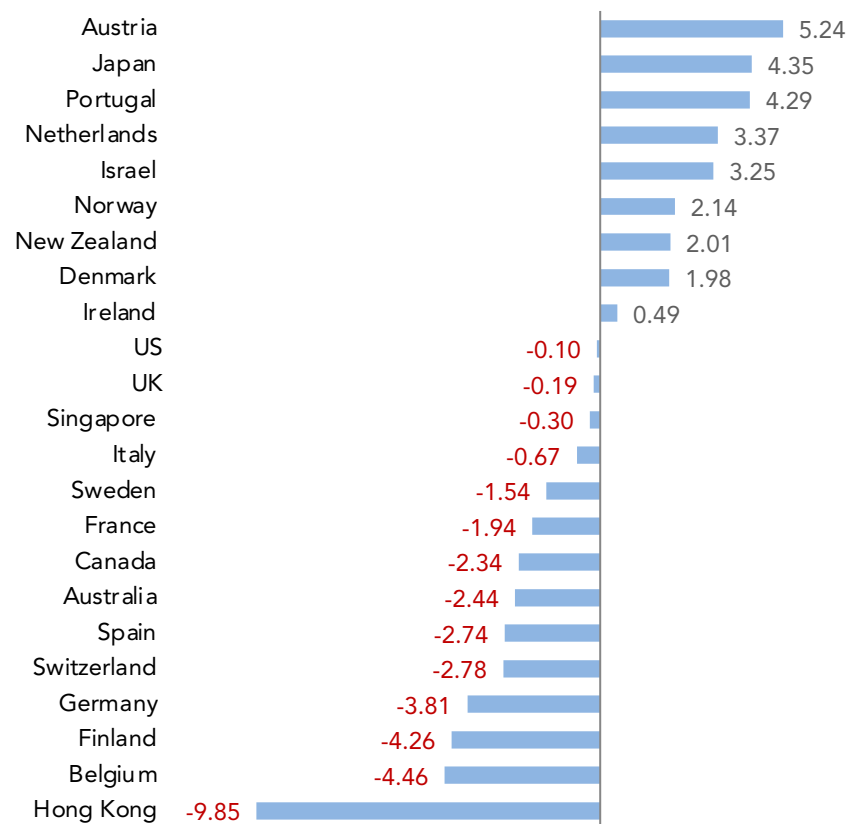
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# Select Market Performance

