

## World markets review — Third quarter 2021

### Equities

**Global stocks advanced** in the first two months of the quarter before an inflation scare sent markets tumbling in September. Rising consumer prices sparked fears of higher interest rates as major central banks considered taking steps to fight inflationary pressures. Concerns about growing infection rates from the COVID-19 delta variant also weighed on markets.

**Financial stocks led markets higher**, rising 2% in aggregate as the prospect of higher lending rates and improving economic growth boosted bank stocks. The information technology sector also posted strong gains. Conversely, the materials sector fell sharply amid widespread supply chain shortages and worries about China's slowing economy.

Equity index returns (%)	September 2021		3Q 2021		YTD 2021	
	U.S. dollar	Local currency	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	-4.7	-4.7	0.6	0.6	15.9	15.9
MSCI ACWI	-4.1	-3.6	-1.1	-0.4	11.1	13.0
MSCI ACWI ex USA	-3.2	-1.8	-3.0	-1.3	5.9	10.1
MSCI World	-4.2	-3.7	-0.0	0.6	13.0	14.9
MSCI Emerging Markets IMI	-3.7	-2.5	-7.4	-5.9	0.7	2.9
MSCI EAFE	-2.9	-1.3	-0.4	1.3	8.3	14.2
MSCI Europe	-4.8	-3.0	-1.6	0.5	10.1	15.1
MSCI Pacific	0.7	2.0	1.6	2.8	5.5	12.9

Source: RIMES

### Fixed income

**Bond market returns were mixed** amid signs of higher inflation and an announcement from the U.S. Federal Reserve that it may begin gradually reducing its bond-buying stimulus program. Officials at the European Central Bank said they may do the same with their pandemic-related stimulus program as eurozone inflation climbed to its highest level in more than a decade.

**In foreign exchange markets**, the U.S. dollar rose against the euro, the yen and most other currencies. On a year-to-date basis, the greenback remains significantly higher against a basket of foreign currencies as the strong-dollar trade persists.

Fixed income index returns (%)	Sep 2021	3Q 2021	YTD 2021	Exchange rates (% change vs. USD)	Sep 2021	3Q 2021	YTD 2021
Bloomberg U.S. Aggregate	-0.9	0.1	-1.6	Euro	-1.8	-2.3	-5.3
Bloomberg Global Aggregate	-1.8	-0.9	-4.1	Japanese yen	-1.5	-0.5	-7.5
Bloomberg U.S. Corp IG	-1.1	-0.0	-1.3	British pound	-2.0	-2.4	-1.4
Bloomberg U.S. Corp HY	-0.0	0.9	4.5	Canadian dollar	-0.3	-2.3	0.6
JPM EMBI Global Diversified	-2.1	-0.7	-1.4	Australian dollar	-1.2	-3.8	-6.4
JPM GBI-EM Global Diversified	-3.4	-3.1	-6.4	Swiss franc	-1.8	-0.9	-5.2

Source: RIMES. Returns are in USD.

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## North America

**U.S. equities eked out a small gain despite elevated volatility late in the quarter.** Investors weighed the prospects of the recovering consumer against concerns over rising inflation and interest rates. A fraught political environment also contributed to September's 5% decline, the worst monthly return since March 2020. Overall, the Standard & Poor's 500 Composite Index advanced less than 1%.

**Gross domestic product grew at an annualized 6.7% rate in the second quarter,** supported by ongoing stimulus measures and the continued reopening of businesses. In August, the unemployment rate declined to 5.2%, a pandemic-era low, while consumer spending ticked up.

**Inflation reached a 30-year high in August.** The Federal Reserve's preferred measure of inflation, the core personal consumption expenditures index (which excludes food and energy) rose 3.6% from a year previous. Supply chain disruptions amid unusually high demand for goods and services fueled the sharp rise in prices. The Fed signaled it would begin reducing its bond buying program, which gave rise to speculation that the central bank may also raise interest rates earlier than originally expected.

