



Market

WISE

October 2021 Edition

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INVESTMENTS | FINANCIAL PLANNING | TAX | PRIVATE TRUST | RETIREMENT PLANS

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Table of Contents

Overview

3 Wise Words

Current Events and The Economy

4 The Coronavirus

5 COVID-19: Light at the End of the Tunnel

6 On The Road Again

7 Economic Indicators

8 Economic Indicators: Relative to History

9 The Pile of Debt

10 State of the Housing Market

11 Earnings Season

12 The Global Supply Chain

Asset Performance

13 Last Month

14 Last Three Months

15 Last 12 Months

16 Long-Term Performance

17 Stock Performance Tracker

18 Bond Performance Tracker

19 Alternatives Performance Tracker

20 U.S. Stock Factor Performance

21 International Stock Factor Performance

22 Currency Impact on International Stock Returns

23 Current Stock Valuations and The Impact on Future Returns

24 Drivers of Bond Performance

25 Current Bond Yields and The Impact on Future Returns

26 A Diversified Alternative Allocation Provides a Correlation Benefit

Perspectives

27 The Value of Value

28 Diversify Across Factors



Wise Words

Current Events and the Economy

- The pace of vaccinations has slowed across the U.S. but roughly 60% of the population is fully vaccinated. As we enter October, daily new COVID-19 cases in the U.S. are declining from the late summer peak .
- On the economic front, U.S. Real GDP rose at an annualized pace of +6.4%. Inflation, measured by CPI, rose 5.3% year-over-year as current prices are still being compared to prices during the most severe portions of the lockdown in 2020. The global supply chain has been severely disrupted by Covid-19, when that problem will be fixed is unknown, but when it normalizes it will go a long way to curbing inflation fears.
- The housing market remains hotter than any time in recent history. Record low inventory from a decade of underbuilding, low mortgage rates and government stimulus are putting upward pressure on prices. Per S&P Case-Schiller data, U.S. home prices are up 19.7% versus last year, the largest increase in more than 20 years.

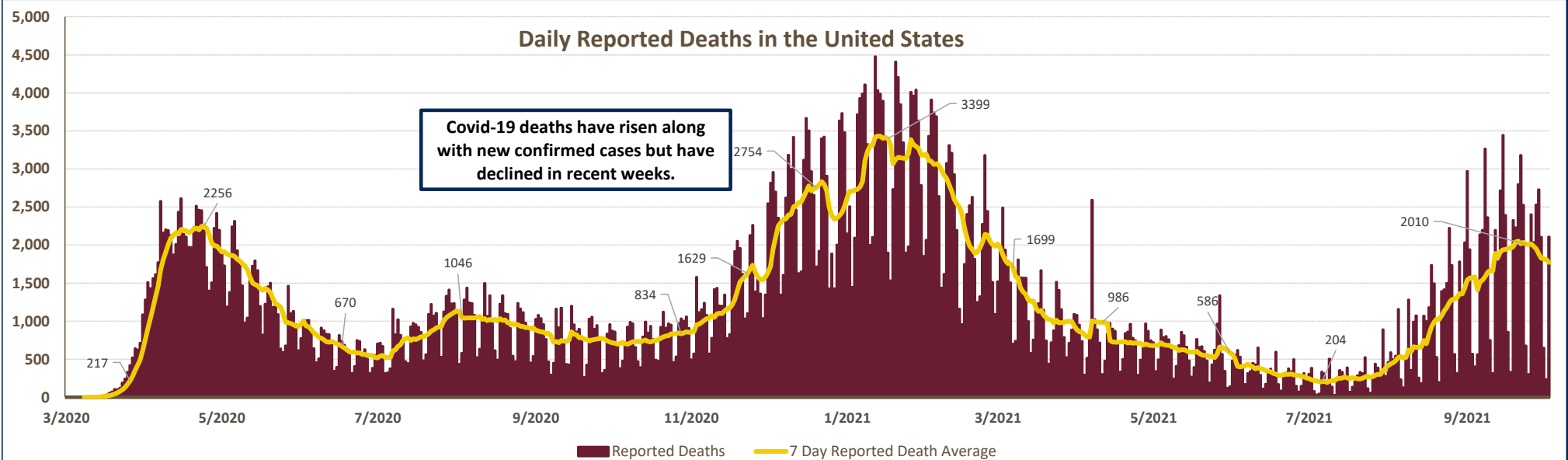
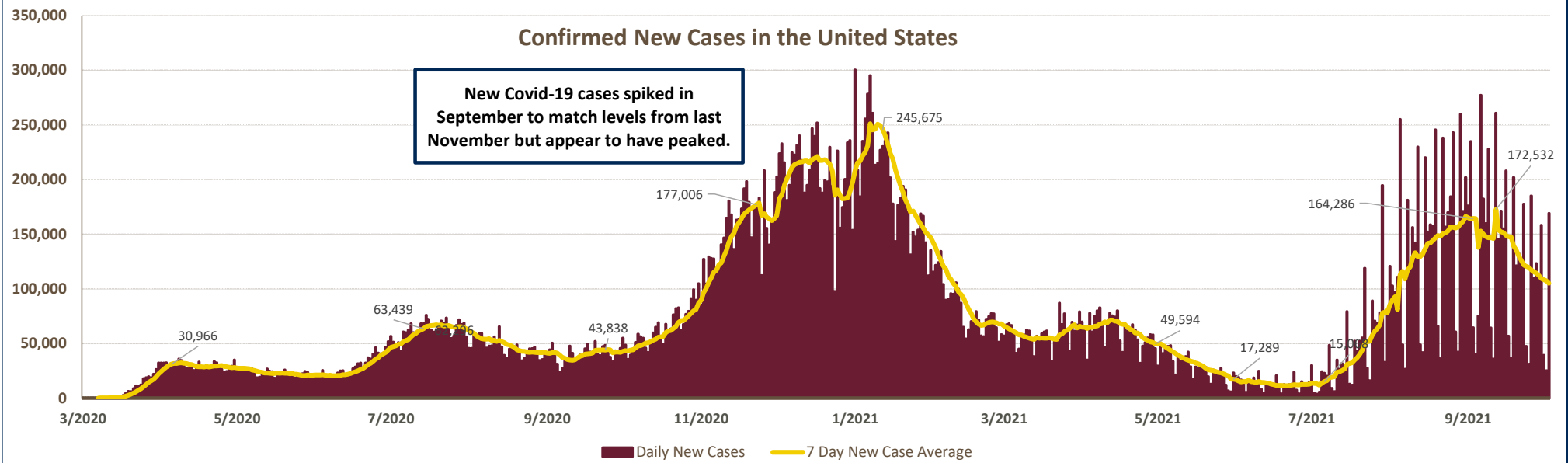
Asset Performance

- Equity markets had a negative quarter. Emerging Markets, led by large drawdowns Chinese technology stocks, were down (-8.2%) followed by US Small Core (-4.3%) and International Large Value (-1.8%). US Large Momentum (+1.7%) was the only positive asset class for the quarter.
- Among factors, US Large Momentum (+1.7%) led the way while size -- US Small Core (-4.3%), International Small Core (-0.7%) -- and value -- US Large Value (-0.2%), International Large Value (-1.8%) -- lagged slightly in the quarter.
- Bonds were positive across the board. Inflation-adjusted bonds (+1.9%) led the way followed by multi-sector (+0.2%) and intermediate-term bonds (+0.1%).
- Alternative assets were mixed in the quarter - Reinsurance (+1.8%) and Trend Following (+0.3%) were positive while Real Assets (-1.7%) and Event Driven (-1.2%) were slightly negative.

Perspective

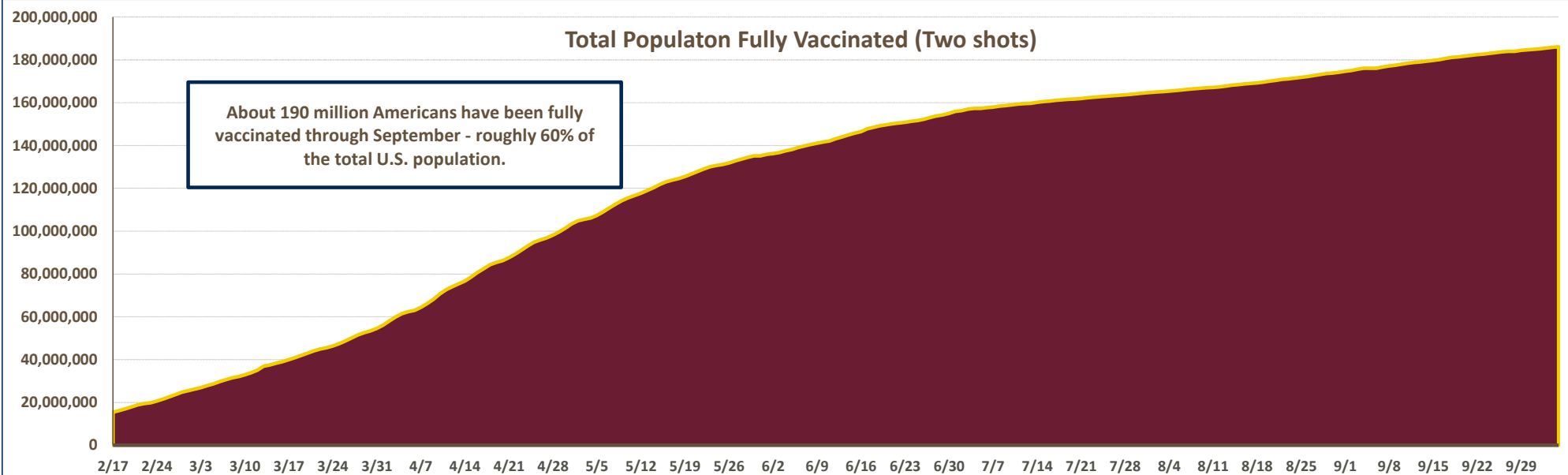
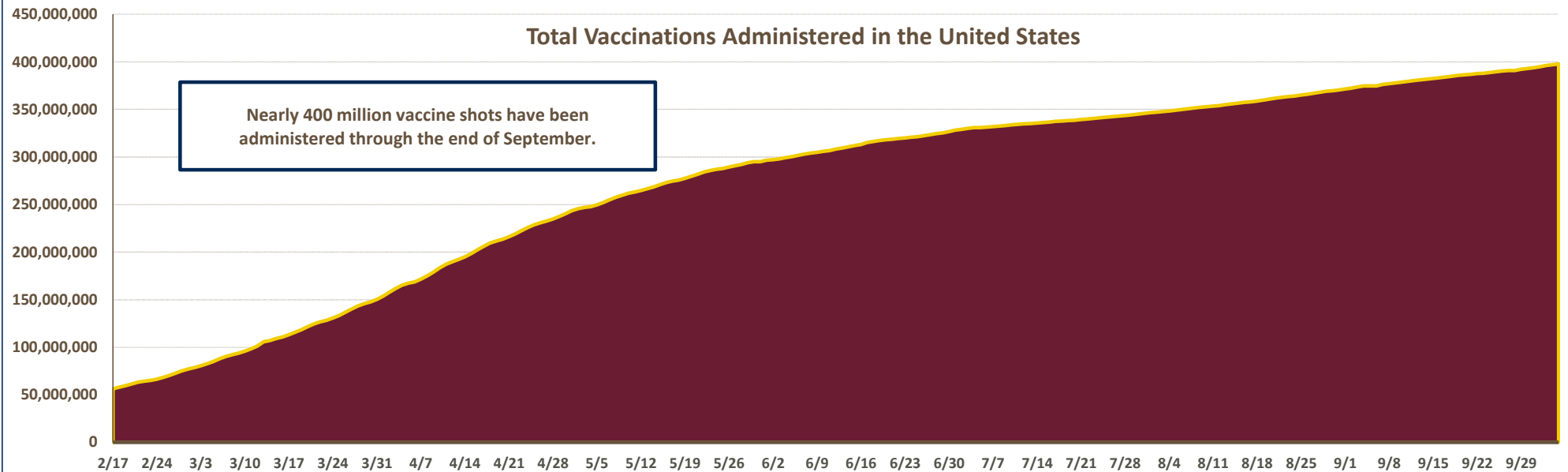
- Despite the strong run in recent months, U.S. value stocks are trading at their cheapest level since World War II excluding the dotcom bubble. Historically, extreme levels of cheapness have preceded periods of strong outperformance for value stocks relative to growth stocks.
- Historically, commonly known factors such as size, value, quality, and momentum post positive returns about as frequently as stocks in general. Since factors tend to outperform and underperform at different times, diversifying across these factors may enhance risk-adjusted returns.
- Over shorter periods rebalancing may seem trivial, but it can add significant value over longer time horizons.

The Coronavirus



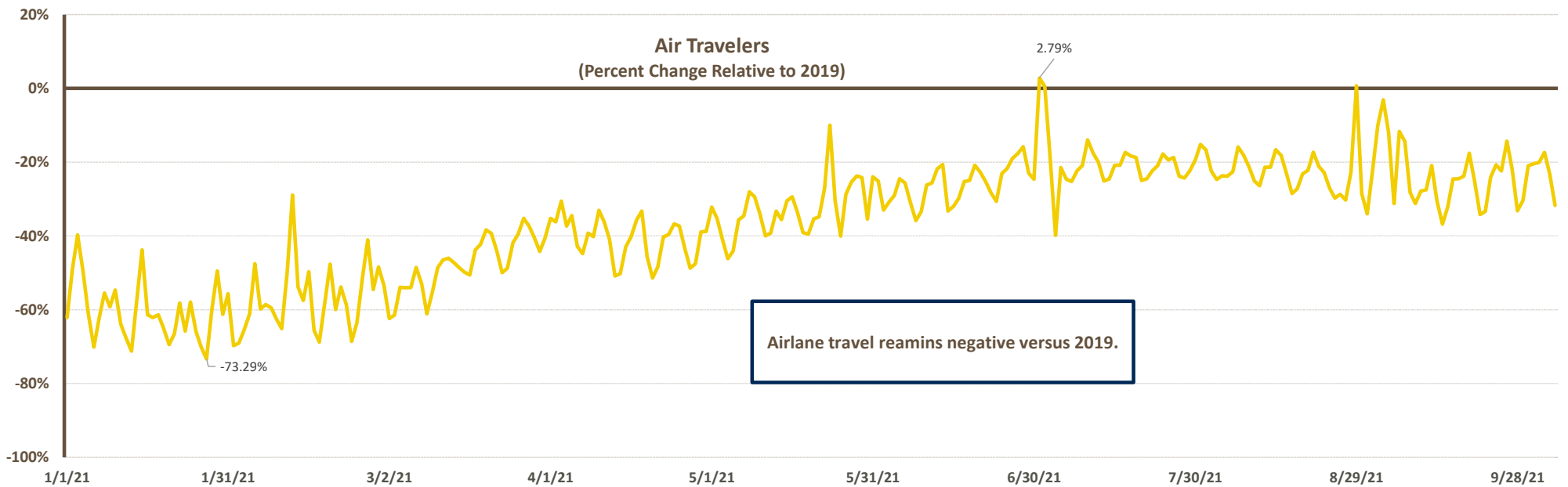
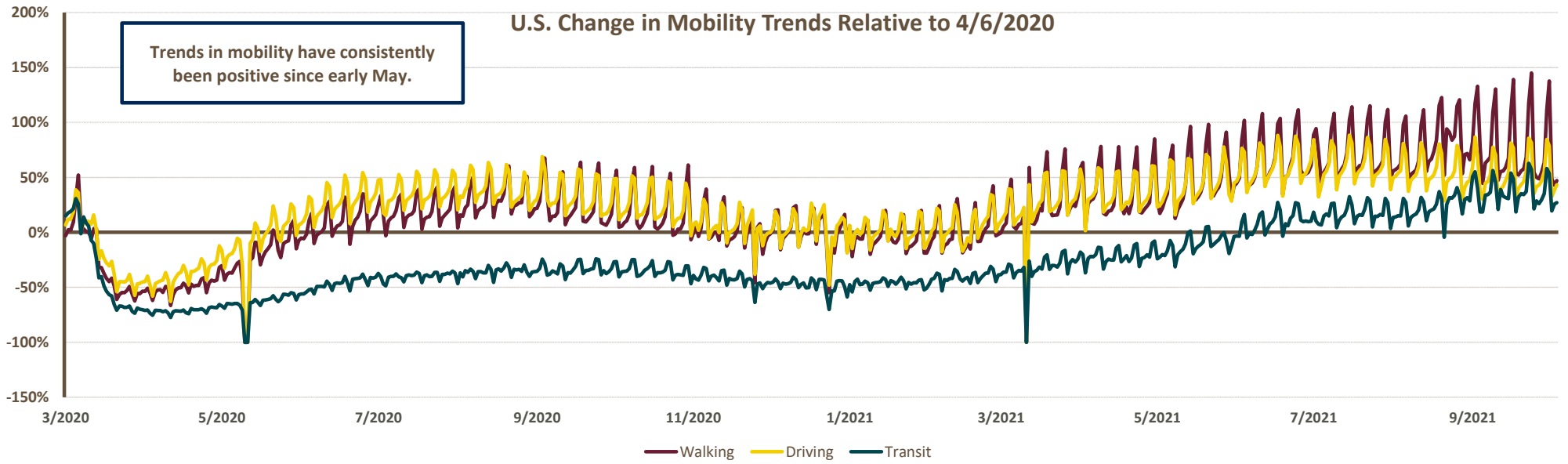
Data as of 10/4/2021. Data source: Johns Hopkins University Center for Systems Science and Engineering.

