

# September 2021 Investment Report

## Highlights

- The S&P 500 declined 4.65% for the month, the index's worst performance since March 2020. International equities, as measured by the MSCI All Country World ex. U.S. Index, were down 3.18%.
- U.S. Congress garnered bipartisan support to pass an eleventh-hour continuing resolution to fund the government through December 3.
- Longer-dated U.S. Treasury yields increased sharply to close out the month. The September Federal Open Market Committee (FOMC) meeting concluded on September 22 with Chairman Jerome Powell noting that tapering of the Federal Reserve's (Fed) quantitative easing program "may soon be warranted." The Barclays U.S. Treasury Index declined 1.08% during the month.
- The U.S. economy added 194,000 non-farm jobs in September, which was significantly lower than economists had expected, though the unemployment rate declined to 4.8%.
- The U.S. Equity Fund – I Series and Inflation Protection Fund – I Series outperformed their respective benchmarks in September, while the Fixed Income Fund – I Series, International Equity Fund – I Series and Multiple Asset Fund – I Series underperformed their respective benchmarks.

## Monthly Overview

### Government shutdown averted, debt ceiling showdown and infrastructure uncertainty

The passage of a continuing budget resolution through December 3 provides time for Congress to reach an agreement on a full-year funding plan. Lawmakers attempted to address the looming debt ceiling simultaneously but failed to settle on a deal. The U.S. is expected to hit its debt limit on October 18. Republicans from both the House of Representatives and Senate have signaled that Democrats will have to "raise the debt ceiling on their own."

Meanwhile, Congress continued to work on two meaningful spending bills. The first, a "hard" infrastructure bill totaling roughly \$1.2 trillion, passed the Senate in August with bipartisan support but has yet to come to a vote in the House. A group of progressive House Democrats signaled they will not vote on the first infrastructure bill unless a second bill, a larger "soft" infrastructure bill focused on the President's domestic agenda, passes simultaneously.