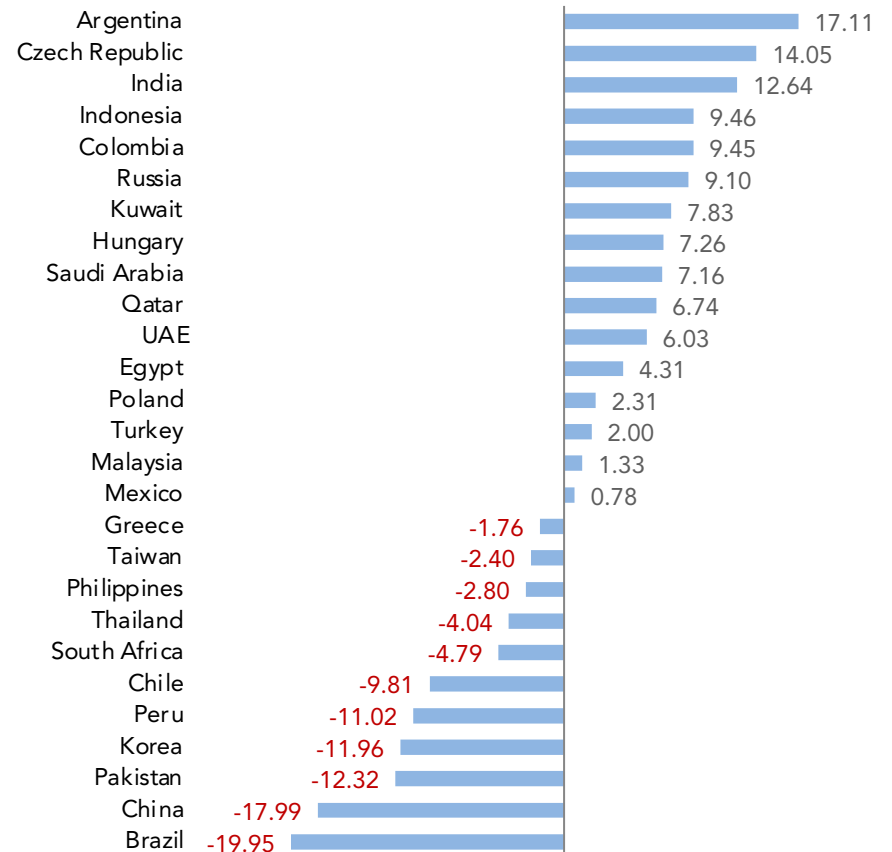
## Third Quarter 2021 Index Returns

In US dollar terms, Austria and Japan recorded the highest country performance in developed markets, while Belgium and Hong Kong posted the lowest returns for the quarter. In emerging markets, Argentina and the Czech Republic recorded the highest country performance, while Brazil and China posted the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



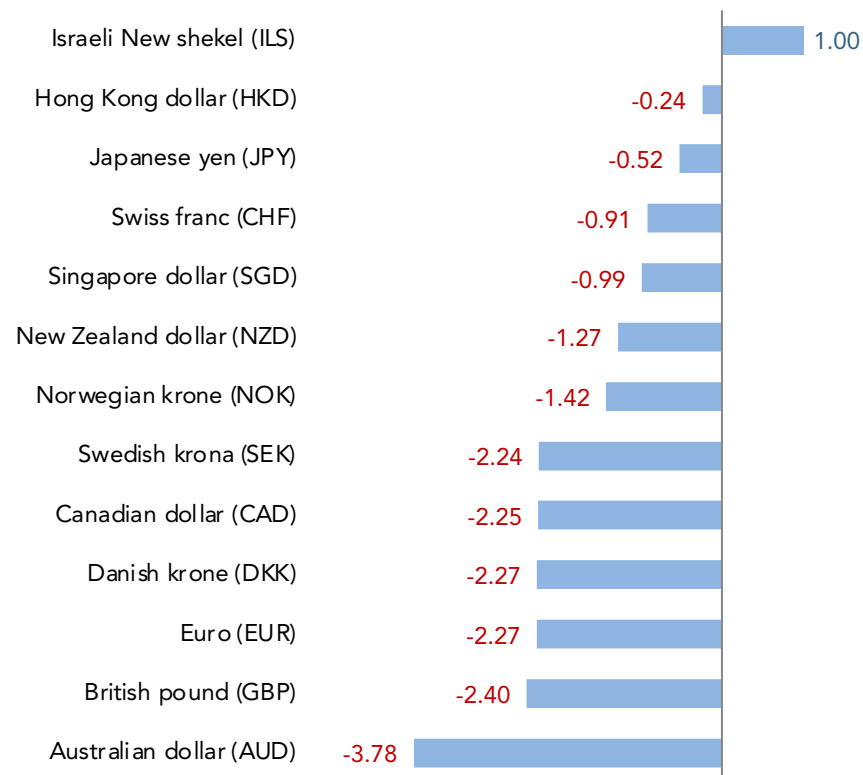
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI All Country World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# Select Currency Performance vs. US Dollar