COVID-19: Light at the End of the Tunnel



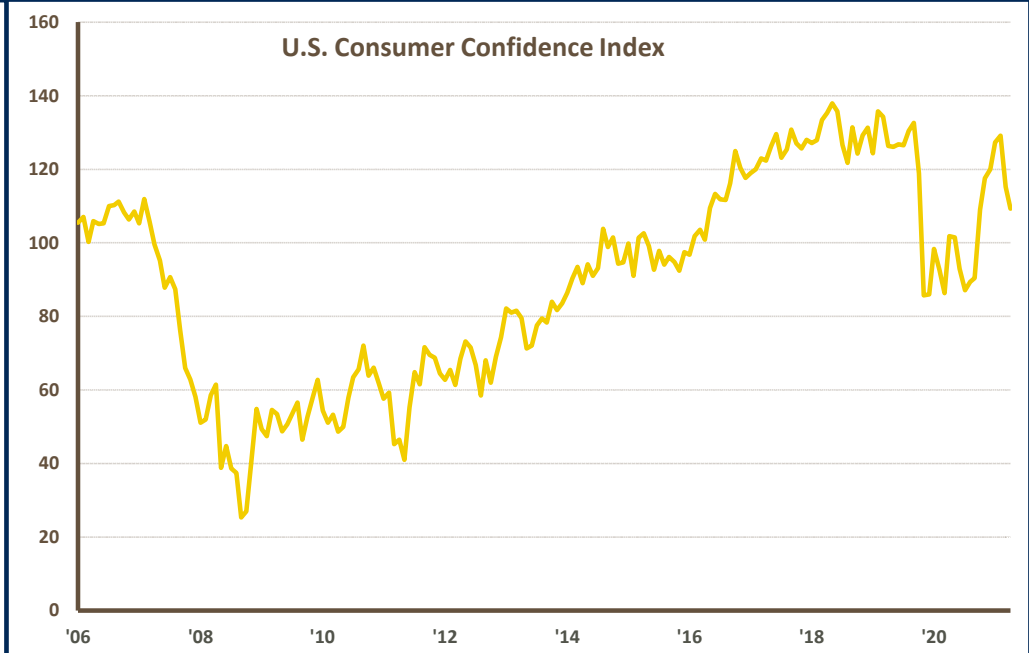
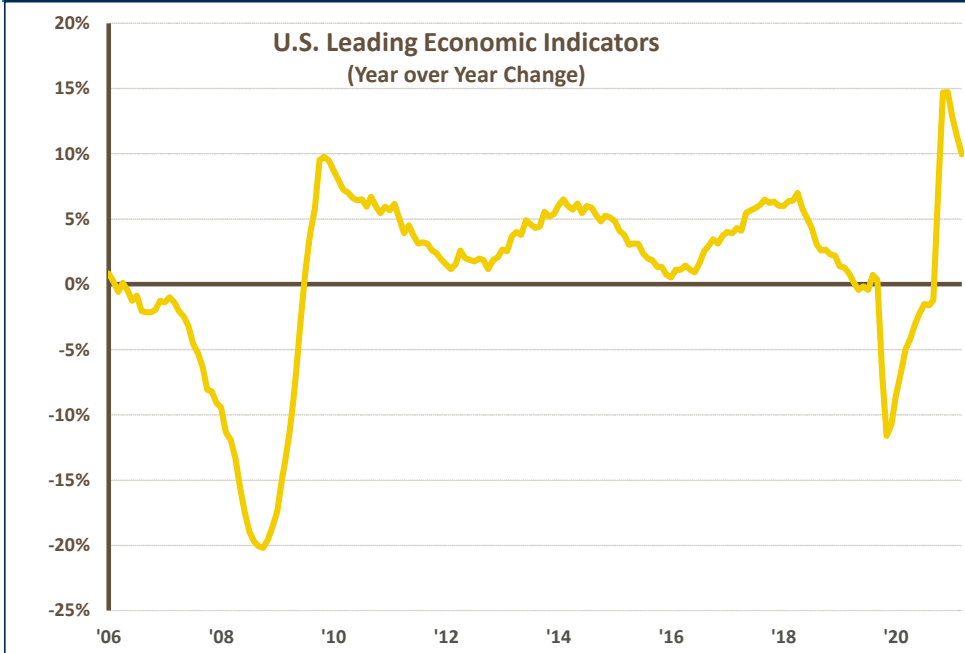
Data as of 10/5/2021. Data source: Our World in Data.

On the Road Again



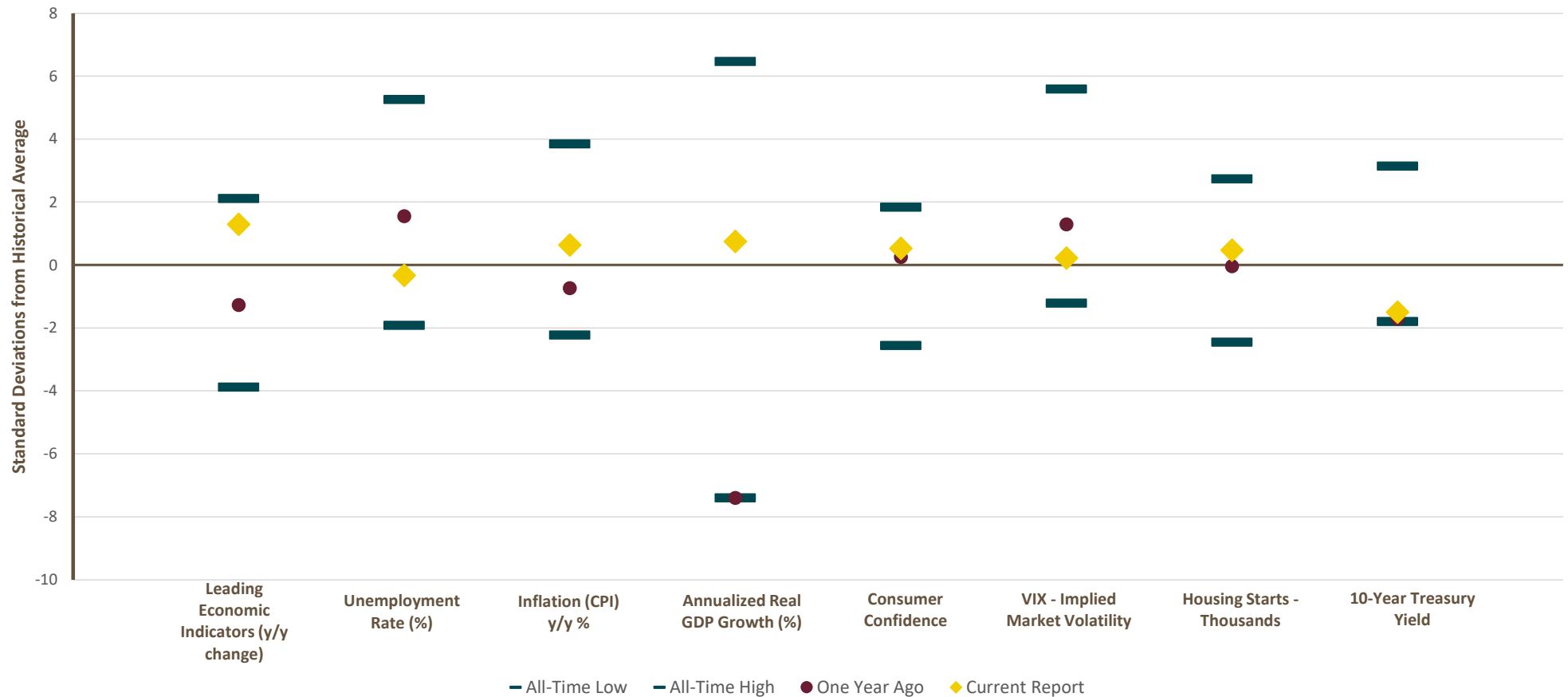
Data as of 10/5/2021. Data sources: Apple, TSA.

Economic Indicators



Data as of 9/30/2021. Data sources: Morningstar Direct, FRED, The Conference Board.

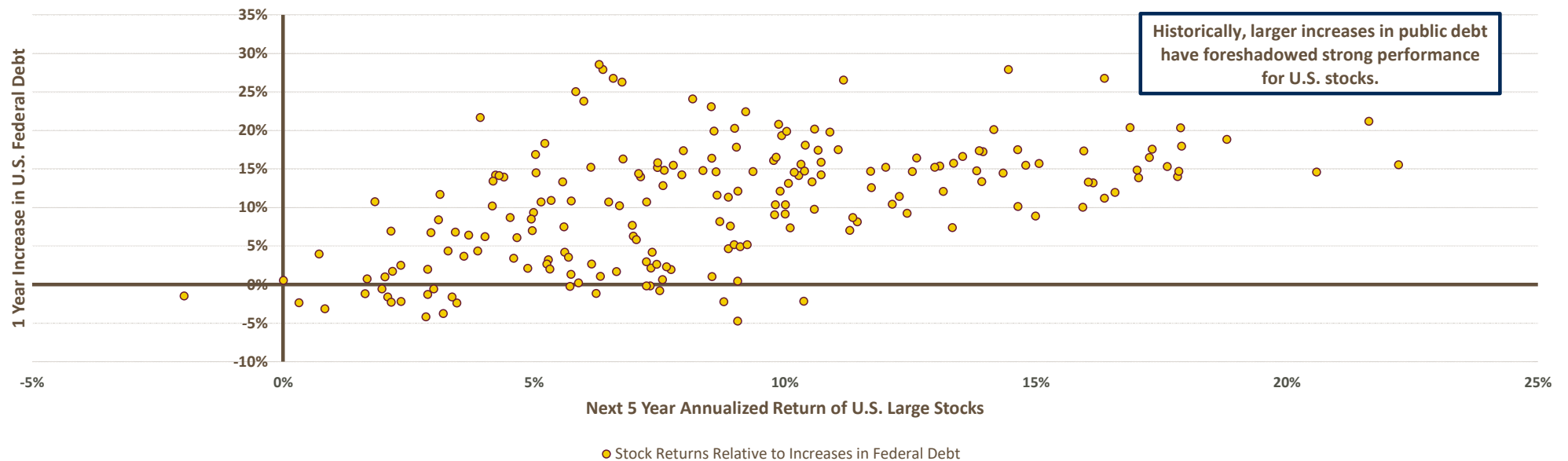
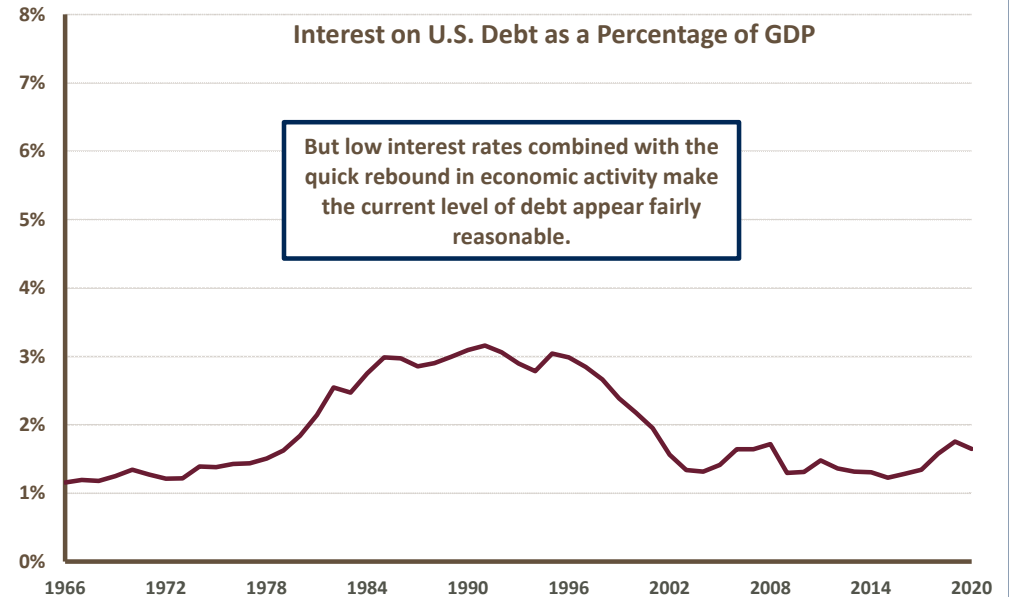
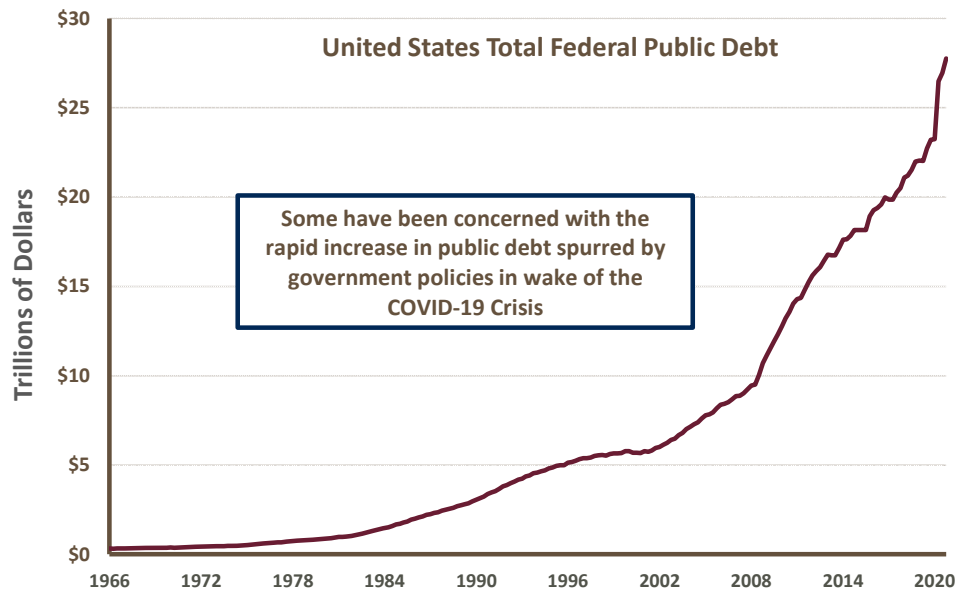
Economic Indicators: Relative to History



Economic Measure	All-Time Low	Historical Average	All-Time High	One Year Ago	Last Report	Current Report
Leading Economic Indicators (y/y change %)	-20.2%	2.4%	14.7%	-5.0%	10.0%	10.0%
Unemployment (%)	2.5%	5.8%	14.7%	8.4%	5.4%	5.2%
Inflation - CPI (y/y %)	-3.0%	3.5%	14.6%	1.3%	5.4%	5.3%
Annualized Real GDP Growth (%)	-31.4%	3.2%	33.4%	-31.4%	6.4%	6.7%
Consumer Confidence	25.3	94.9	144.7	101.8	109.3	109.3
VIX - Implied Market Volatility	10.1	19.5	62.6	29.4	16.1	21.2
Housing Starts (Thousands)	478.0	1430.6	2494.0	1416.0	1554.0	1615.0
10-Year Treasury Yield (%)	0.6%	6.0%	15.3%	0.9%	1.3%	1.5%

Data as of 10/1/2021. Data sources: FRED, The Conference Board.