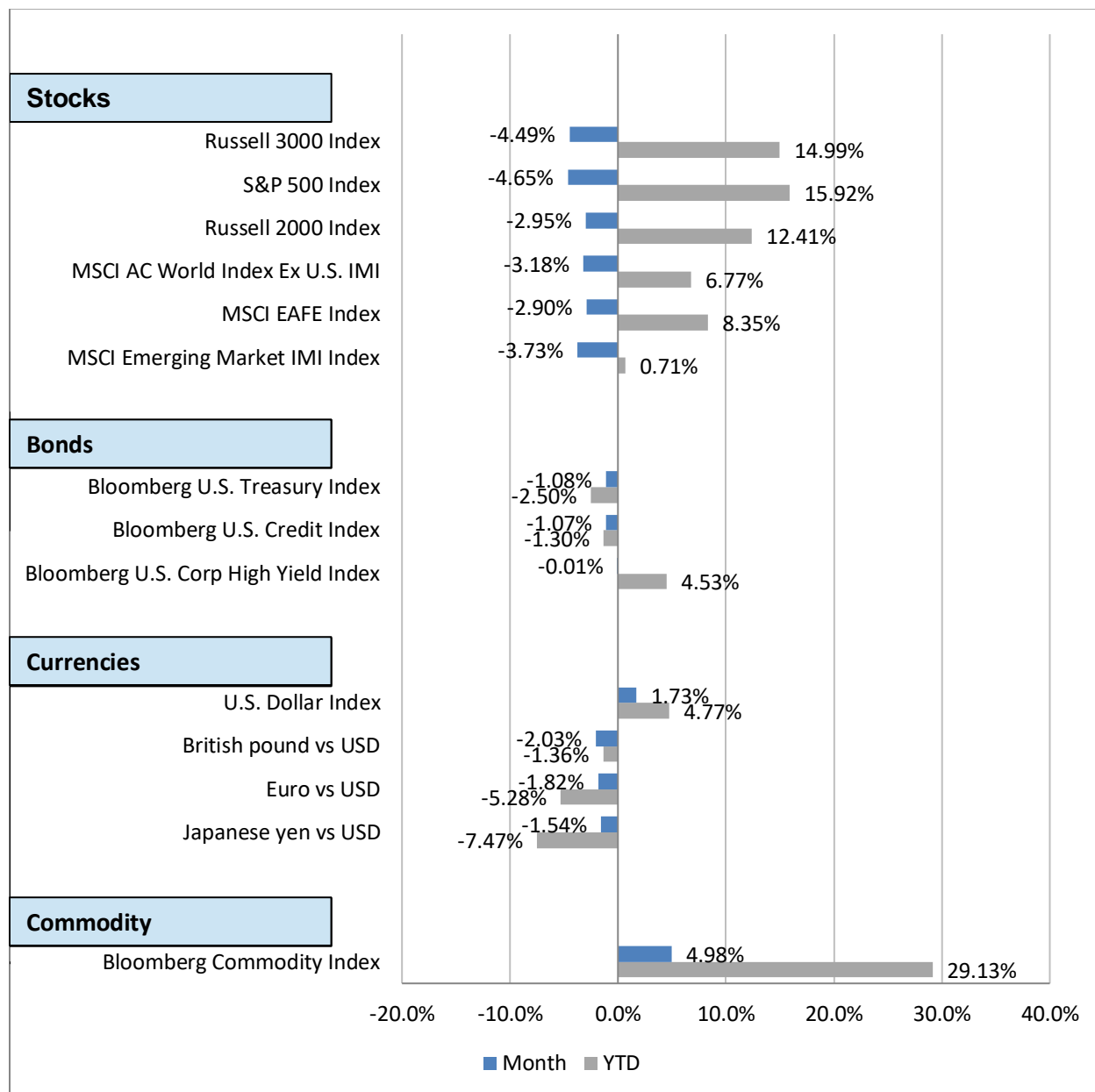
### Inflation remains in focus

The Core Personal Consumption Expenditures Price Index (Core PCE), the Fed's preferred measure of inflation, increased 3.6% year-over-year, representing the biggest jump since May 1991. Some market observers are concerned that increased inflation risk, coupled with Fed tapering, could lead to higher yields and contribute to a further decline in equity and fixed income returns. Supply chain challenges, ranging from a lack of workers to insufficient supply of ships and shipping containers, have contributed to the recent spike in inflation. In response to these challenges, retailers have chartered cargo ships and locked in high-priced, long-term shipping contracts, which could result in higher prices for consumer goods well into 2022 and beyond.

### China's Evergrande debt crisis

Evergrande, one of China's largest property developers, failed to make its scheduled \$83.5M interest payment to offshore debt holders. The missed payment and potential default of such a large entity sparked concerns about how a default would impact the Chinese economy as well as international markets.

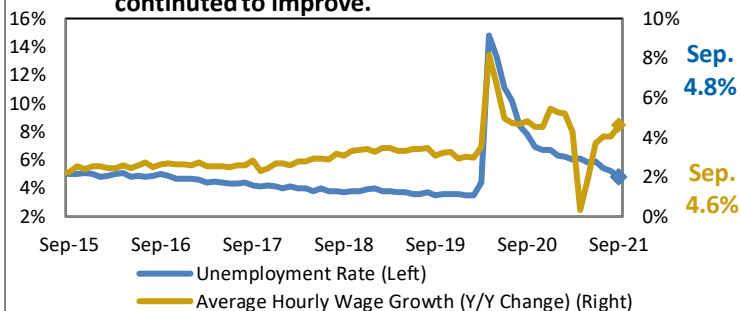
## Market Performance



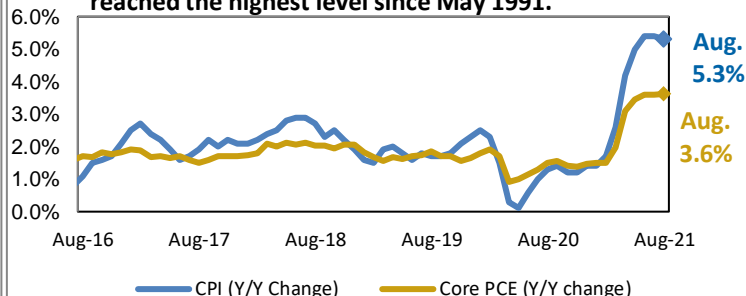
Source: FactSet, as of September 30, 2021.

## Key Monthly Economic Statistics

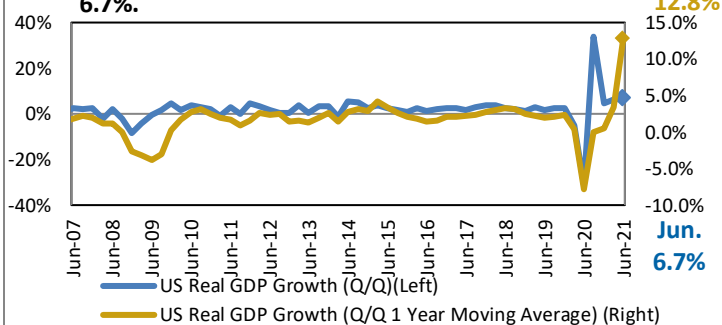
**The Unemployment Rate and Wage Growth continued to improve.**