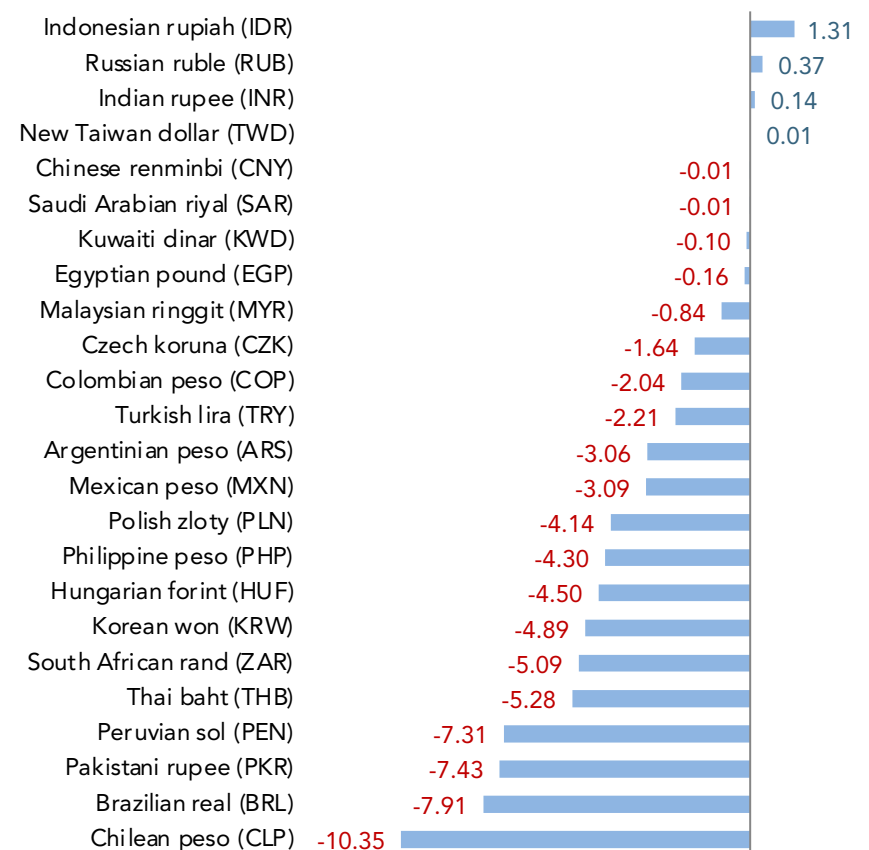
## Third Quarter 2021

In emerging and developed markets, most currencies depreciated vs. the US dollar.

### Ranked Developed Markets (%)



### Ranked Emerging Markets (%)

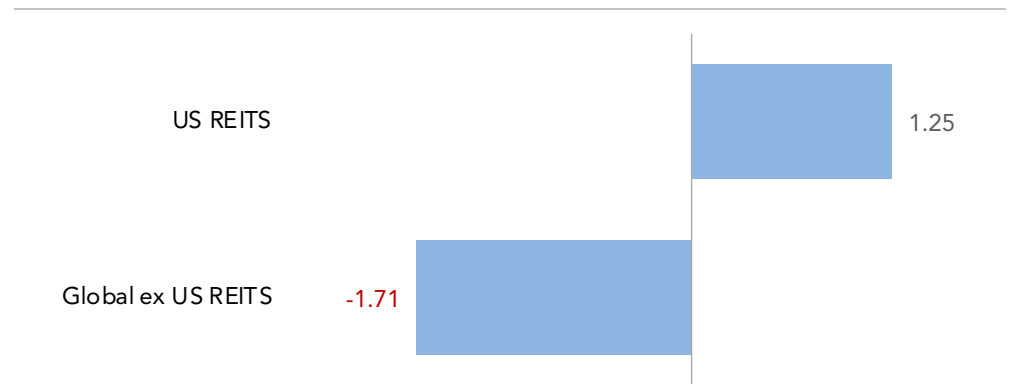


# Real Estate Investment Trusts (REITs)

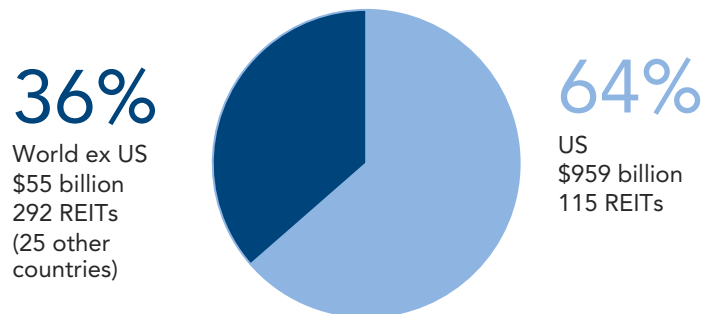
## Third Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
US REITS	1.25	24.48	40.56	8.32	5.68	10.53
Global ex US REIT:	-1.71	7.80	24.01	4.52	3.28	6.81

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Commodities

## Third Quarter 2021 Index Returns

The Bloomberg Commodity Index Total Return returned 6.59% for the third quarter of 2021.