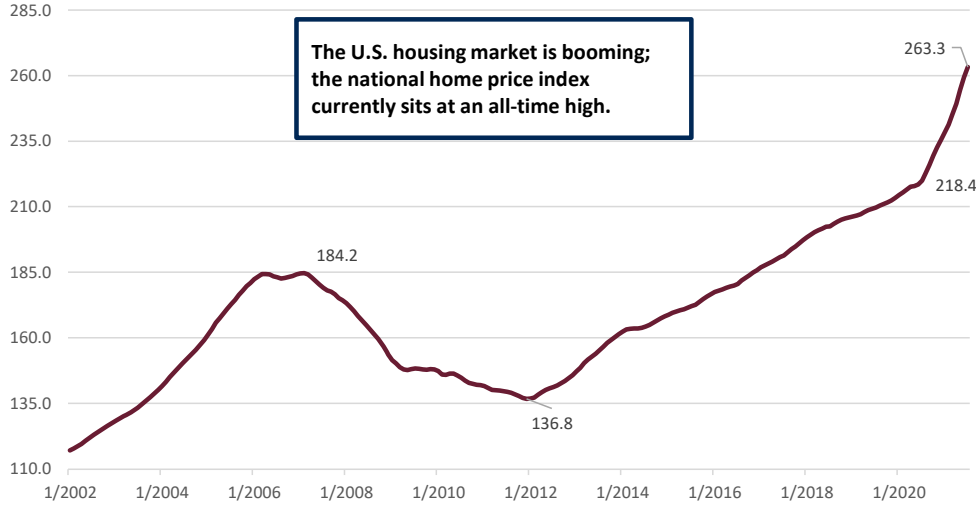
The Pile of Debt



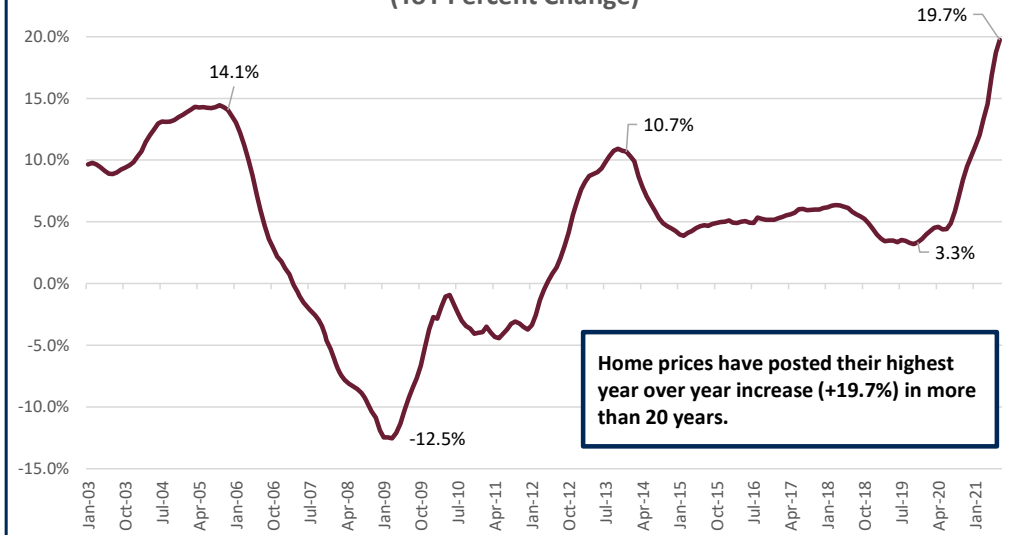
Data as of 9/30/2021. Data sources: FRED, Morningstar Direct. U.S. large stocks are represented by the IA SBBI US Large Stock Index.

State of the Housing Market

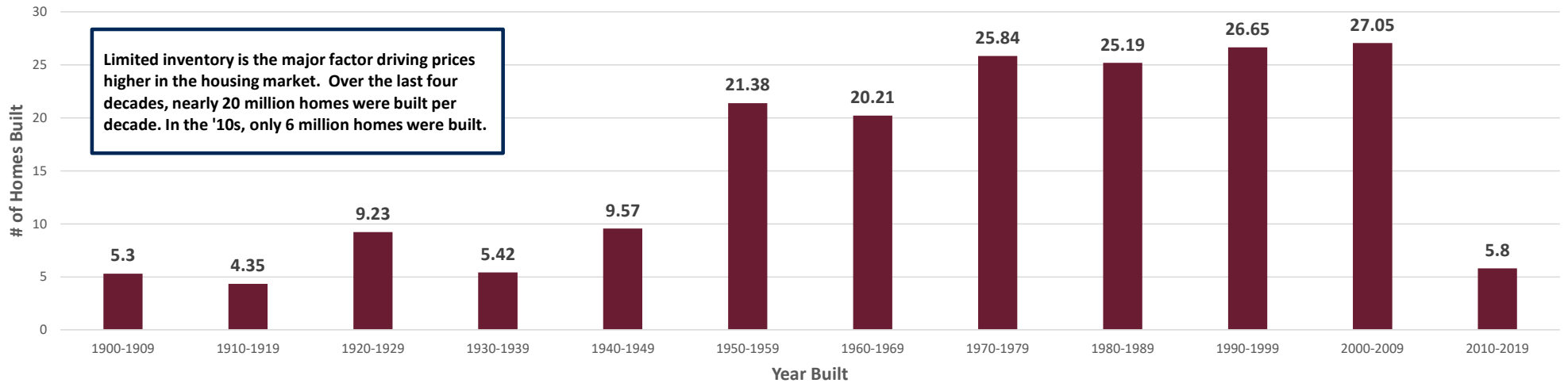
Case-Shiller National Home Price Index
(Jan 2002 - July 2021)



Case-Shiller National Home Price Index
(YoY Percent Change)



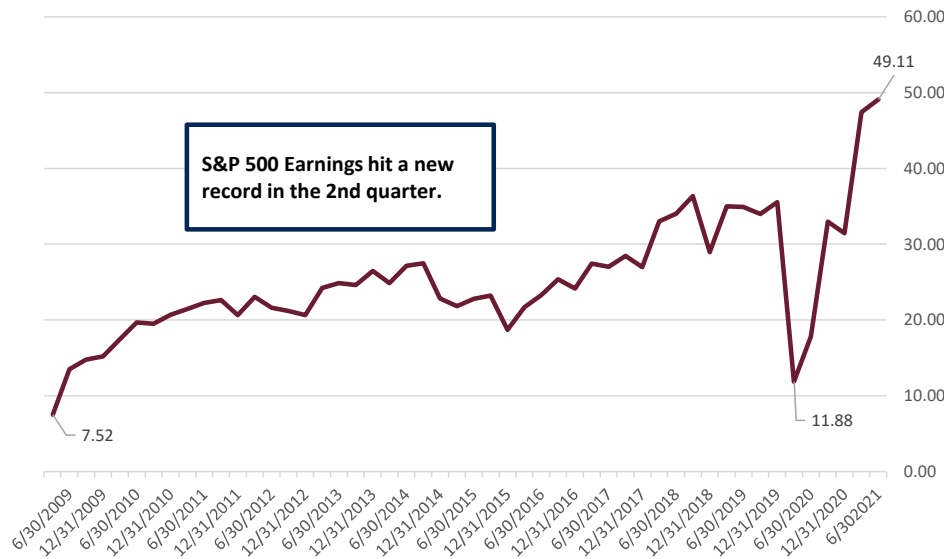
Number of Homes Built in U.S. by Decade
(in Millions)



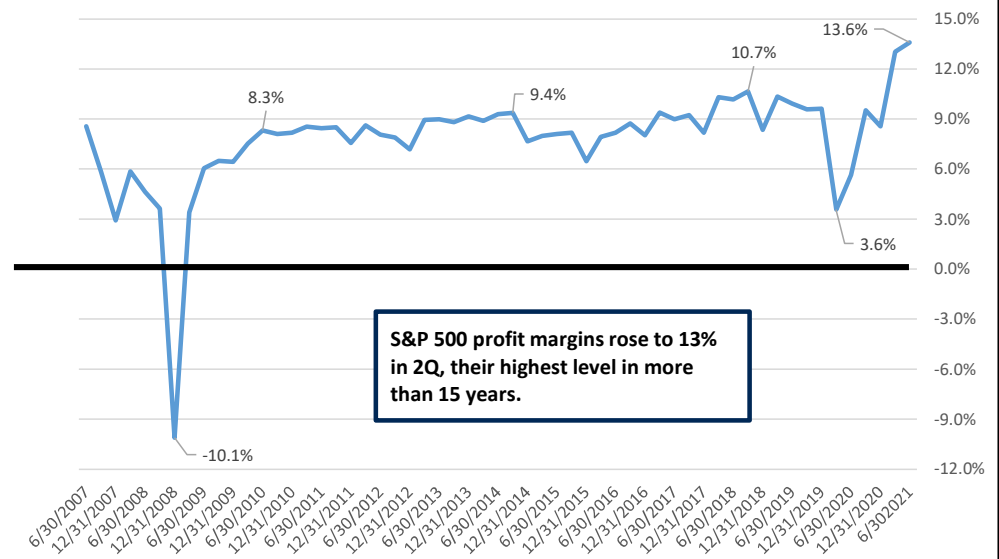
Data as of 9/28/2021. Data sources: Ycharts and Statista.

Earnings Season

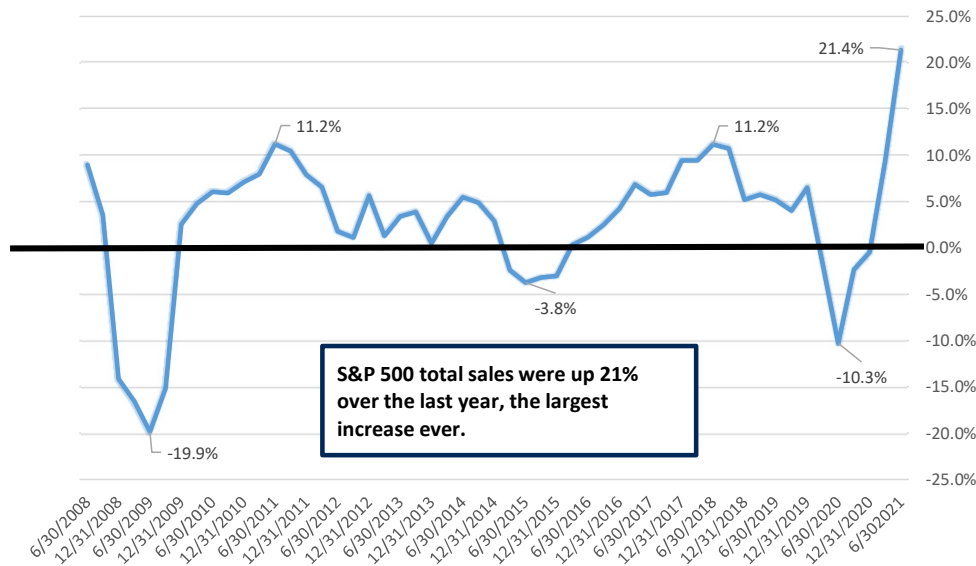
S&P 500 Quarterly Earnings Per Share



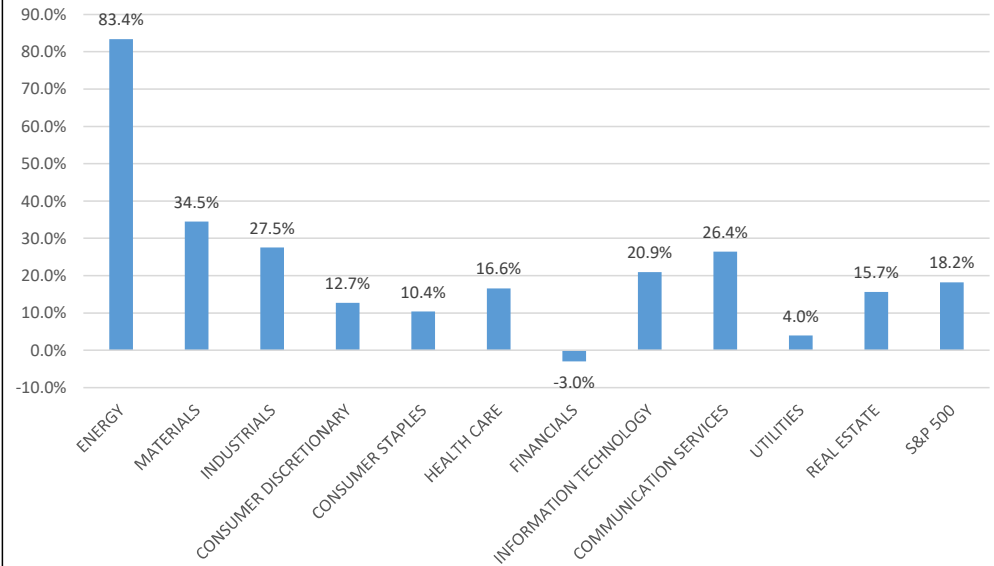
S&P 500 Profit Margins



S&P 500 Quarterly Sales Growth



S&P 500 Sales Growth by Sector

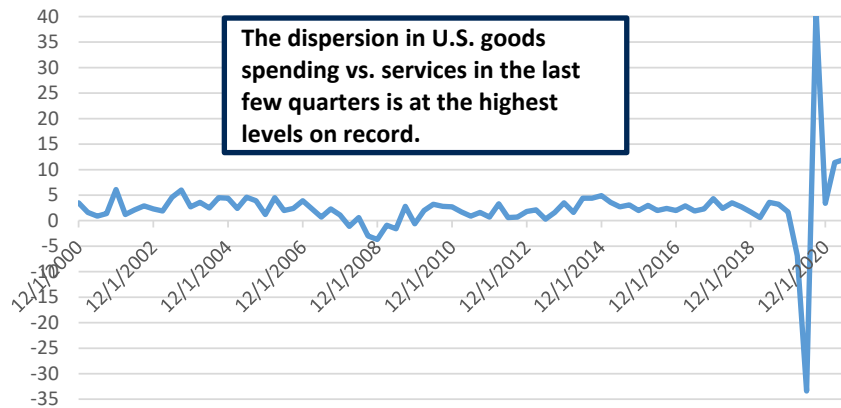


Data as of 9/1/2021. Data sources: Ycharts and S&P Dow Jones.