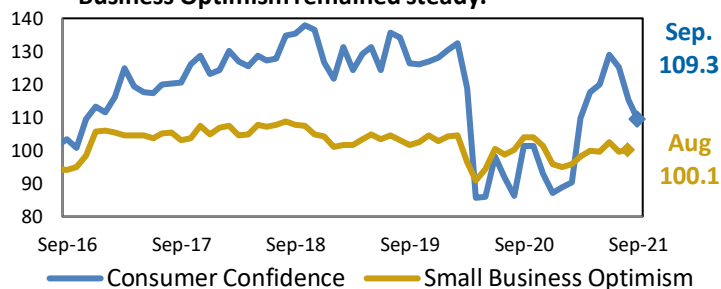
**CPI inflation ticked down slightly. Core PCE inflation reached the highest level since May 1991.**



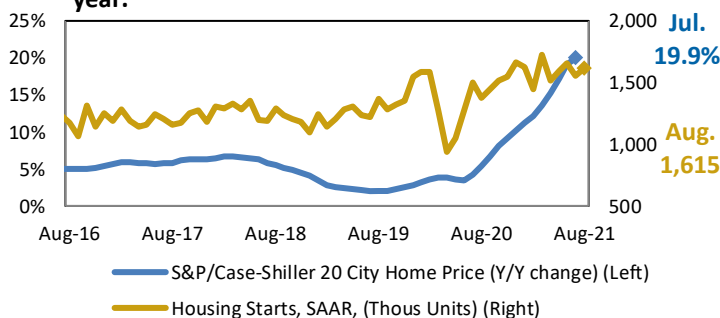
**Q2 U.S. Real GDP growth was revised up slightly to 6.7%.**



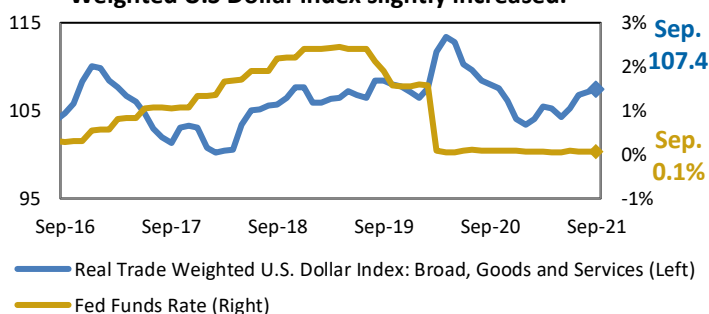
**Consumer Confidence declined sharply. Small Business Optimism remained steady.**



**Home Prices posted a nearly 20% gain year over year.**



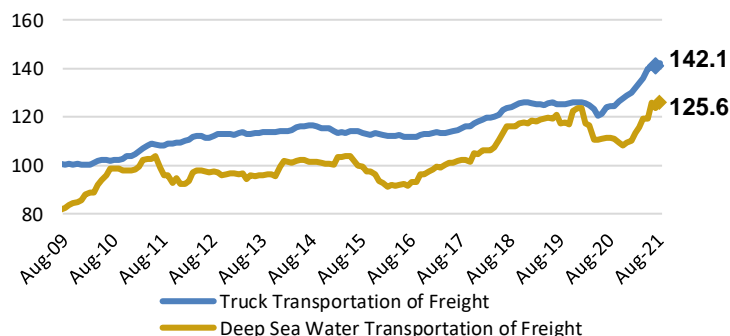
**The Fed Funds Rate remained near zero. The Trade Weighted U.S. Dollar Index slightly increased.**



### Chart of the Month

- Easing pandemic pressures, monetary and fiscal stimulus, and pent-up demand have led to increased headwinds on supply chains.
- Worker shortages and burnout in the transportation industry caused by ever-changing COVID restrictions, quarantine requirements and varying vaccination mandates have led to an increase in transportation costs.
- Supply chain challenges could lead to inflationary prices becoming less transitory if increased production in goods is not met with an ability to deliver those goods affordably.

### Transportation Costs



## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund – I Series

Fund	September	QTD	YTD
U.S. Equity Fund – I Series	-4.10%	-0.70%	+11.76%
Russell 3000 Index	-4.49%	-0.10%	+14.99%
Difference (percentage points)	+0.39	-0.60	-3.23

- During the month of September, the fund outperformed the benchmark due to its underweight allocation to underperforming large-cap growth companies and its overweight allocation to outperforming small- and mid-cap companies. The fund's dedicated investments in private equity and private real estate also positively contributed to relative performance.
- During the quarter and year to date, the fund underperformed the benchmark due to its overweight allocation to underperforming small- and mid-cap growth companies, along with its active managers' investments in several healthcare and technology holdings. The fund's dedicated investments in private equity and private real estate positively contributed to relative performance.