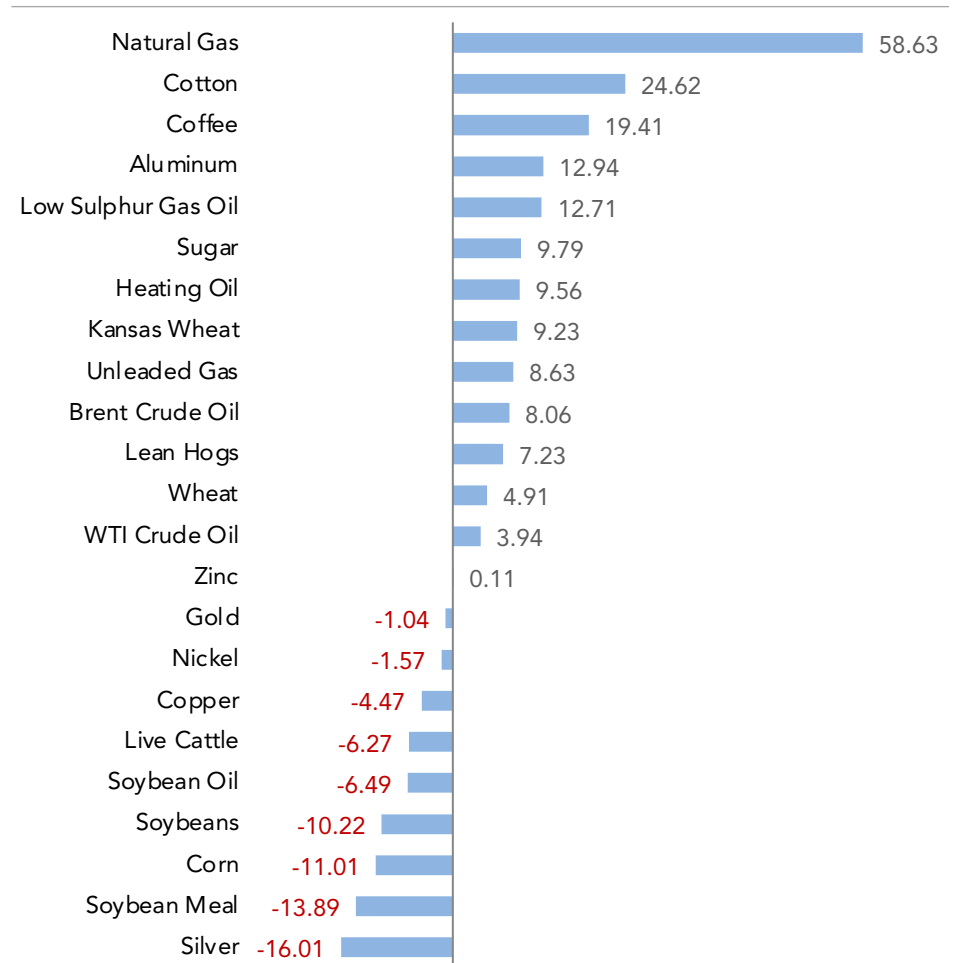
Natural Gas and Cotton were the best performers, gaining 58.63% and 24.62%, respectively.

Silver and Soybean Meal were the worst performers, declining 16.01% and 13.89%, respectively.

### Period Returns (%) \* Annualized

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
Commodities	6.59	29.13	42.29	6.86	4.54	-2.66

### Ranked Returns (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.



# Fixed Income

## Third Quarter 2021 Index Returns

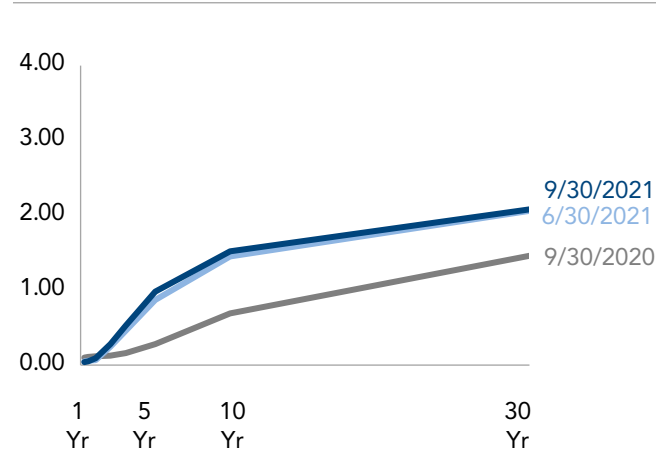
Interest rates in the US Treasury fixed income market generally increased during the third quarter. The yield on the 5-year Treasury note rose 12 basis points (bps), ending at 1.00%. The yield on the 10-year Treasury note increased 8 bps to 1.54%. The 30-year Treasury Bond yield rose 1 bp to finish at 2.05%.