The Global Supply Chain

Surge in U.S. Goods Spending

Difference in quarterly growth rates, goods-services

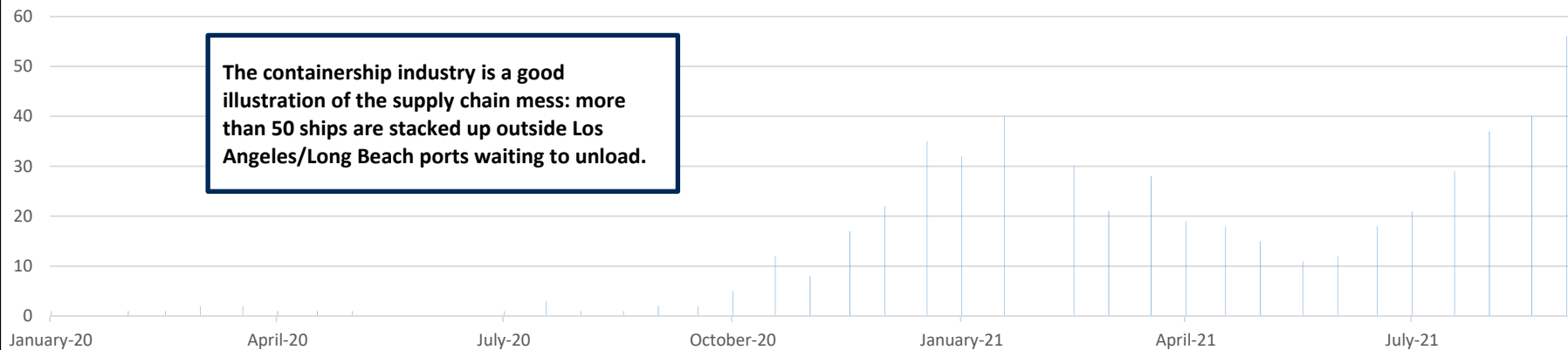


Container Shipping Rates



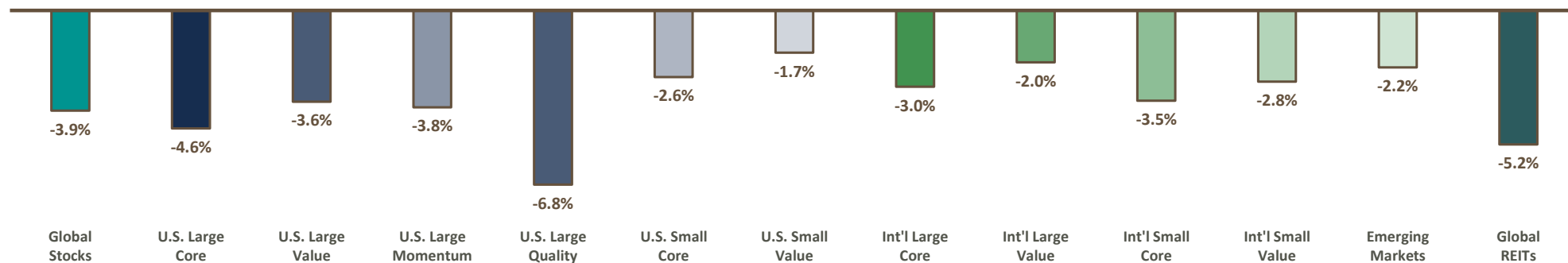
Container Ships at Anchor

Ports of Los Angeles and Long Beach

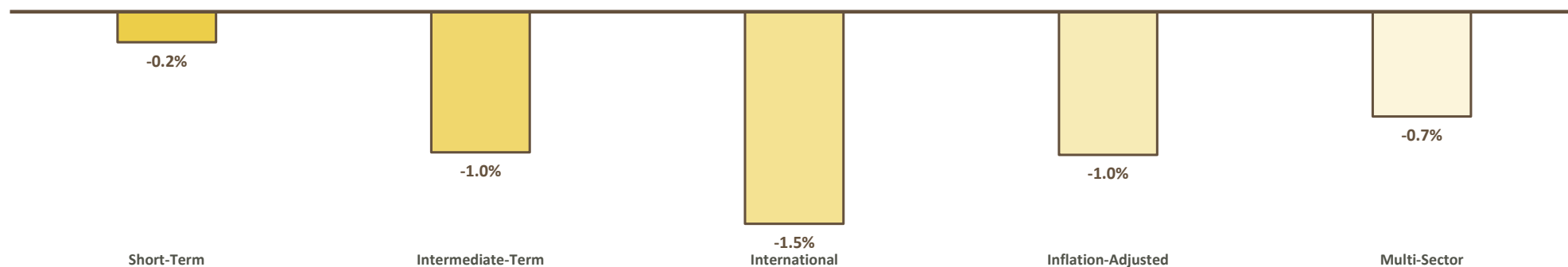


Asset Class Performance: Last Month

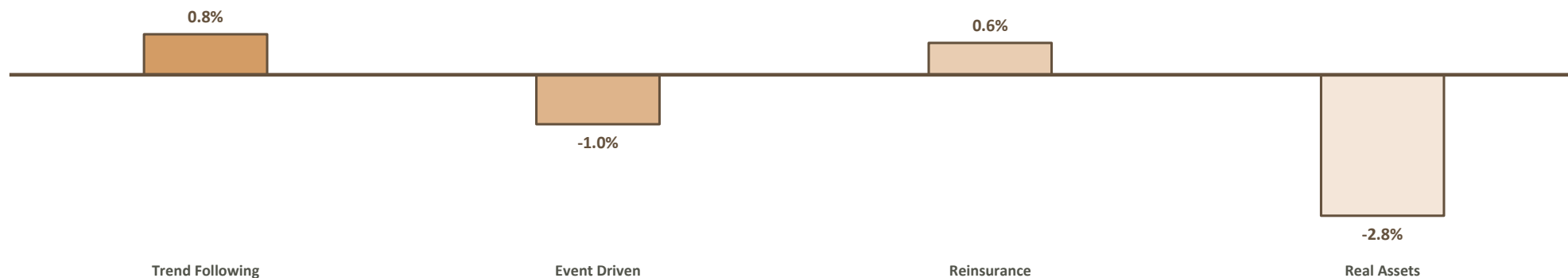
Stocks



Bonds



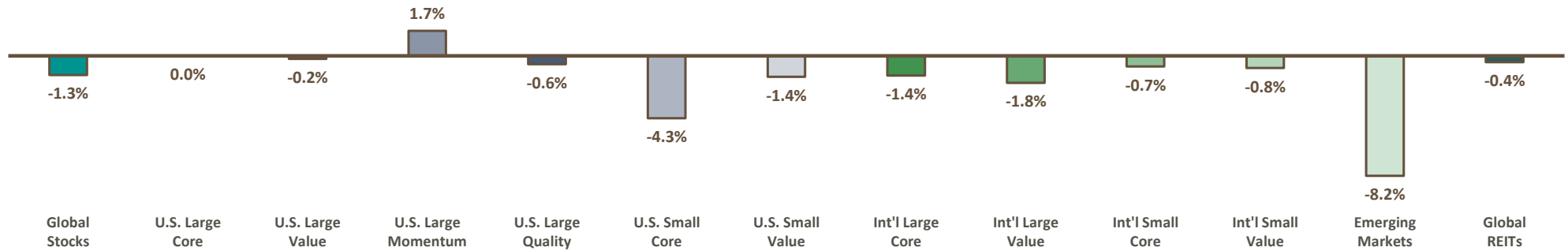
Alternatives



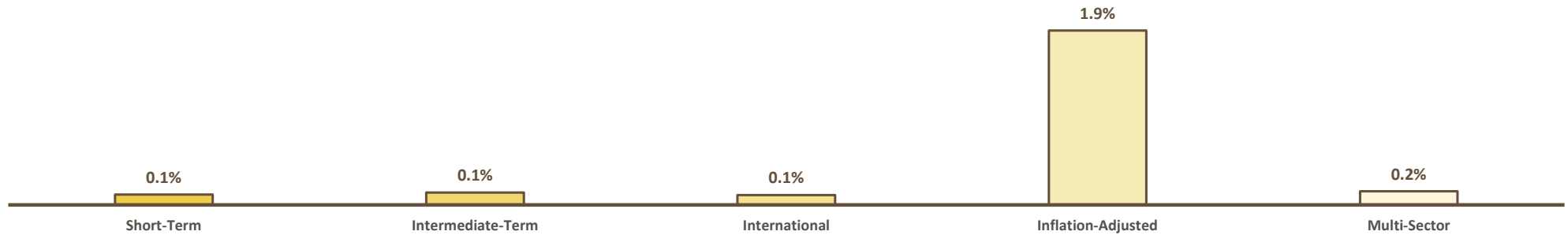
Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Asset Class Performance: Last Three Months

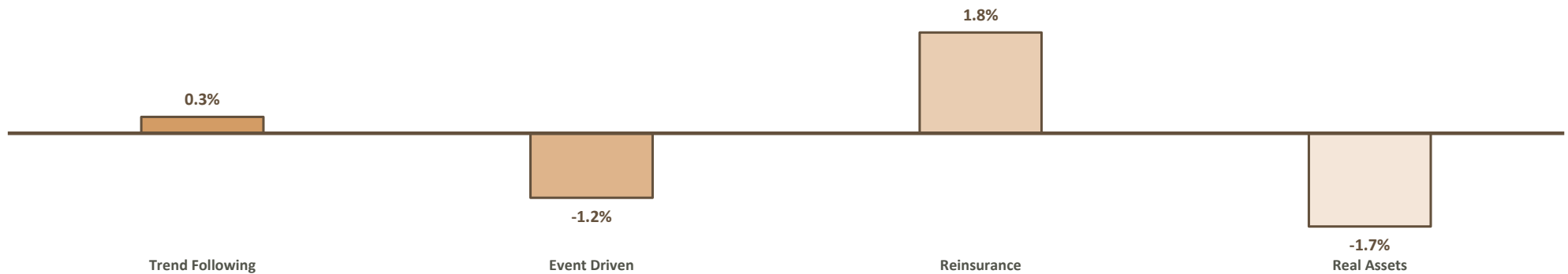
Stocks



Bonds

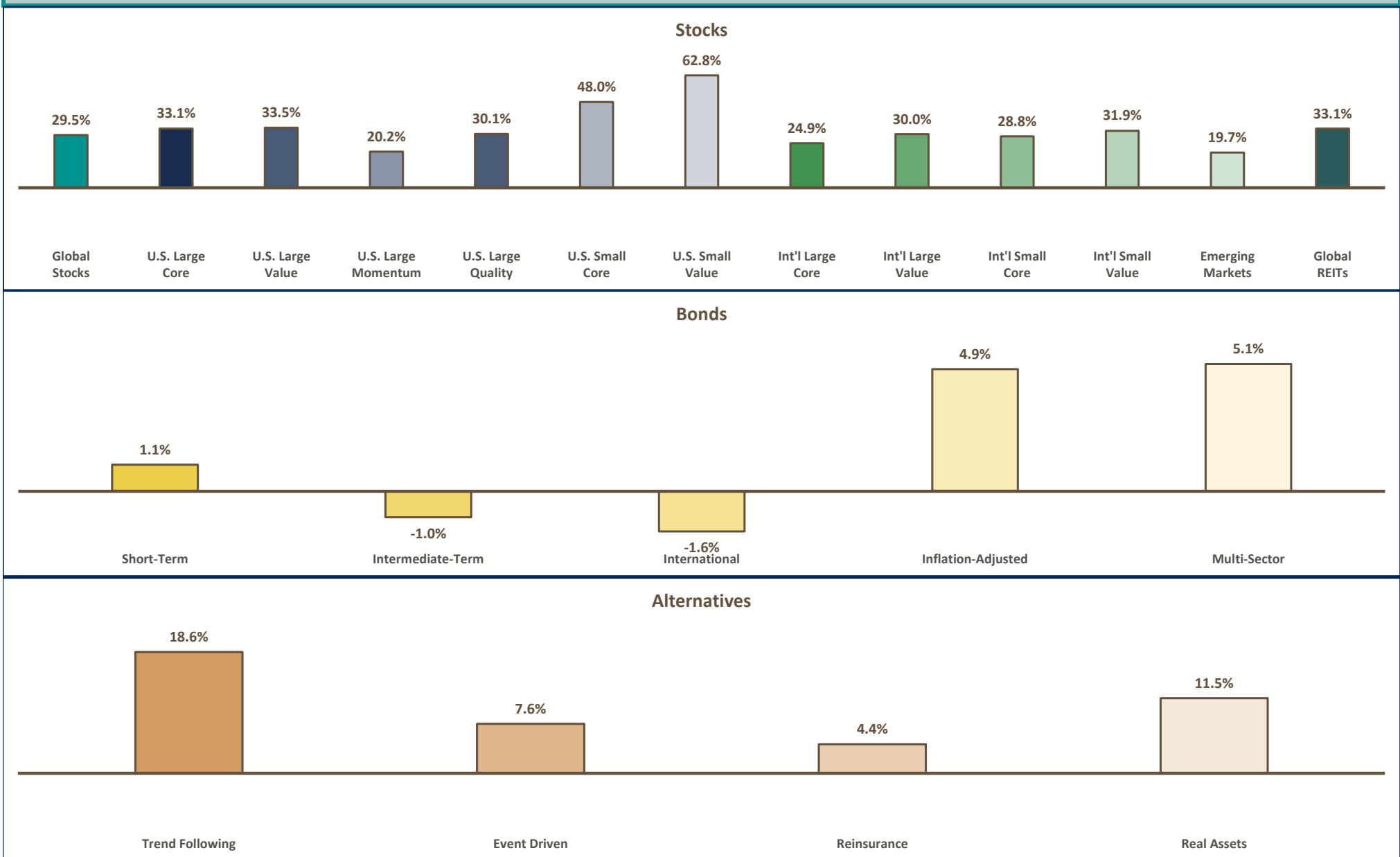


Alternatives



Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

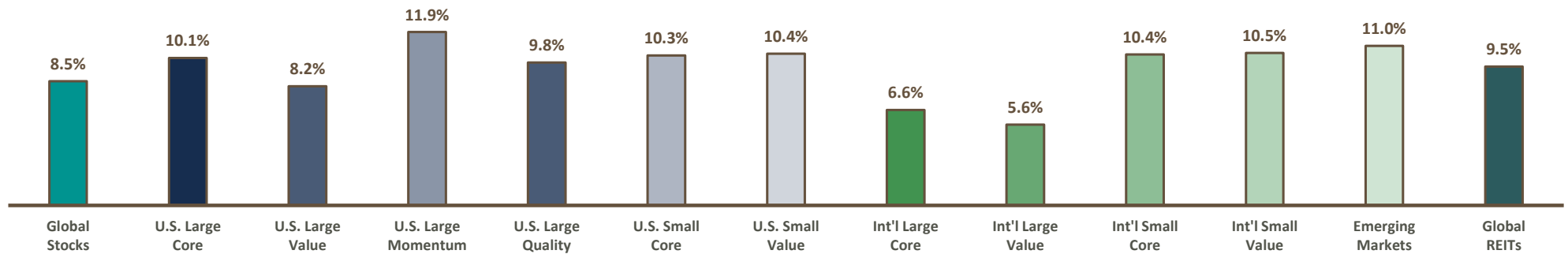
Asset Class Performance: Previous 12 Months



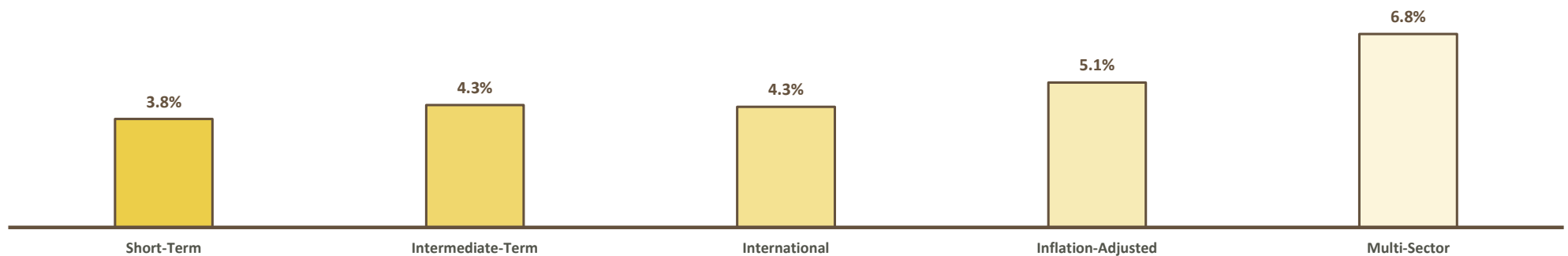
Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Asset Class Performance for the Long Term Investor: Previous 20 Years

