October 5, 2021

September's volatility and market action shouldn't have come as a surprise. September is historically the worst performing month of the year. Since 1928, the S&P 500 index has returned an average loss of .99%. Big Wall Street firms such as Morgan Stanley, Citigroup and Bank of America published end of quarter notes warning of market declines ahead. Leading up to September, the S&P had already hit 54 record closing highs. All good news was seemingly priced into the already high market valuations. September was going to bring down returns for the whole quarter.

Indeed, the S&P slid 4.7% in September. On the 20th of September the volatility index, or the so-called fear index, spiked 30% to a high not seen since May. The market played out in September as history would have suggested.

Here are some events that may have contributed to the market action:

- Interest rate risk. Anticipation of rising rates spooks the markets, especially when valuations are stretched. See the 2 previous investor updates.
- Rising inflation. Raw material and input costs are rising for firms. Operating margins get squeezed for firms that don't have pricing power.
- Increased taxes. The administration has a proposal to raise the marginal corporate tax rate from 21% to 26.5%. If passed into law, the price the market puts on corporations' earnings increases overnight (all else being equal).
- Supply chain worries. Shipping and materials are in tight supply, crimping firms' ability to meet demand. See the world-wide chip shortage as example number 1.

The Jensen Opportunity Fund wasn't immune to the overall market weakness, and although it eked out an outperformance of the index fund, it only returned .3% over the quarter. Let's hope for a stronger performing year-end.

Until next time,

Todd Shorb