#### International Equity Fund – I Series

Fund	September	QTD	YTD
International Equity Fund – I Series	-4.69%	-3.92%	+3.86%
MSCI ACWI ex U.S. Investable Market Index (Net)	-3.18%	-2.56%	+6.77%
Difference (percentage points)	-1.51	-1.36	-2.91

- During all three time periods shown, the fund underperformed the benchmark primarily due to its underweight allocation to developed markets and its active managers' investments in underperforming growth-oriented companies. Additionally, the fund's Fair Market Valuation policy (described [here](#)) detracted from benchmark-relative performance across all time periods. The fund's dedicated investments in private equity positively contributed to relative performance.

**U.S. Equity Index Fund – I Series**

Fund	September	QTD	YTD
U.S. Equity Index Fund – I Series	-4.55%	-0.11%	+14.96%
Russell 3000 Index	-4.49%	-0.10%	+14.99%
Difference (percentage points)	-0.06	-0.01	-0.03

- The U.S. Equity Index Fund – I Series is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

**Fixed Income Funds****Fixed Income Fund – I Series**

Fund	September	QTD	YTD
Fixed Income Fund – I Series	-1.12%	-0.13%	-1.03%
Barclays U.S. Universal (ex MBS) Index	-1.00%	+0.07%	-1.19%
Difference (percentage points)	-0.12	-0.20	+0.16

- During the month of September, emerging market debt and global debt detracted from benchmark-relative performance. The fund's allocation to corporate debt—both high-yield and investment-grade rated—and its managers' securities selection added to relative performance.
- During the third quarter, global debt, emerging market debt and the fund's allocations to multi-family housing—through high-quality U.S. agency commercial mortgage-backed securities and the Positive Social Purpose Lending Program—detracted from benchmark-relative performance. The fund's allocation to high-yield corporate bonds and alternatives, as well as the fund's active managers' selection, positively contributed.
- Year to date, the fund's allocation to high-yield corporate debt and alternatives, along with its active managers' securities selection, positively contributed to benchmark-relative performance. The fund's allocations to emerging market debt and global bonds detracted from benchmark-relative performance.
- The fund is moderately less sensitive to changes in interest rates than its benchmark, which positively impacted benchmark-relative performance for all periods.

### Inflation Protection Fund – I Series

Fund	September	QTD	YTD
Inflation Protection Fund – I Series (IPF-I)	-0.17%	+1.38%	+4.68%
IPF-I Benchmark <sup>ii</sup>	-1.14%	+2.00%	+4.17%
Difference (percentage points)	+0.97	-0.62	+0.51

- During the month of September, the fund's allocations to floating-rate senior loans, commodities and U.S. inflation-linked bonds, as well as its active managers' securities selection decisions, added to benchmark-relative performance. The fund's allocation to global inflation-linked securities detracted.
- During the third quarter, the fund's allocations to U.S. and global inflation-linked bonds and floating-rate senior loans detracted from benchmark-relative performance.
- Year to date, the fund's allocation to commodities, global inflation-linked securities and high-yield asset-backed securities positively impacted benchmark-relative performance, while the fund's allocations to U.S. and emerging market inflation-linked bonds detracted.
- The fund's underweight exposure to U.K. inflation-linked securities added to benchmark-relative performance for the month and year to date but detracted for the quarter.

### U.S. Treasury Inflation Protection Fund – I Series

Fund	September	QTD	YTD
U.S. Treasury Inflation Protection Fund – I Series	-0.80%	+1.67%	+3.23%
Barclays U.S. Inflation Linked Bond Index	-0.78%	+1.79%	+3.39%
Difference (percentage points)	-0.02	-0.12	-0.16

- The U.S. Treasury Inflation Protection Fund – I Series is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

## Balanced Fund

### Multiple Asset Fund – I Series

Fund	September	QTD	YTD
Multiple Asset Fund – I Series (MAF-I)	-3.15%	-1.30%	+5.52%
MAF-I Benchmark <sup>iii</sup>	-2.89%	-0.57%	+7.32%
Difference (percentage points)	-0.26	-0.73	-1.80

- During the month, the U.S. Equity Fund – I Series and Inflation Protection Fund – I Series positively contributed to benchmark-relative performance, while the International Equity Fund – I Series and Fixed Income Fund – I Series detracted.
- Year to date, the Fixed Income Fund – I Series and Inflation Protection Fund – I Series positively contributed to relative performance, while the U.S. Equity Fund – I Series and International Equity Fund – I Series detracted.

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<sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – I Series](#) for more information about the funds. This is not an offer to purchase securities.

<sup>ii</sup> IPF-I Benchmark is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.

<sup>iii</sup> The MAF-I Benchmark is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% IPF-I Benchmark (see footnote ii above).