Congress Asset Management Company

SEPTEMBER 2021 BRIEFING

MTD

	Value	Core	Growth
Large	1.98	2.89	3.74
Mid	2.14	2.54	3.23
Small	2.68	2.24	1.82

QTD

	Value	Core	Growth
Large	2.80	5.03	7.16
Mid	2.77	3.33	4.29
Small	-1.00	-1.45	-1.89

YTD

	Value	Core	Growth
Large	20.32	20.74	21.08
Mid	22.77	20.12	15.18
Small	25.43	15.83	6.92

	MTD	QTD	YTD
Growth	3.74	7.16	21.08
Momentum	4.16	5.14	12.71
Quality	3.11	6.75	22.75
Russell 1000	2.89	5.03	20.74
Low Vol	1.95	5.51	15.33
Small	2.24	-1.45	15.83
Value	1.98	2.80	20.32

Source: Morningstar as of 8/31/2021. Style box Russell Indices. Low Vol (MSCI USA Min Vol Index), Momentum (MSCI USA Momentum Index, Quality (MSCI USA Quality Index)

August Recap

Markets and forward earnings estimates crept higher in August following an exceptionally strong earnings season. While 87% of S&P 500 companies exceeded Q2 earnings estimates, analysts maintained caution on raising the future earnings bar too high too soon in favor of backloading upward revisions to later quarters. From July 31st through September 3rd analysts bumped 2H'21 earnings estimates up 0.4% versus a 3.8% increase for 1H'22 according to data from FactSet. The S&P 500 kept pace, rising 3.4% over the same period, bringing its 2021 total return to 21.6%.

Sector leadership revealed little consensus on the future path of monetary policy as the Delta variant dampened hopes for a post-Covid economy this fall. Financials led all sectors, up over 5% on taper talks and a modestly steepening yield curve, while the usual suspects in big tech did the heavy lifting for broader markets. Facebook, Apple, Amazon, NVIDIA, Google, and Microsoft collectively accounted for over 47% of the S&P 500's return in August. Fed Fund Futures weighed in, cutting the probability of two or more rate hikes in 2022 in half heading into September.

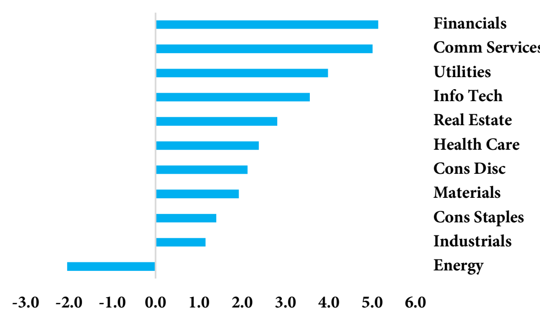
With no clear return to normal on the near horizon, investors directed their dollars to where consumers have been directing theirs. The highest quintile of companies by sales growth outperformed the lowest quintile by 341 bps, 155 bps, and 74 bps across the Russell 1000, Russell Midcap, and Russell 2000 indices respectively, according to data from Jefferies. The Russell 1000 Growth index outpaced its value counterpart by 176 bps on the month to take a year-to-date lead of 76 bps heading into September.

Disruption

The employment picture in August did little in the way of relieving uncertainties around the trajectory of the US economy as urban unemployment remained problematic. Fewer jobs were added in August than expected as U.S. nonfarm payrolls increased by just 235,000 versus calls for 750,000 while initial jobless claims for the week ending September 4th dropped to a post-Covid low. Data from Indeed's Hiring Lab helps lift the curtain on the conundrum of 10.9 million open jobs in an economy still missing 5.3 million from pre-pandemic levels. While overall job postings in the US are up 39.4% since Indeed's pre-pandemic benchmark date of February 1st 2020, the average growth rate in major metro areas is less than half the national average at 19.1% with New York, Boston, Seattle, San Francisco, and Washington DC among the list of the slowest metro areas for job growth as it relates to new postings.