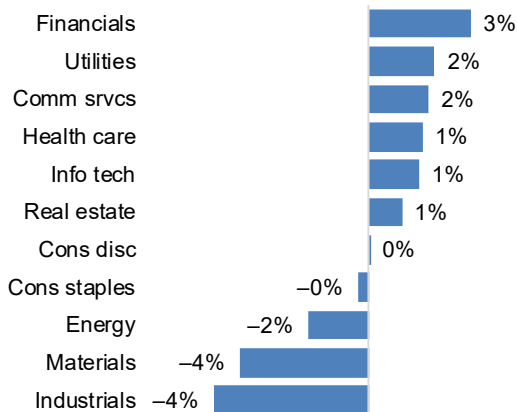
**Legislators clashed over massive spending proposals and a looming debt ceiling deadline.** Congress narrowly avoided a government shutdown by passing a stopgap bill hours before funding would have lapsed. Lawmakers will still need to raise or suspend the debt ceiling by October 18 to prevent a possible default on U.S. debt. Additional legislation still being debated at quarter-end included a \$1 trillion infrastructure bill and a \$3.5 trillion spending plan focused on health care, education, family support and climate change initiatives.

**The financials sector had the best return,** as the prospect of higher interest rates and economic growth supported banks. Shares of JPMorgan Chase climbed 6%. Many large-cap growth stocks also lifted markets despite heightened volatility in September. Netflix rose 16% and Tesla advanced 14%, while Alphabet, Apple and Microsoft all posted modest returns.

**Industrial stocks lagged, falling 4%.** Shipping companies, which have benefited from massive demand for delivery of online orders during the pandemic, returned some of their gains. FedEx sank 26%; United Parcel Service delivered a 12% loss. Shares of railroad Union Pacific fell 10%. The materials, energy and consumer staples sectors also declined.

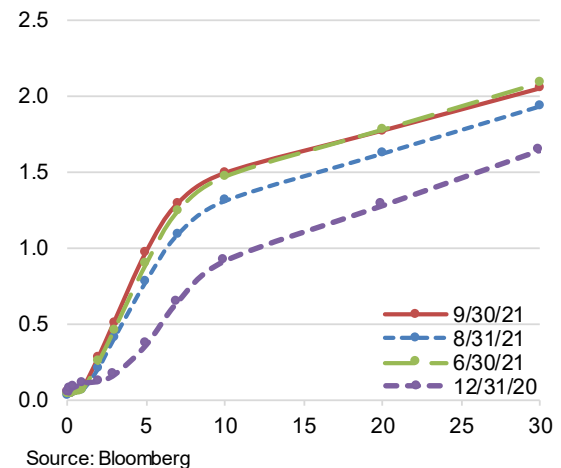
**Bonds rose modestly** as the Federal Reserve signaled it could begin tapering its asset purchases before year-end. Concerns about higher inflation drove Treasury Inflation-Protected Securities up 1.75%, outpacing other fixed income assets. The 10-year U.S. Treasury yield rose to 1.49%. Corporate bond spreads widened modestly, reversing some of the spread narrowing in the first half of 2021. The Bloomberg U.S. Aggregate Index returned 0.05%, the Bloomberg U.S. Corporate Investment Grade Index was flat and the Bloomberg U.S. Corporate High Yield Index gained 0.89%.

**S&P 500 total returns (QTD)**



Source: RIMES

**U.S. Treasury yield curve (%)**



Source: Bloomberg

## Europe

**European stocks declined** amid investor worries about sharply higher inflation in the 19-member eurozone. Concerns about China’s slowing economy also weighed on European exporters, which depend heavily on Chinese demand for industrial machinery, chemicals and luxury goods. Overall, European stocks fell 1.6% in U.S. dollar terms while notching a slight gain in local currency terms.