Stocks



Bonds

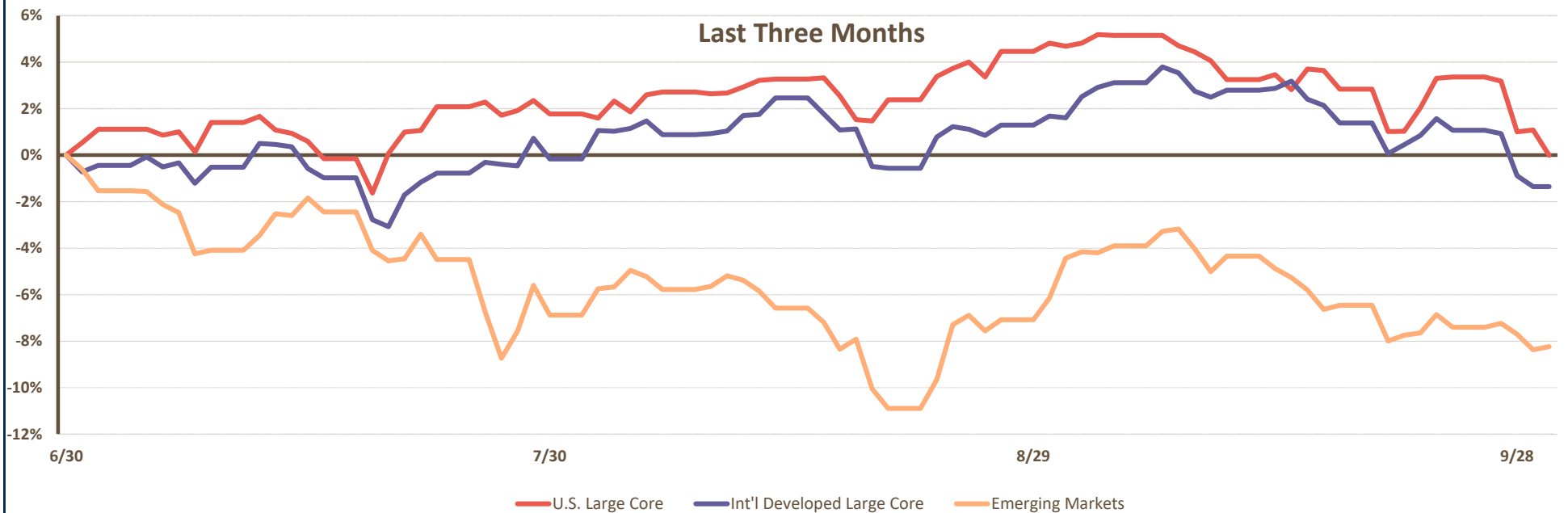
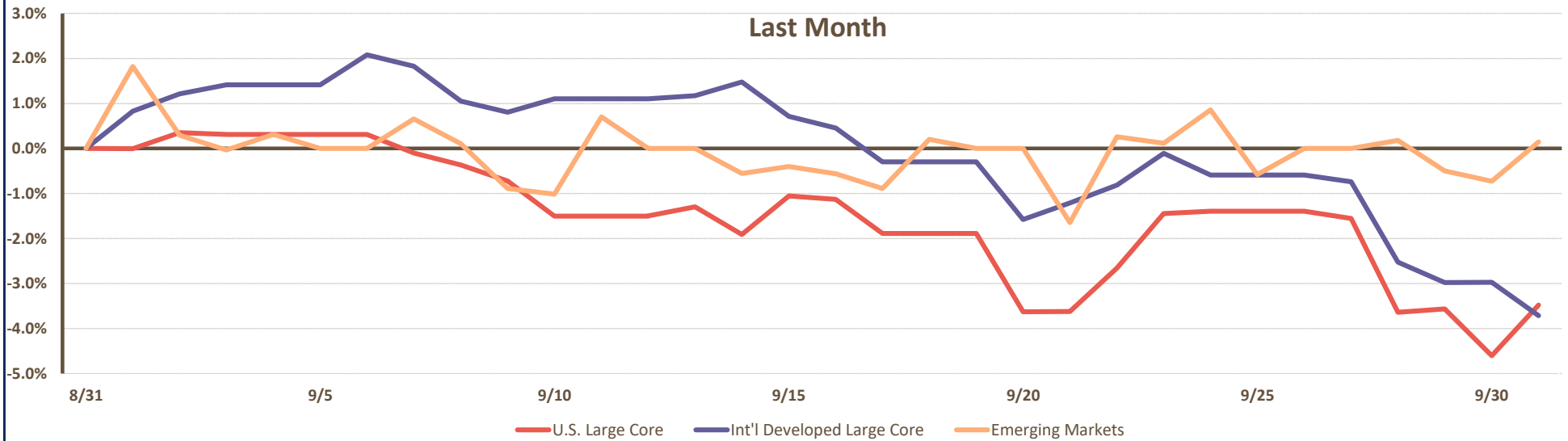


Alternatives



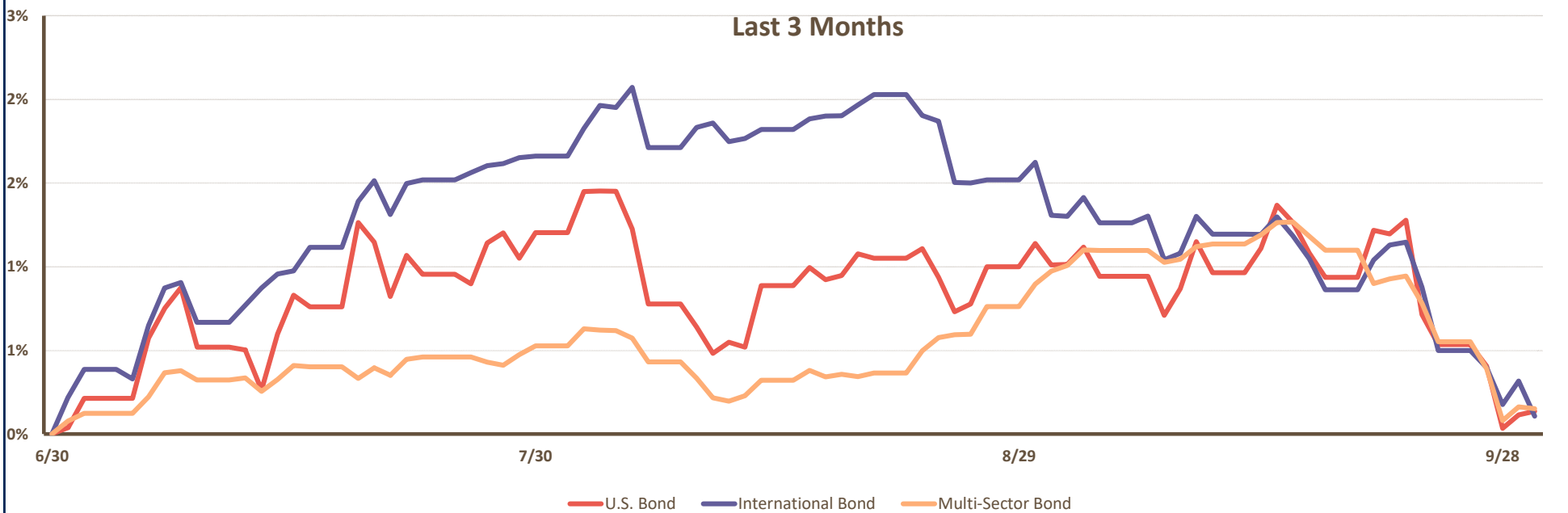
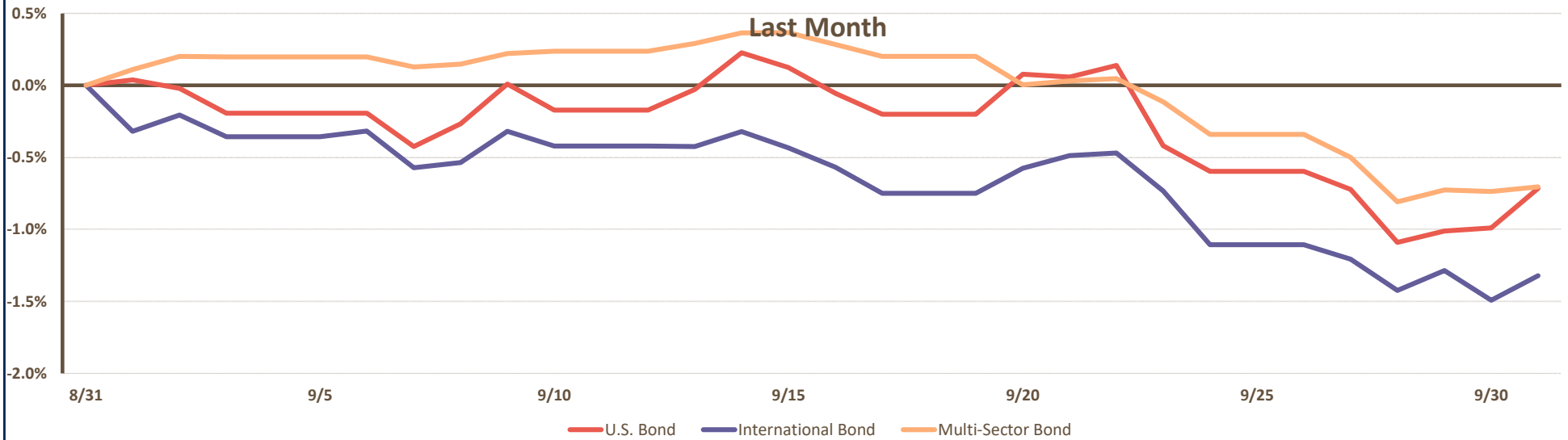
Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Equity Performance Tracker



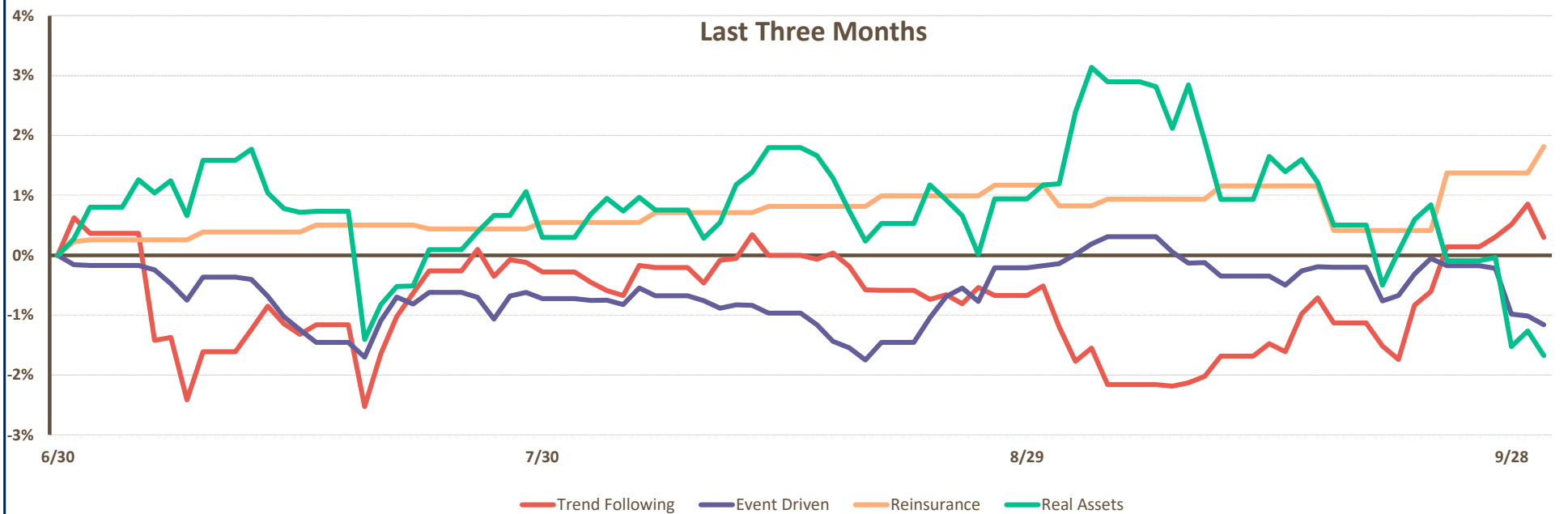
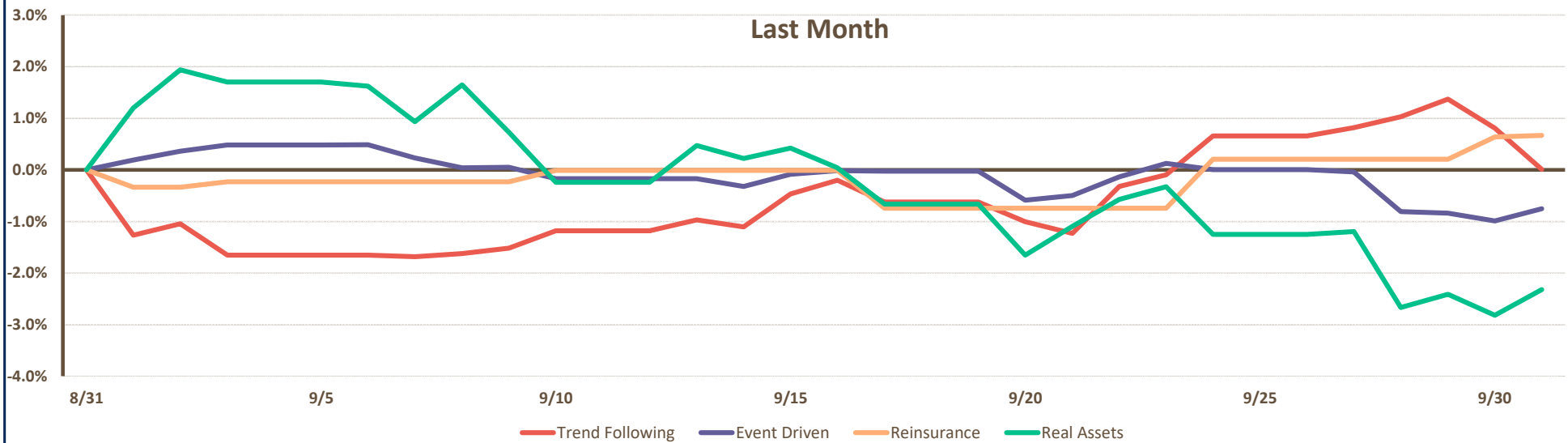
Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Fixed Income Performance Tracker



Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

Alternatives Performance Tracker



Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 1 for additional disclosures.