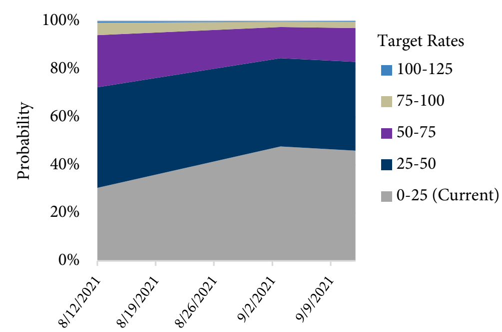
Job postings requiring Covid-19 vaccinations rose 242% in August as the Pfizer vaccine received FDA approval. While the overall number of job postings requiring a vaccine is still negligible at less than 0.5% the trend will be worth keeping an eye on as employers search for answers on how to bring many service sector jobs back to big cities.

S&P 500 Sector Returns: August 2021



Source: Morningstar Direct as of 8/31/2021

Fed Fund Futures Indicate Probability of 2 or More Rate Hikes in 2022 Halved in August



Source: CME Group as of 9/12/2021

Metros areas with Slowest Growth in Job Postings	% Change since 2/1/2020
Honolulu, HI	12.9
Washington, DC	12.9
San Francisco, CA	14.9
San Jose, CA	15.6
Lansing, MI	16.2
Seattle, WA	20
Baltimore, MD	23.1
Fayetteville, AR	24.7
Boston, MA	25.3
New York, NY	25.4

Source: Indeed, as of 8/27/2021

Trends – Following 2020's e-commerce boom, attention has intensified on maximizing the conversion of prospects amid heightened competition. Fundraising for companies handling online payments including "buy now, pay later" firms such as publicly traded Affirm, rose 172% to $4.9 billion in the first half of 2021 from the year prior according to data from CB Insights. Affirm's latest results showed merchandise volume in its latest fiscal year nearly doubled to over $8 billion. Recent data from Qualtrics suggests buy now pay later companies may find themselves in the regulatory crosshairs given a third of such consumers have reportedly fallen behind on one or more payments and 72% reported a decline in their credit score as reported by Reuters.

Millennials and Gen Z's preference for buy now, pay later options over traditional credit cards may be the most cited narrative for such growth, but data from the New York Fed's credit access survey suggests the incumbents are catching the under 40 crowd as well. The under 40 demographic's credit card application rate rose 28% in the 12-month period ending in June as their credit scores improved. Consumer confidence could be more upbeat than July's retail sales report suggested if the willingness to take on more credit is any indication.

Large Cap – Corporate confidence appears to be on the upswing in large caps as measured by forward earnings guidance. Quarterly guidance amongst S&P 500 constituents had dropped to just 49 companies at the height of pandemic uncertainty in Q2 2020 but is now making a comeback as more companies are confident in communicating their outlooks. Heading into Q3 earnings season, 101 S&P 500 constituents are providing guidance with 54% issuing guidance above the mean of analyst estimates, well above the 5-year average of 37% per FactSet. Buy backs are making a comeback as well. S&P 500 quarterly share repurchases, which fell to $88.7 billion in Q2 2020, increased to $178 billion in Q1 2021 putting the S&P 500's combined buyback and dividend yield at 2.9%. With total cash on S&P 500 balance sheets sitting at a record $1.9 trillion, expectations are for distributions to shareholders to increase.

Mid Cap – Companies have announced mergers and acquisitions worth more than $1.8 trillion through August 2021 and are on pace to potentially break records set in 2015 according to data from Dealogic as reported by the Wall Street Journal. As larger companies seek to buy growth and scale, midcaps have historically benefitted most from rising M&A activity per data from Jefferies going back to 1994.