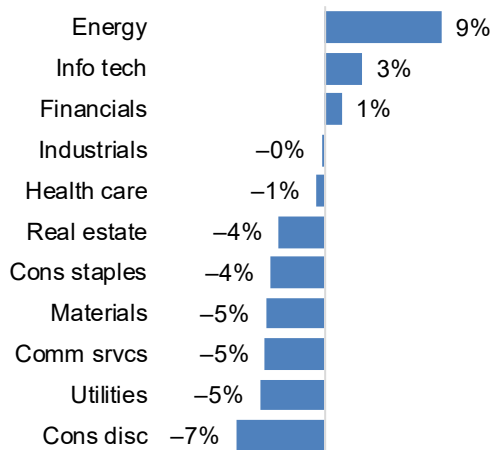
**Eurozone inflation climbed to 3.4%** on an annual basis in September, the highest level in more than a decade. Consumer prices rose primarily due to higher costs for energy and durable goods, as well as widespread supply chain disruptions. Elevated inflation readings throughout the quarter prompted European Central Bank officials to announce that they would begin scaling back a pandemic-era bond buying program designed to boost lending and help support European economic growth.

**German stocks declined 4%**, pressured by political uncertainty as no party won a decisive majority in federal elections held September 26. Germany’s Social Democrats garnered the largest vote total, but lacking a majority, they must form a coalition government with other parties in the weeks ahead. The election effectively ended 16 years of rule by the Christian Democratic Union. However, Chancellor Angela Merkel will remain in power until a successor is chosen.

**Sector returns were mixed.** Energy stocks soared 9% amid severe supply shortages, while consumer discretionary stocks lost 7% on concerns about falling demand for European exports. Oil giants BP, Royal Dutch Shell and Total enjoyed strong gains as oil prices shot higher. Meanwhile, shares of luxury goods makers LVMH and Kering lost 8% and 18%, respectively. In the information technology sector, shares of ASML rallied as the semiconductor equipment maker raised its long-term revenue forecasts, citing robust demand for its high-priced lithography systems.

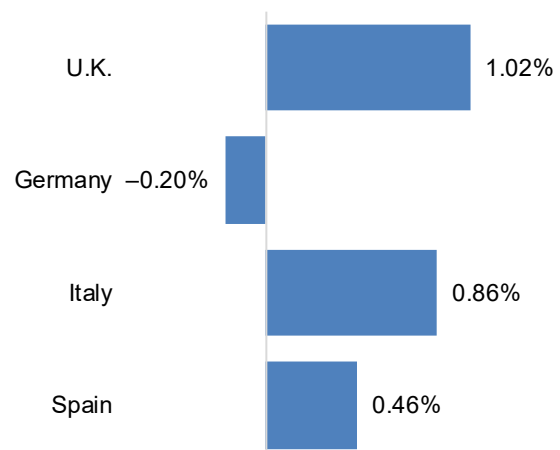
**In fixed income markets,** eurozone government bonds fell as investors weighed the threat of higher inflation against the ECB’s commitment to keep European policy rates in negative territory. The yield on Germany’s benchmark 10-year note declined 1 basis point to end the quarter at –0.20%. Similar maturities in Italy rose 4 basis points to 0.86%. In currencies, the euro lost 2.3% against the dollar.

**MSCI Europe total returns (QTD)**



Source: RIMES. Returns are in USD.

**10-year government bond yields**



Source: Bloomberg

## Asia-Pacific

**Japanese stocks rallied late in the quarter** amid a change in the country's leadership and solid progress in the battle against COVID-19. Financial and technology stocks powered the market higher, while the communication services and utilities sectors lost ground. The MSCI Japan Index rose 5% and the MSCI Pacific ex Japan Index fell 4%. The Japanese yen dipped 0.5% against the U.S. dollar.