U.S. Equity Factor Performance Relative to Broad Market: Previous 12 Months



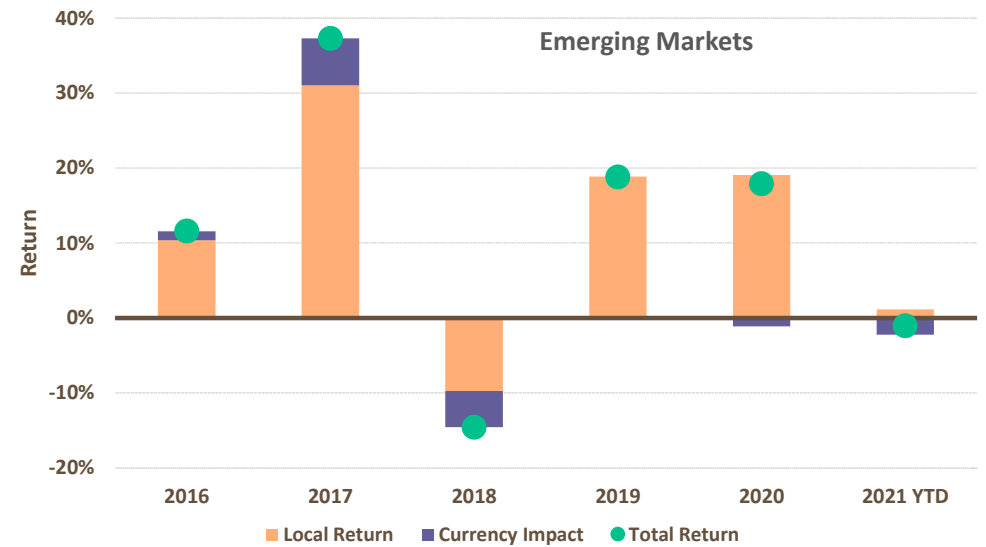
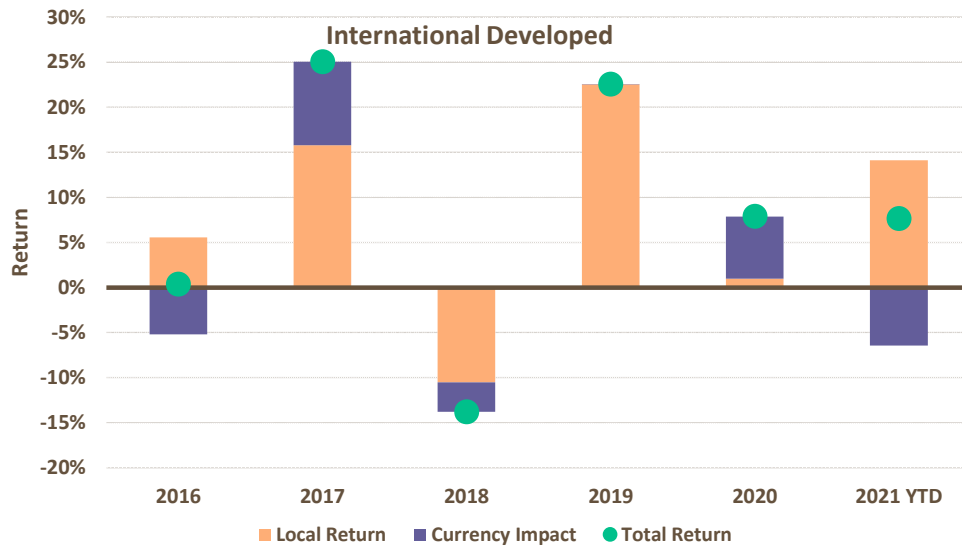
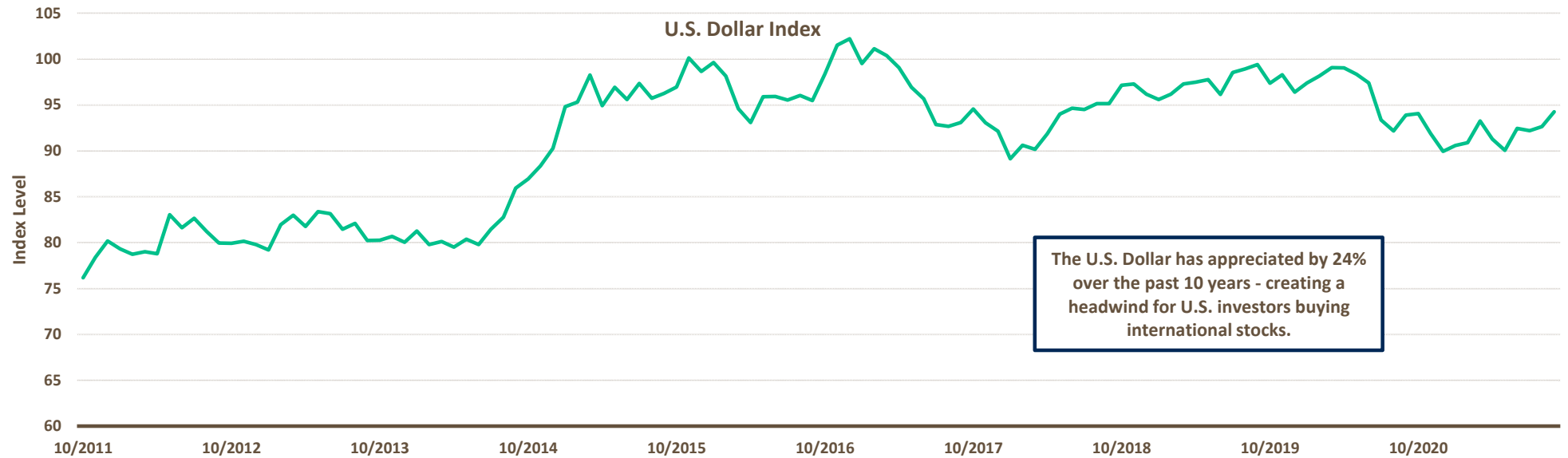
Data as of 9/30/2021. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

International Equity Factor Performance Relative to Broad Market: Previous 12 Months



Data as of 9/30/2021. Factor performance calculated relative to broad index. See Endnote 2 for additional disclosures.

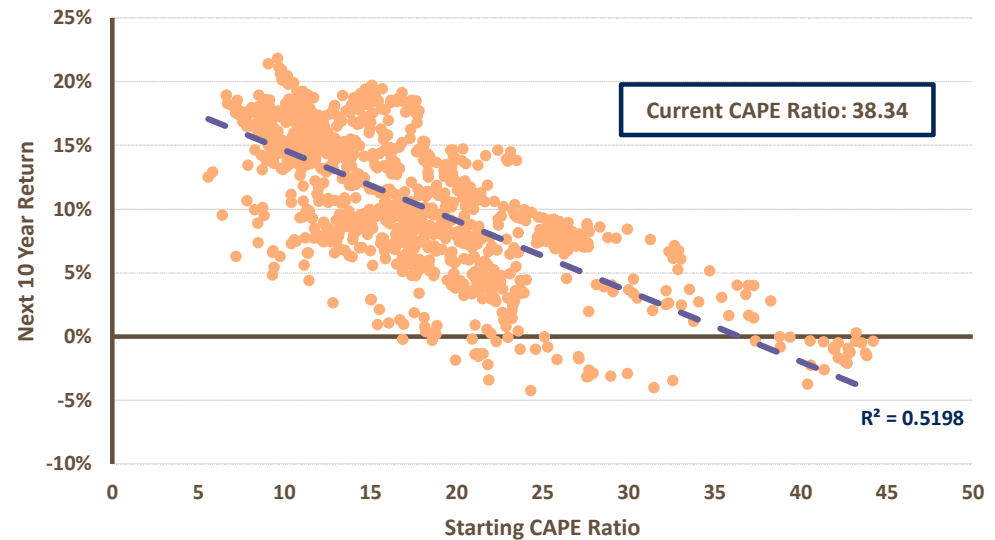
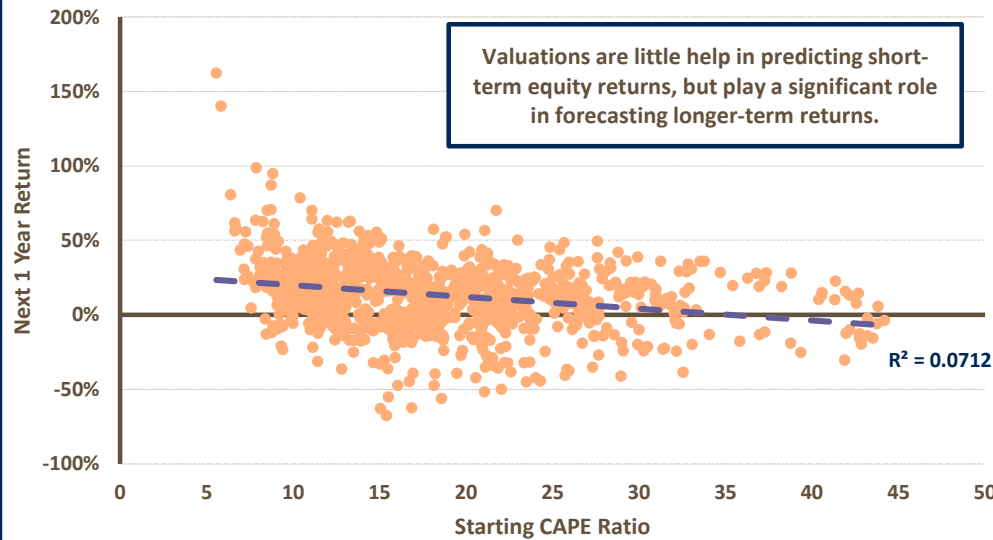
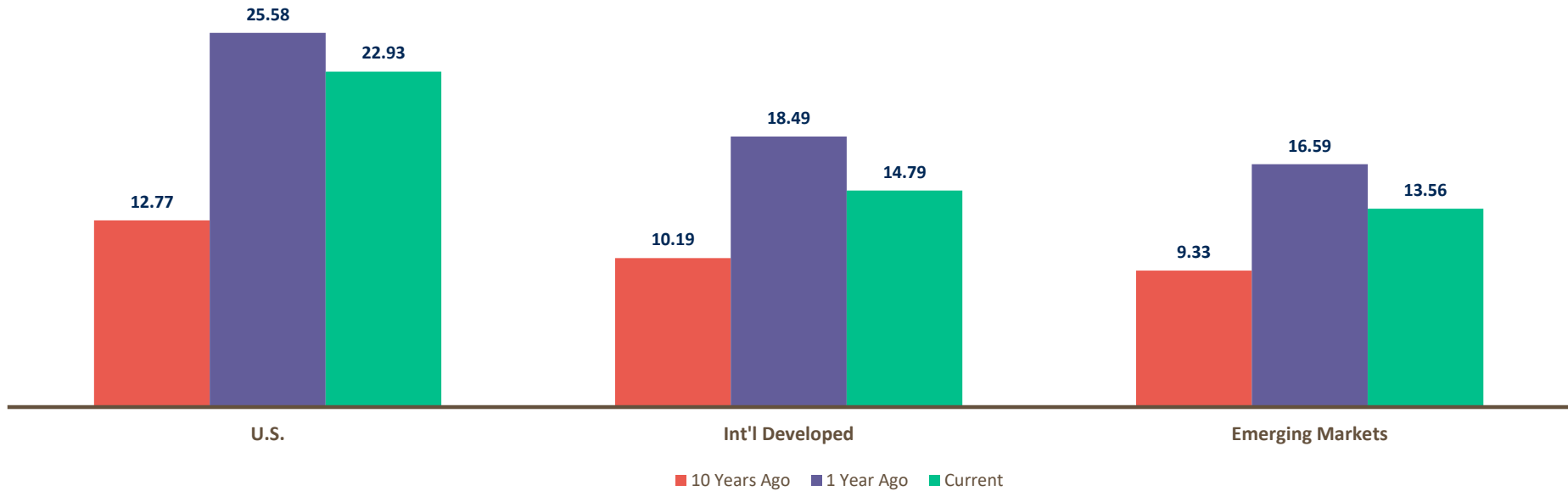
Currency Impact on International Equity Returns



Data as of 9/30/2021. Data source: Morningstar Direct. See Endnote 3 for additional disclosures.

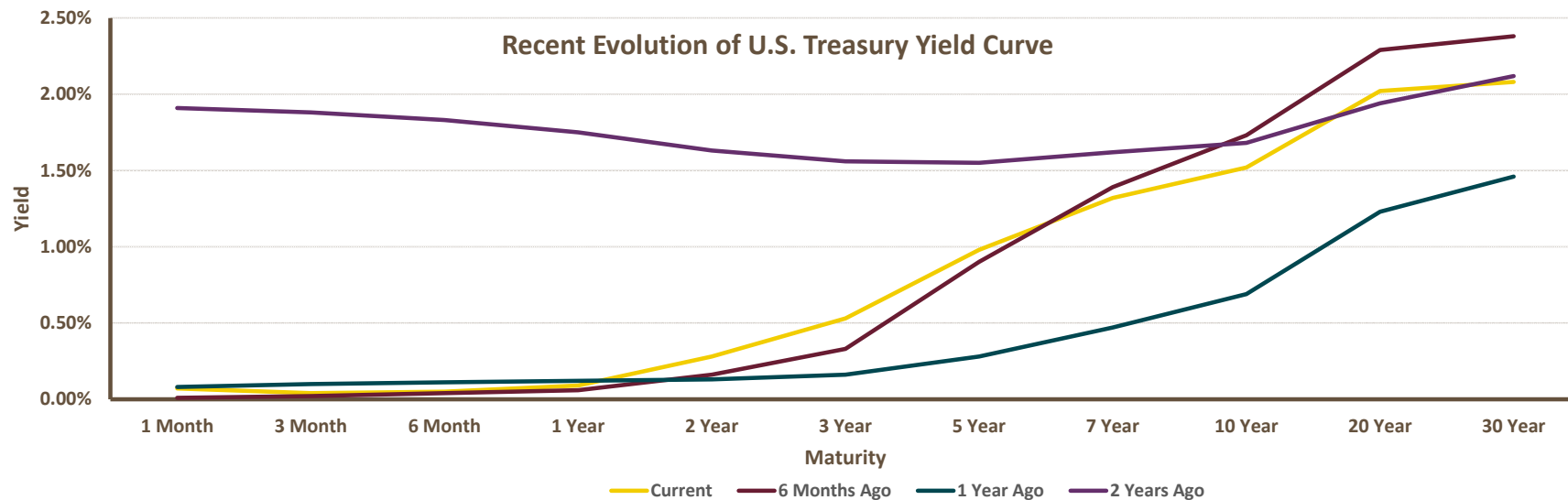
Current Equity Valuations and The Impact on Future Returns

Trailing Twelve Month P/E Ratios by Region

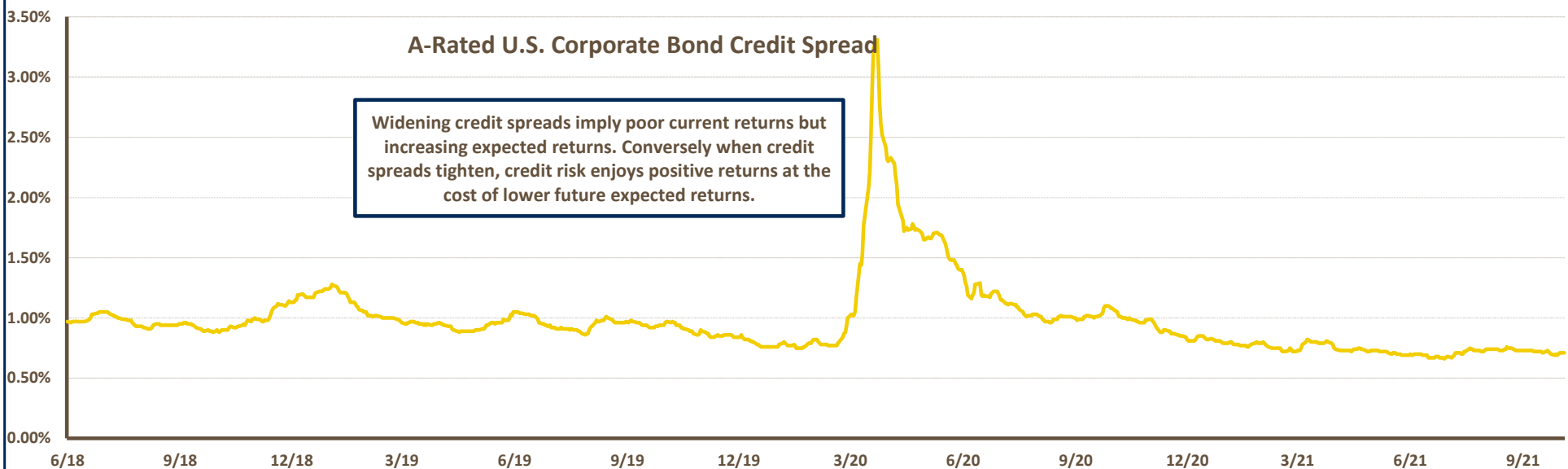


Data as of 9/30/2021. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 4 for additional disclosures.