On the short end of the curve, the 1-month Treasury bill yield increased 2 bps, ending at 0.07%, while the 1-year Treasury bill yield decreased 1 bp to 0.09%. The 2-year Treasury note yield increased 5 bps to 0.30%.

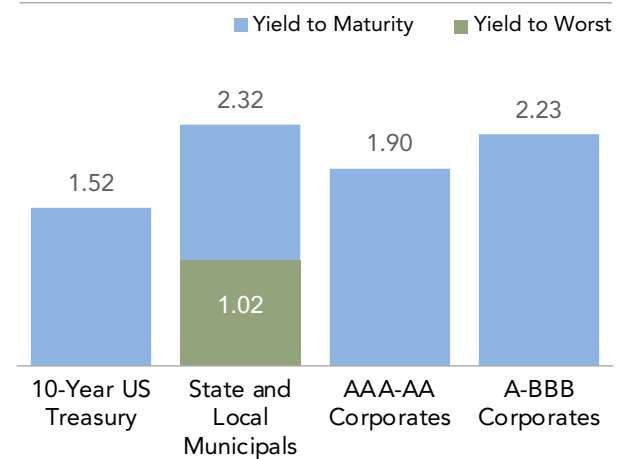
In terms of total returns, short-term corporate bonds returned 0.11%. Intermediate-term corporate bonds gained 0.08%.

The total return for short-term municipal bonds was 0.08%, while intermediate munis lost 0.04%. Revenue bonds performed in line with general obligation bonds for the quarter.

**US Treasury Yield Curve (%)**



**Bond Yield across Issuers (%)**



**Period Returns (%)**

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
Bloomberg US TIPS Index	1.75	3.51	5.19	7.45	4.34	3.12
Bloomberg US High Yield Corporate Bond Index	0.89	4.53	11.28	6.91	6.52	7.42
Bloomberg US Government Bond Index Long	0.46	-7.40	-10.13	9.17	3.34	4.40
Bloomberg US Aggregate Bond Index	0.05	-1.55	-0.90	5.36	2.94	3.01
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.02	-0.28	-0.11	2.77	1.90	1.75
ICE BofA 1-Year US Treasury Note Index	0.02	0.11	0.17	1.88	1.46	0.89
ICE BofA US 3-Month Treasury Bill Index	0.01	0.04	0.07	1.18	1.16	0.63
Bloomberg Municipal Bond Index	-0.27	0.79	2.63	5.06	3.26	3.87
FTSE World Government Bond Index 1-5 Years	-1.00	-3.06	-0.93	2.18	0.98	-0.21