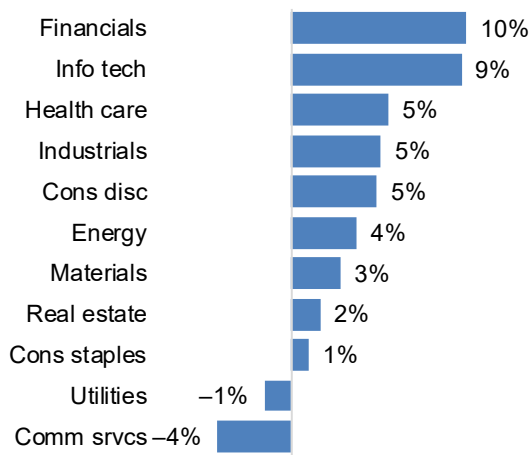
**COVID-19 cases reached a pandemic peak** of around 25,000 per day in August before receding sharply as Japan's initially sluggish vaccine campaign picked up pace. At the end of the quarter, Japan lifted a state of emergency that had limited travel, dining and other activities. Meanwhile, former foreign minister Fumio Kishida was poised to become the new prime minister after winning a close leadership contest in the governing Liberal Democratic Party. He is expected to maintain policy continuity.

**Japan's economy expanded modestly** in the second quarter, but the subsequent surge of COVID-19 infections raised fears of a weaker third quarter. Export growth slowed in August for a third consecutive month, hurt by declines in auto and aircraft shipments. Industrial production fell for a second straight month in August amid semiconductor shortages and supply chain disruptions. Retail sales contracted in August for the first time in six months. The Bank of Japan kept monetary policy unchanged in September following a flat inflation reading in August, the strongest in more than a year.

**Hong Kong stocks dropped**, largely reflecting the impact of regulatory interventions in China. The territory relaxed restrictions on visitors from China, but businesses remained critical of the government's pandemic limits. Economic data improved. The IHS Markit Hong Kong Purchasing Managers Index (PMI) signaled expansion for the seventh straight month in August, reaching 53.3 from 51.3 in July.

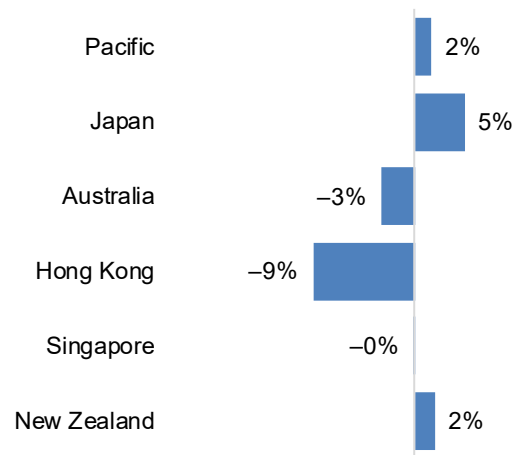
**Australia saw COVID-19 cases surge** to pandemic highs, prompting concerns over third-quarter growth. The central bank extended its asset purchase program to February while holding its key interest rate steady at 0.1%. The IHS Markit Australia Manufacturing PMI rose to 56.8 in September from 52.0 in August, suggesting factories are coping with pandemic-related lockdowns. Australian stocks fell 3% and the Australian dollar lost 3.8% against the U.S. dollar. In New Zealand, the economy expanded by 17.4% in the second quarter, but a surge of COVID-19 cases in August prompted new lockdowns. The central bank ended its asset purchase program but held off on a widely expected rate hike.

**MSCI Japan total returns (QTD)**



Source: RIMES. Returns are in USD.

**MSCI Pacific total returns (QTD)**



Source: RIMES. Returns are in USD.

## Emerging markets

**Emerging markets stocks fell**, hurt by China's slowing economy and uncertainty around tightening regulatory policies. Inflation fears, rising COVID-19 infection rates in developing countries and signs of less accommodative U.S. monetary policy also contributed to weaker sentiment. Overall, the MSCI Emerging Markets Investable Market Index declined 7%.