Drivers of Fixed Income Performance



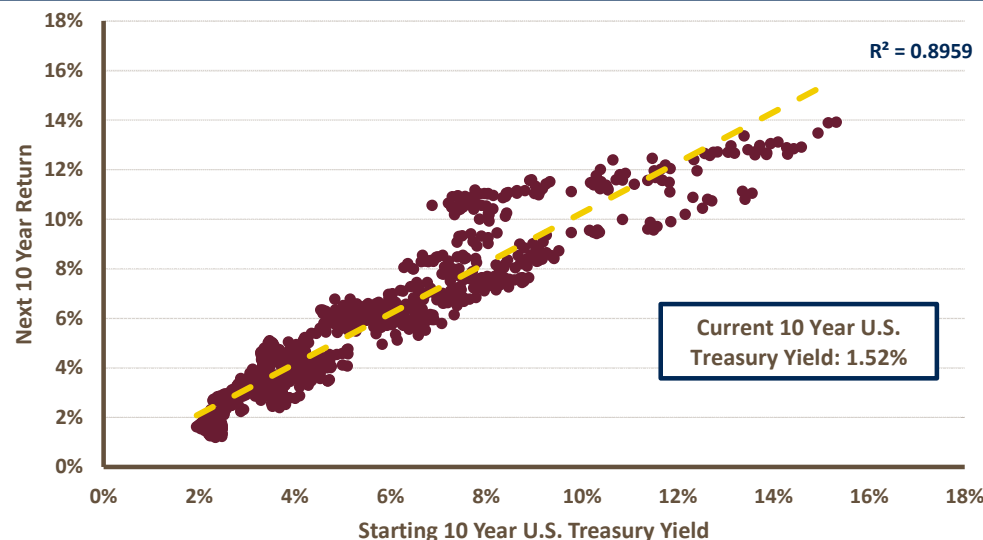
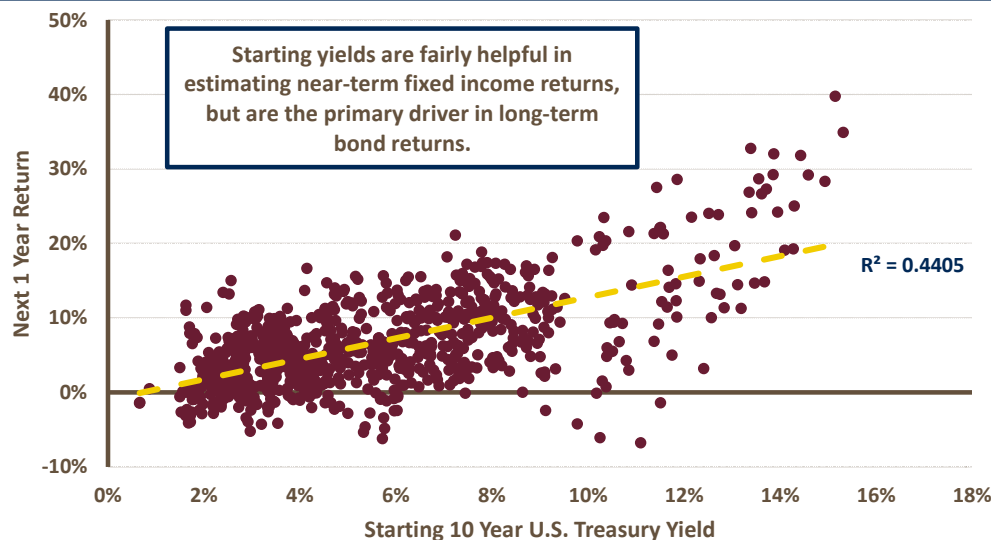
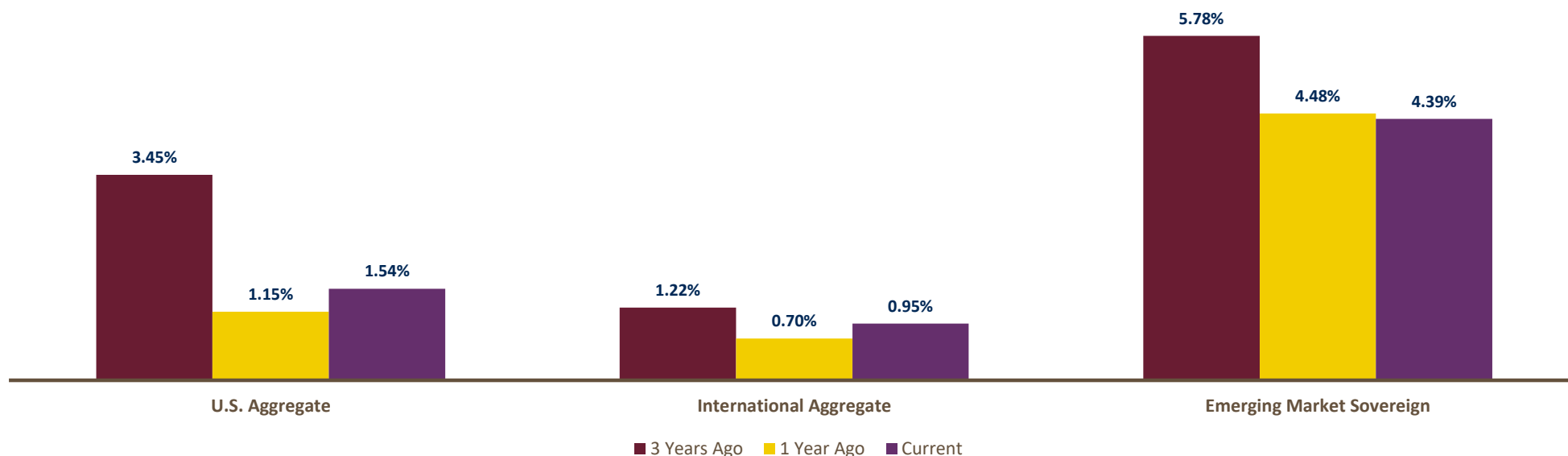
While rates remain near historic lows along the yield curve, the increasing steepness may forecast better economic prospects.



Data as of 9/30/2021. Data sources: Ycharts, FRED. A-Rated U.S. Corporate Bond Credit Spread is measured by the ICE BofA Single-A US Corporate Index Option-Adjusted Spread.

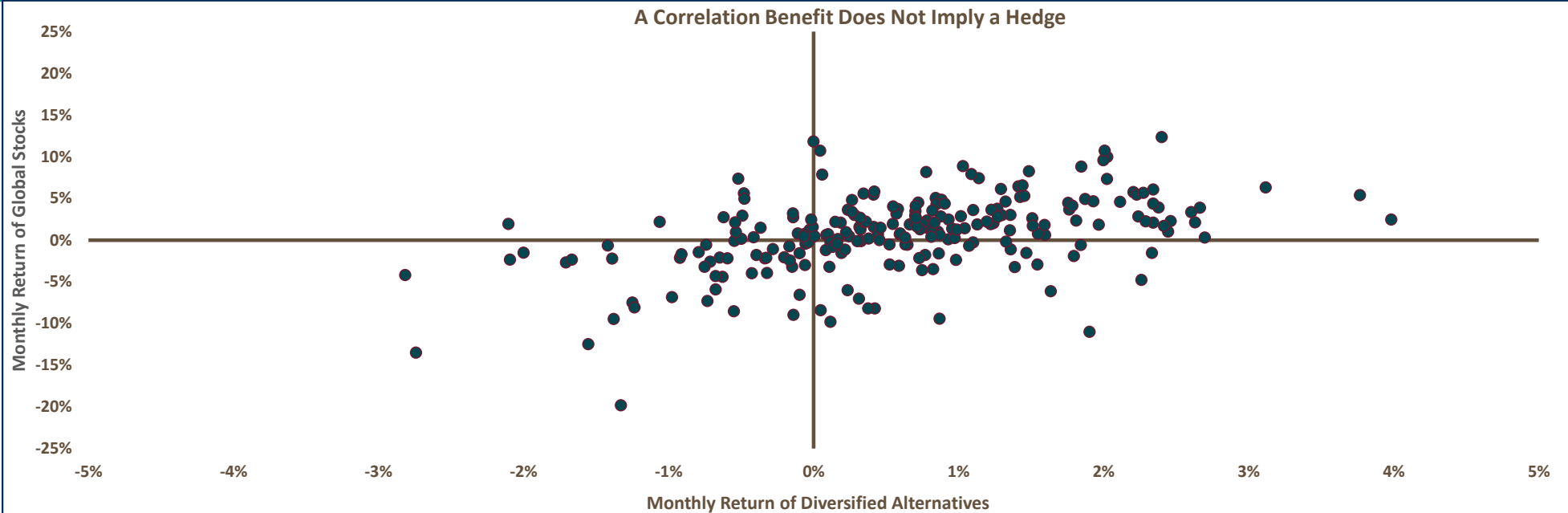
Current Fixed Income Yields and The Impact on Future Returns

Yield to Maturity by Region

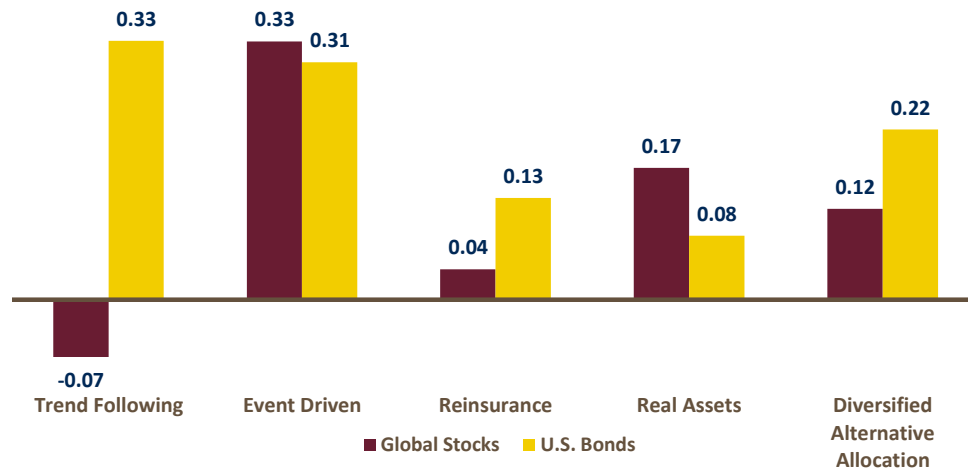


Data as of 9/30/2021. R2 refers to the predictive power a variable has in a regression. A higher R2 (maximum of 1.0) implies a variable is more significant. See Endnote 5 for additional disclosures.

A Diversified Alternative Allocation Provides a Correlation Benefit

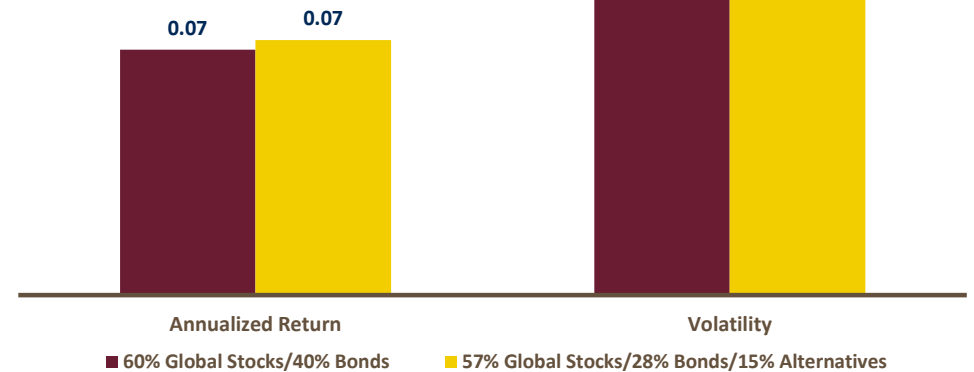


Beta of Alternatives to Traditional Assets (Last 15 Years)



Historical Performance

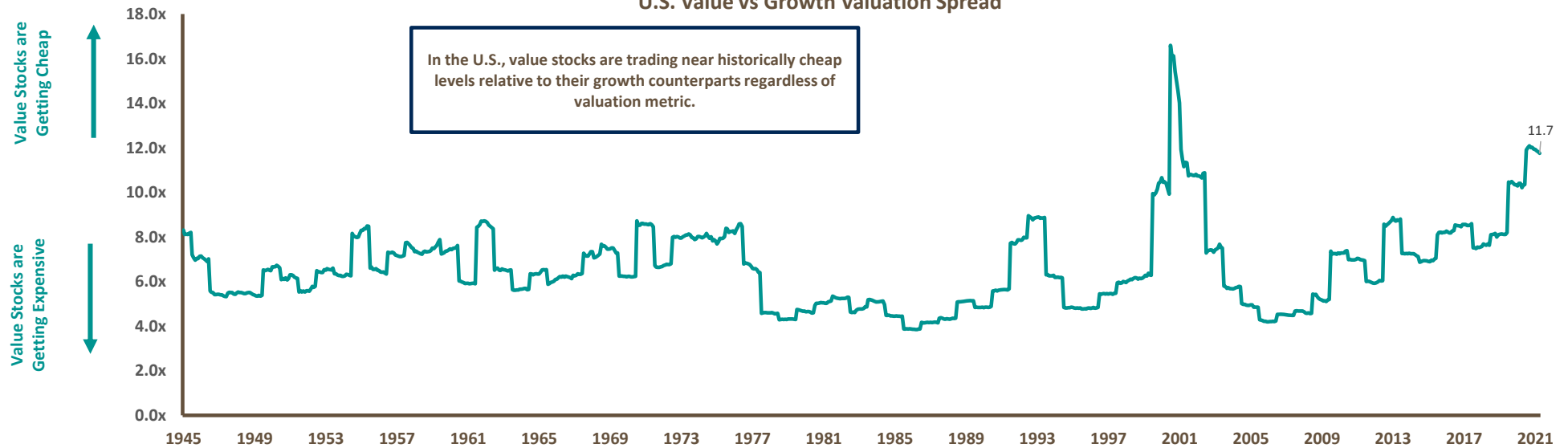
Evidence implies that a modest allocation to diversified alternatives can enhance return and reduce risk for long-term investors.



Based on data from 2/2002 through 9/30/2021. Data source: Morningstar Direct. See Endnote 6 for additional disclosures.