Small Cap – Small caps bounced back following a tough July, but the Russell 2000 remains down 145 bps in Q3 heading into the final month of the quarter. Higher ROE companies outpaced those with lower ROE again in August as the top quintile of names by ROE outpaced the lowest quintile by 73 bps. The highest ROE cohort now leads the lowest by 1,610 bps in 2021. With the Russell 2000 quarterly IPO additions set for September 20th, index quality doesn't appear poised to increase as just 9 of 62 additions posted positive net income in their most recent fiscal year. A steady supply of lower-quality names could be set to continue. Though new SPAC formation has cooled in 2021 there were still 452 active SPACs with over $136 billion in available funds looking for investments as of the end of Q2, according to the latest data from Ernst & Young.

Fixed Income – Fund flows in Q3 suggest investors aren't waiting for the jury to return with a verdict on the transitory vs. structural inflation debate. With one month left to go, the Short Duration and Inflation Protected bond categories are both poised to take in more assets than the Intermediate Term Core Bond category for the first time since Q2 of 2020 when all three categories experienced heavy outflows during the pandemic related selloff. The Inflation-Protected Bond category needs just $1 billion in net flows in September to break its previous quarterly record for net inflows of $18.2 billion set earlier this year.

[1]https://www.reuters.com/technology/buy-now-pay-later-surges-third-us-users-fall-behind-payments-2021-09-09/

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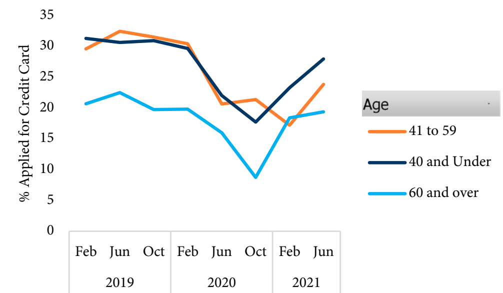
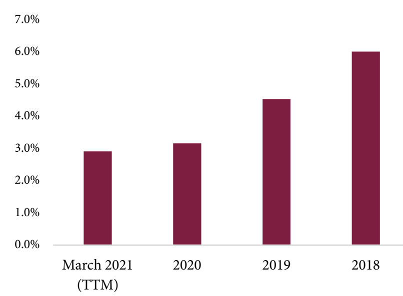
Credit Card Appetites Return in 2021



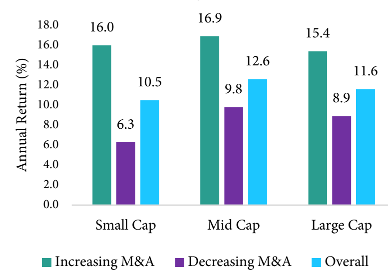
Source: New York Fed SCE Credit Access Survey as of 6/30/2021

S&P 500 Buyback & Dividend Yield



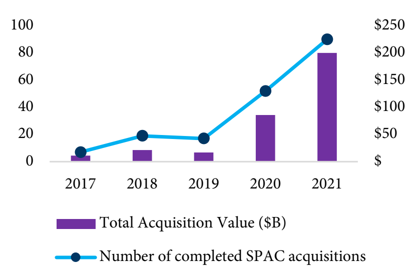
Source: S&P Global as of 6/15/2021

Mid Caps have Benefitted Most in Years with Rising M&A



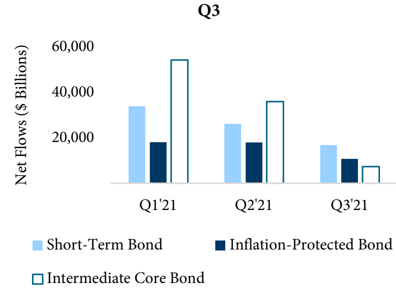
Source: Jefferies as of 9/9/2021

Completed SPAC Acquisitions: US & Canada



Source: Ernst and Young Global IPO Trends

Investors Prefer Short Duration & TIPS in Q3



Source: Morningstar Direct, as of 8/31/2021