**Chinese stocks posted their worst quarterly decline since 2015.** Government intervention in the technology, education and online gaming sectors spooked investors and led to a sweeping selloff. China's economy also showed signs of slowing, with weaker data in areas of manufacturing activity, construction starts and retail sales. Power shortages raised further concerns about factory output and disruptions to global supply chains. Meanwhile, the impending default of heavily indebted property giant Evergrande Group fueled worries about China's property sector and commodities demand.

**Under increased scrutiny, China's technology heavyweights posted sharp declines**, which weighed on overall returns for the benchmark index. Shares of e-commerce giant Alibaba sank 36%. Tencent, the mobile gaming and social media platform, fell 21%. Online food delivery company Meituan lost 23%.

**Leading Asian semiconductor manufacturers announced price hikes.** The increases come amid a sustained global shortage for chips used in everything from cars to smartphones. Taiwan Semiconductor Manufacturing (TSMC) and Samsung Electronics have both stepped up investments to expand capacity and to brace their businesses against ongoing geopolitical tensions between the U.S. and China. Samsung shares fell 12%, while TSMC declined 2%.

**Indian equities continued to be a bright spot in emerging markets.** The MSCI India IMI rose for a sixth consecutive quarter. India's economy grew an annualized 20.1% in the three months ended June 30 as vaccination rates increased. Companies in the energy and financials sectors gained. Overall, the MSCI India IMI has soared 30% year to date.

**On a sector basis, energy notched the strongest gains.** Prices for natural gas soared on shortages and strong demand from around the world. Shares of Russian producers Gazprom and Novatek rose by double digits. The materials sector edged lower, with iron ore prices plummeting 45%. Shares of Brazilian iron ore giant Vale sank on weakening demand from China.

**Prices for sovereign dollar bonds inched lower.** Risk sentiment was tempered by the rapid spread of the COVID-19 delta variant in some developing countries. Most currencies in emerging markets lost ground to the U.S. dollar. ■

### Quarter-to-date total returns (%)

		USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
<b>Equity indexes (USD)</b>	<b>Fixed income / currency</b>				
MSCI Emerging Markets IMI	JPM EMBI Global Div	-0.7	---	---	---
MSCI Brazil IMI	JPM GBI-EM Global Div	---	-3.1	-0.2	---
MSCI China IMI	Brazil	-2.8	-10.5	-2.8	-7.9
MSCI India IMI	Indonesia	-0.2	4.1	2.8	1.3
MSCI Mexico IMI	Malaysia	-0.6	-0.8	0.1	-0.8
MSCI Russia IMI	Mexico	-0.4	-3.4	-0.3	-3.1
MSCI South Africa IMI	Poland	0.1	-5.0	-0.9	-4.1
MSCI Korea IMI	South Africa	-1.9	-4.9	0.2	-5.1
MSCI Taiwan IMI	Turkey	-0.8	0.9	3.2	-2.2

Source: RIMES

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Bloomberg indexes are unmanaged, and results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

Bloomberg Global Aggregate Index represents the global investment-grade fixed income markets.

Bloomberg U.S. Corporate Investment Grade Index represents the universe of investment grade, publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Dow Jones Industrial Average is a price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds.

J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

MSCI All Country World Index (ACWI) is designed to measure results of more than 40 developed and emerging equity markets.

MSCI All Country World (ACWI) ex USA Index is designed to measure equity market results in the global developed and emerging markets, excluding the United States.

MSCI EAFE® (Europe, Australasia, Far East) Index is designed to measure developed equity market results, excluding the United States and Canada.

MSCI Emerging Markets Investable Market Index includes large, mid-cap and small-cap segments, targeting a coverage range of close to 99% of more than 20 emerging equity markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Investable Market Index.

MSCI Europe Index is designed to measure developed equity market results across 15 developed countries in Europe.

MSCI Pacific Index is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore.

MSCI World Index is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

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