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Global Fixed Income

## Third Quarter 2021 Yield Curves

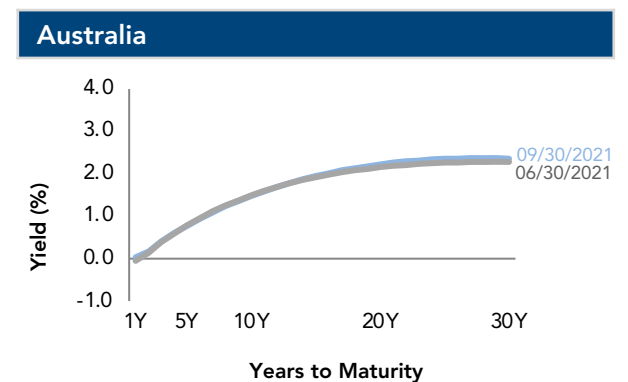
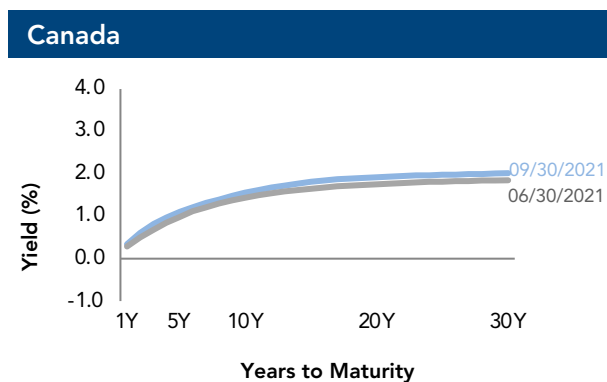
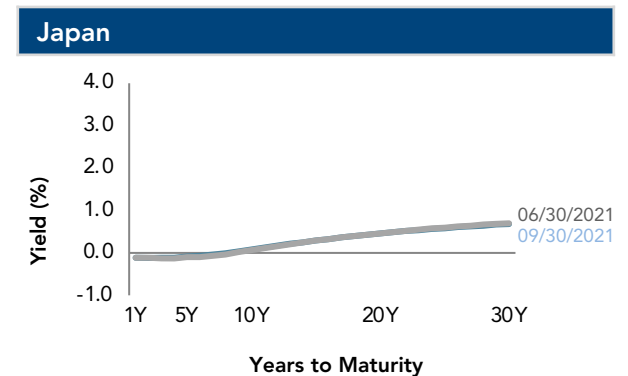
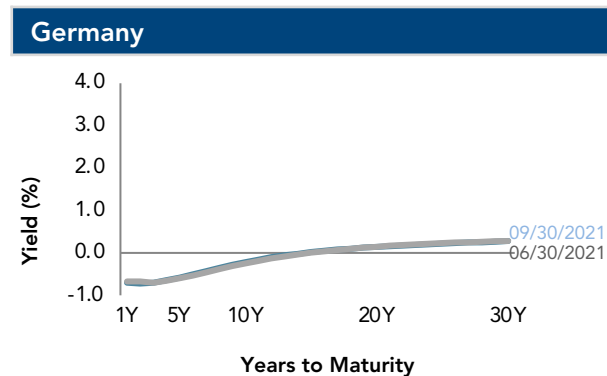
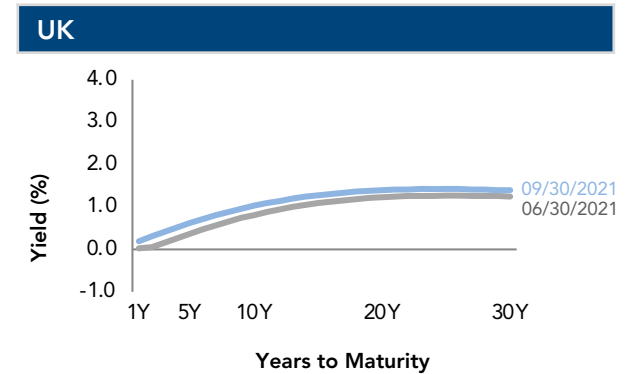
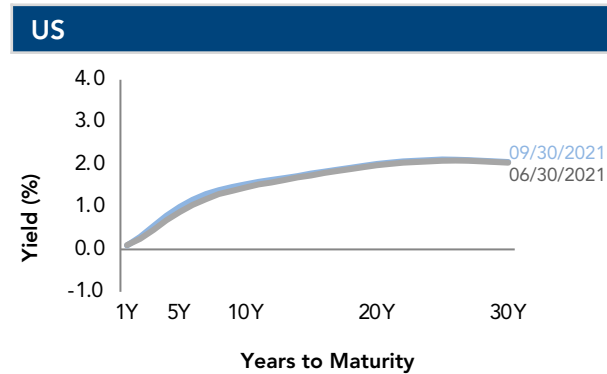
Government bond yields in the global developed markets generally increased for the quarter.

Term premiums were mixed in developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan and Germany.