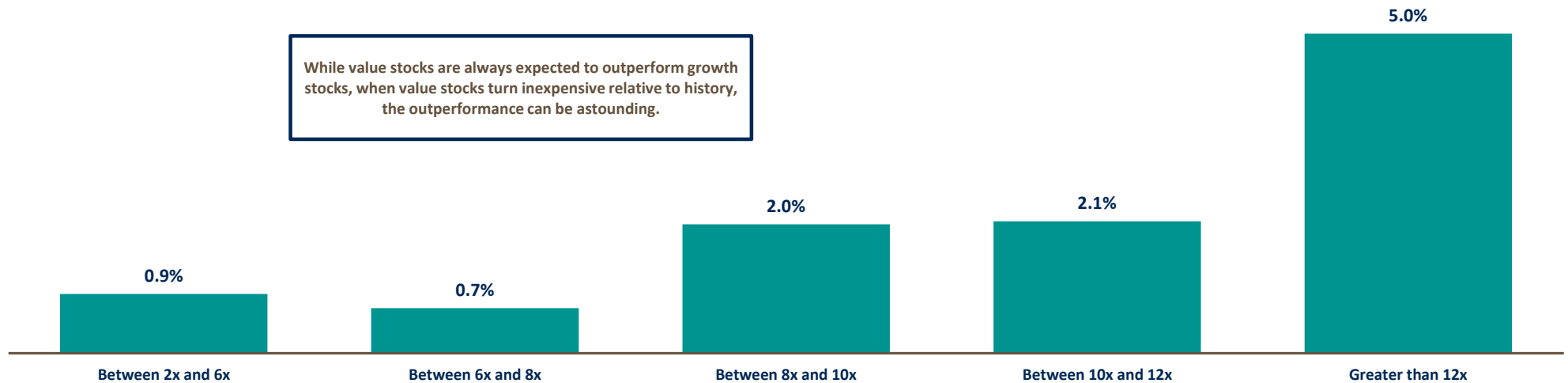
The Value of Value

U.S. Value vs Growth Valuation Spread



5 Year Annualized U.S. Value Premium Based on Starting Value Spread

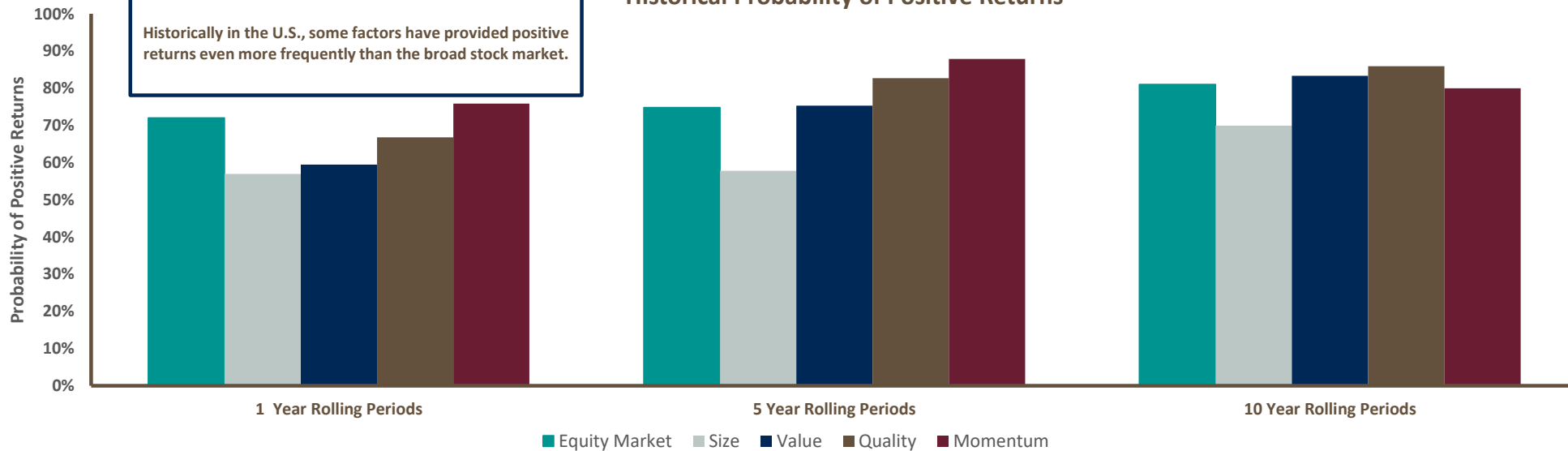
While value stocks are always expected to outperform growth stocks, when value stocks turn inexpensive relative to history, the outperformance can be astounding.



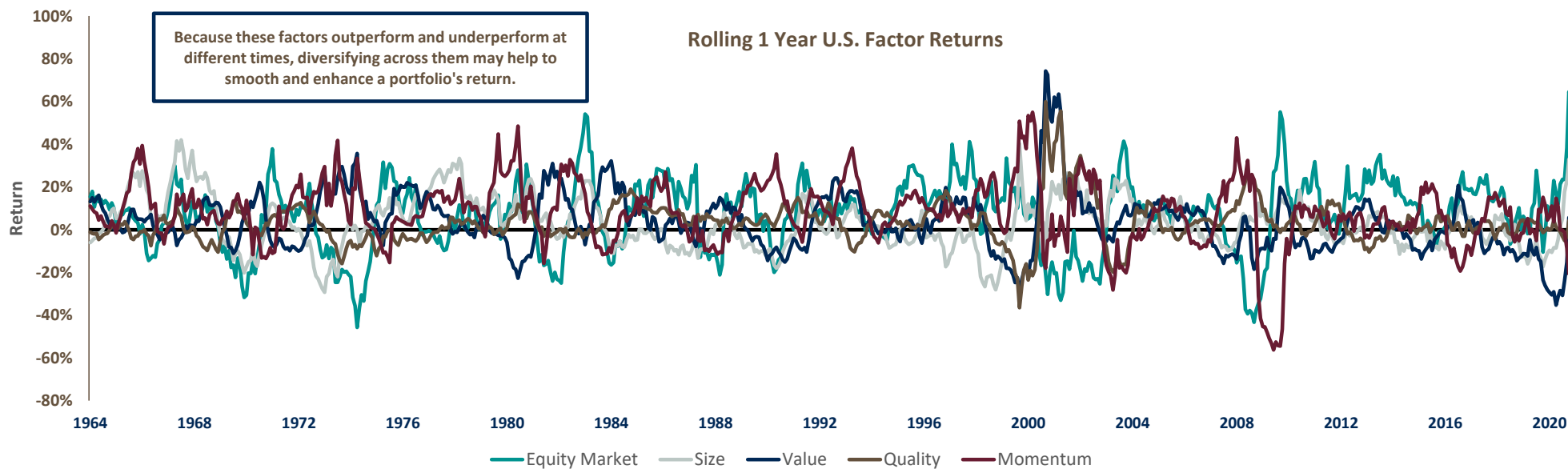
Data as of 8/31/2021. Data source: Kenneth R. French Data Library. Value spread and returns compare the BIG HiBM series to BIG LoBM series.

Diversifying Across Factors

Historical Probability of Positive Returns

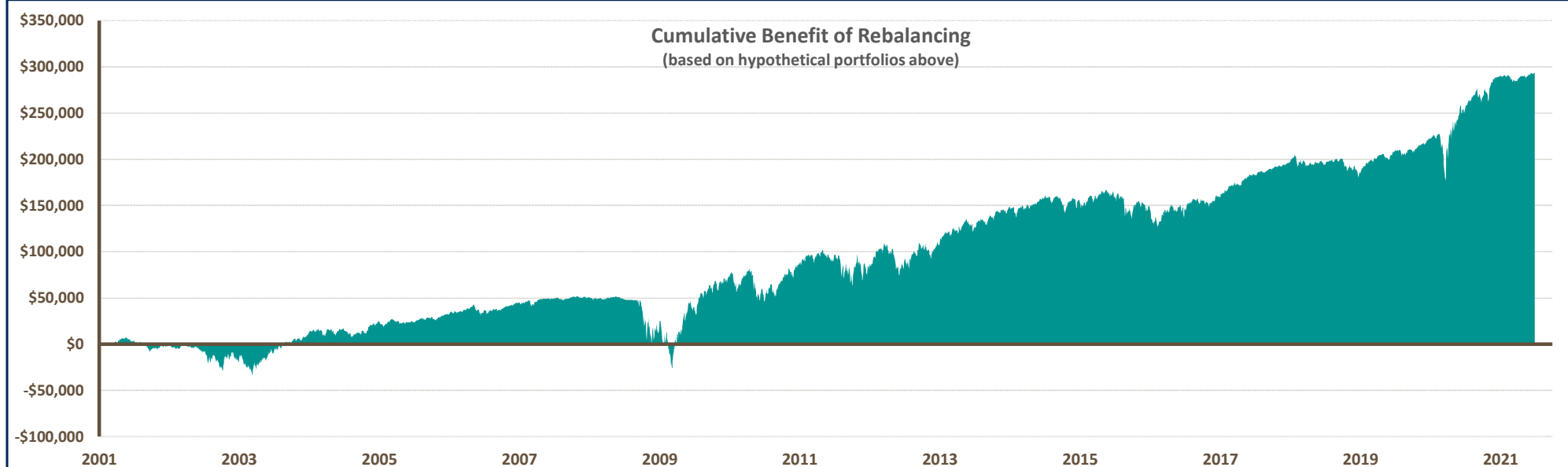
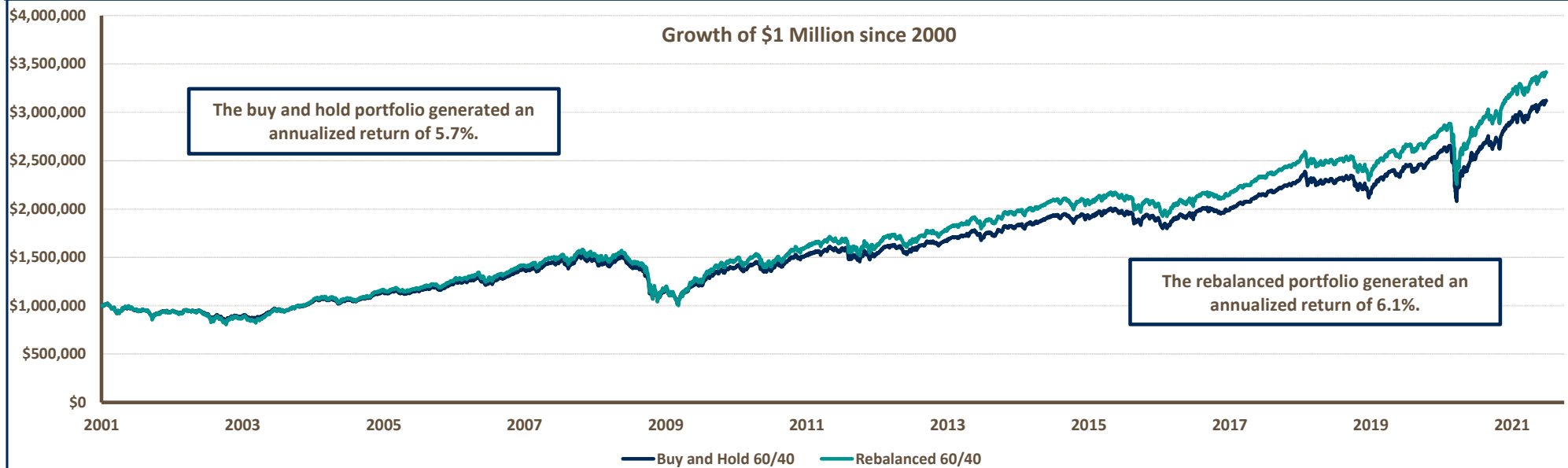


Rolling 1 Year U.S. Factor Returns



Data as of 8/31/2021. Data source: Kenneth R. French Data Library.

A Case Study in Rebalancing



Data as of 9/30/2021. See Endnote 7 for additional disclosures.

Disclosures

Endnote 1: Indices used - Global stocks: MSCI ACWI IMI; U.S. Large Core: CRSP US Total Market; U.S. Large Value: MSCI US Prime Market Value; U.S. Large Momentum: MSCI USA Momentum Index; U.S. Large Quality: MSCI USA Sector Neutral Quality Index; U.S. Small Core: Russell 2000; U.S. Small Value: MSCI US Small Cap Value; International Large Core: MSCI EAFE; International Large Value: MSCI EAFE Value; International Small Core: S&P EPAC Small; International Small Value: S&P EPAC Small Value; Emerging Markets: MSCI EM; Global REITs: S&P Global REIT; Short-Term Bond: BBgBarc Credit 1-5 Yr; Intermediate-Term Bond: BBgBarc US Agg Bond; International Bond: JPM GBI Global ex US TR Hdg USD; Inflation-Adjusted Bond: BBgBarc Gbl Infl Linked US TIPS; Multi-Sector Bond: 1/3 BBgBarc US Corporate High Yield, 1/3 BBgBarc US MBS, 1/3 JPM EMBI Global Diversified; Trend Following: Credit Suisse Mgd Futures Liquid; Event Driven: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request).

Endnote 2: Indices used - U.S. Large Core: MSCI USA All; U.S. Large Value: MSCI USA Enhanced Value; U.S. Large Momentum: MSCI USA Momentum; U.S. Large Quality: MSCI USA Sector Neutral Quality; U.S. Small Core: MSCI USA Low Size; Int'l Large Core: MSCI World ex USA All Cap; Int'l Large Value: MSCI World ex USA Enhanced Value; Int'l Large Momentum: MSCI World ex US Momentum; Int'l Large Quality: MSCI World ex US Sector Neutral Quality; Int'l Small Core: MSCI World Ex USA Low Size.

Endnote 3: Indices used - International: MSCI EAFE; Emerging Markets: MSCI EM. The total return refers to the NR (net return) version of each the index. The local return refers to the LCL (local version of each index). The current impact was determined by subtracting the return of the local return index from the net return index.

Endnote 4: P/E proxies for - U.S. Stocks: iShares Core S&P Total US Stock Market ETF; International Stocks: iShares MSCI ACWI ex US ETF; Emerging Markets: iShares MSCI Emerging Markets ETF. CAPE Ratio data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US Large Stock index.

Endnote 5: Yield to maturity proxies for - U.S. Bonds: iShares Core US Aggregate Bond ETF; International Aggregate: iShares Core International Agg Bond ETF; Emerging Market Sovereign: iShares JP Morgan USD Em Mkts Bond ETF. 10 Year Treasury data is from the Online Shiller Data Library and refers to valuations of U.S. stocks. The corresponding annualized return uses the IA SBBI US IT Govt Bond Index.

Endnote 6: Indices used - Trend Following: Credit Suisse Mgd Futures Liquid; Event Drive: IQ Hedge Event-Driven (appended with other indices prior to inception - available upon request); Reinsurance: SwissRe Global Cat Bond; Real Assets: In the most recent quarter - DJ Brookeld Global Infra, earlier 1/4 DJ Brookfld Global Infra, 1/4 NCREIF Farmland, 1/4 NCREIF Propert, 1/4 NCREIF Timberland (appended with additional indices prior to inception - available upon request). The 'Diversified Alternative Allocation' is an equal-weight index benchmark, allocating 25% to Trend Following, 25% to Event Driven, 25% to Reinsurance, and 25% to Real Assets via the benchmarks listed above.

Endnote 7: Stocks are represented by the MSCI ACWI IMI NR USD Index. Bonds are represented by the BBgBarc US Agg Bond TR USD Index. For the 'Buy and Hold 60/40', the investor is assumed to start with \$600,000 in stocks and \$400,000 in bonds. The investor simply holds the positions and accepts the changes to the portfolio allocation mandated by buy and hold returns. The 'Rebalanced 60/40' investor is assumed to start with the same \$600,000 in stocks and \$400,000 in bonds. However, when this investor's stock allocation drifts below 55% or above 65%, the portfolio is automatically rebalanced back to target. This exhibit does not take management fees, taxes, or taxes strategies such as tax loss harvesting nor tax considerations such as capital gain taxes into account. This case study utilizes returns from 1/1/2000 through last month end.

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Data and illustrations reflect hypothetical, back-tested results that were achieved by means of the retroactive application of a back-tested portfolio and, as such, the corresponding results have inherent limitations, including: (a) the portfolio results do not reflect the results of actual trading using investor assets, but were achieved by means of the retroactive application of each of the referenced portfolios, certain aspects of which may have been designed with the benefit of hindsight; (b) back tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's use of the hypothetical portfolio if the portfolio had been used during the period to actually manage investor assets; (c) for various reasons (including the reasons indicated below), clients may have experienced investment results during the corresponding time periods that were materially different from those reflected for the portfolio.