### Changes in Yields (bps) since 6/30/2021

	1Y	5Y	10Y	20Y	30Y
US	-1.0	11.9	7.6	2.7	1.0
UK	16.7	25.2	21.6	16.6	14.4
Germany	-2.7	2.3	3.6	-0.8	0.2
Japan	-0.1	2.0	1.2	-0.3	-1.8
Canada	5.4	11.2	10.7	16.5	16.8
Australia	8.3	-0.6	-1.2	6.7	8.1



# Impact of Diversification

## Third Quarter 2021

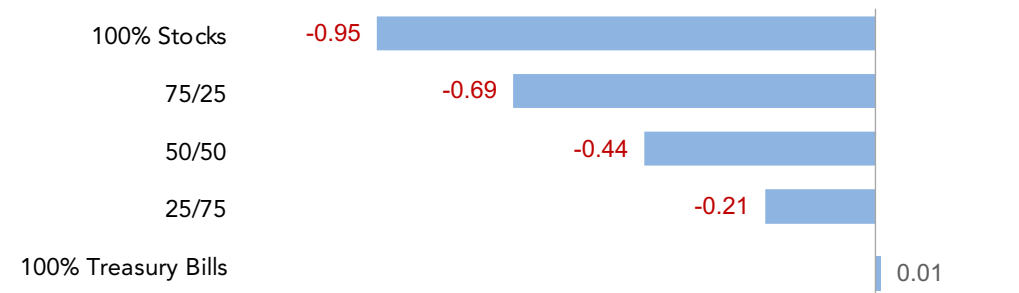
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time

### Period Returns (%)

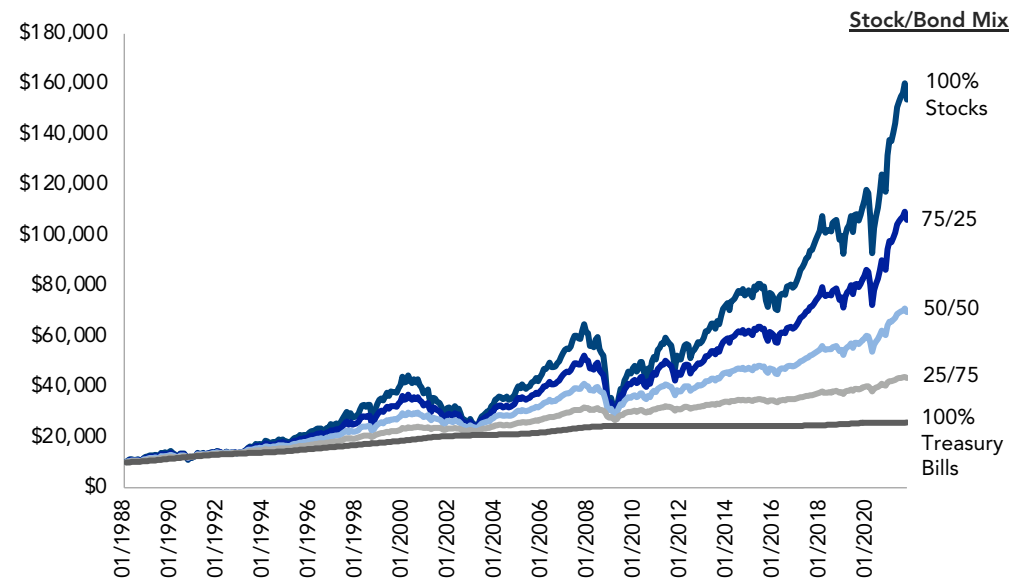
\* Annualized

Asset Class	YTD	1 Year	3 Years**	5 Years**	10 Years**	10-Year STDEV <sup>1</sup>
100% Stocks	11.49	27.98	13.14	13.77	12.50	13.46
75/25	8.57	20.59	10.34	10.68	9.58	10.09
50/50	5.68	13.47	7.38	7.53	6.61	6.72
25/75	2.83	6.62	4.28	4.31	3.60	3.35
100% Treasury Bills	0.02	0.04	1.05	1.05	0.55	0.23

### Ranked Returns (%)



### Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

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October 2021

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Phone: 212.584.1900  
[webinquiry@satovsky.com](mailto:webinquiry@satovsky.com)

Satovsky Asset Management, LLC  
232 Madison Avenue, Suite 400  
New York, NY 10016  
[satovsky.com](http://satovsky.com)

