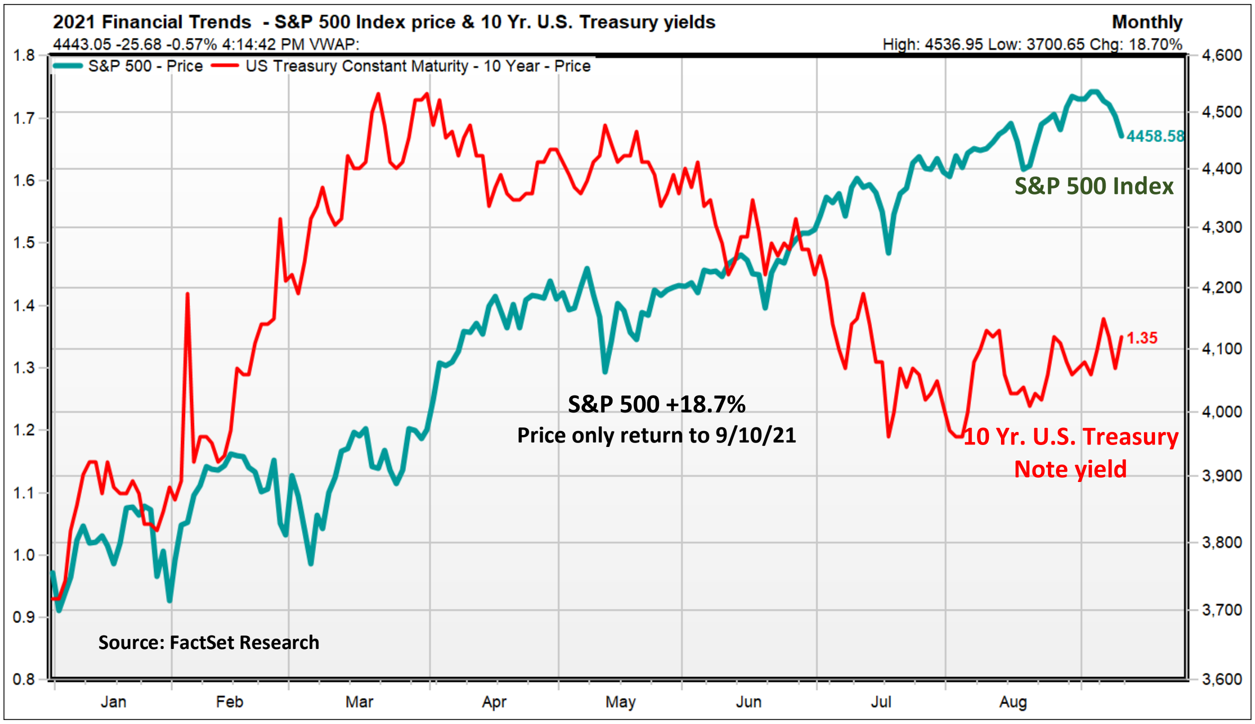
# THE ECONOMY AND FINANCIAL MARKETS – Brief Comments

**September 20, 2021**

What a year 2021 has been. Through (9/10/21) the major U.S. equity indexes e.g., the S&P 500, the Dow Jones Industrial Average, and the NASDAQ had positive price gains of +18.7%, +13.1% and +17.3%[i] respectively. In addition to a return of +18.7%, the S&P 500 has recorded seven consecutive (Sept. is not complete) months of positive returns and 54 new highs[ii] this year. While numerous investment strategists anticipated a continuation of the post-pandemic stock market rally, few believed 2021 returns would reach current levels. The chart below displays how stock prices and bond yields have trended year-to-date.




As we have described in previous notes, the strength in the U.S. equity markets has been fueled by monetary and fiscal stimulus e.g., low interest rates and government payments, improved consumer sentiment, the success of Covid-19 vaccines (despite the emergence of the Delta variant), a recovery in employment, strong GDP growth, rapidly increasing corporate profits, and a strong housing market. The wind has certainly been at the investors' back.

Despite factors like rising inflation, a less accommodating Fed (stay tuned: interest rates won't remain at historically low levels forever), Chinese debt/economic concerns, and the uncertainty that covid and potential government legislation create, we anticipate that numerous positive tailwinds remain in place. The economy will continue to grow and with it jobs and personal income. Recent data releases regarding employment show that ***Initial Unemployment Claims***[iii] are at a post-pandemic low, that ***Job Openings***[iv] are at a historic high and that 7 out of 10 companies (recent study) report "talent shortages and difficulty hiring". This information suggests an attractive employment environment e.g., increasing wages and benefits. Even the pace of new Covid cases and deaths appear to be moderating.

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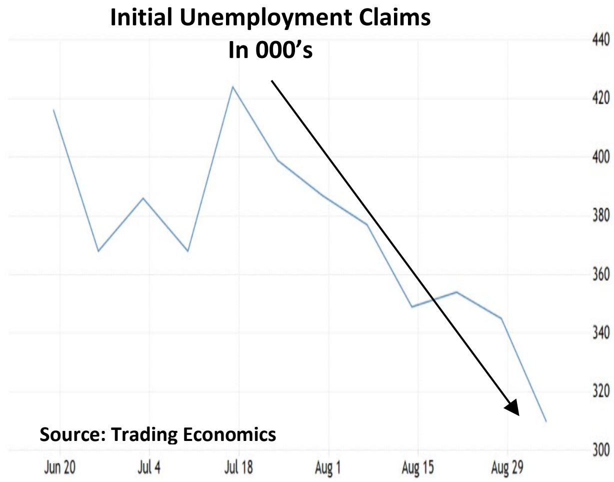
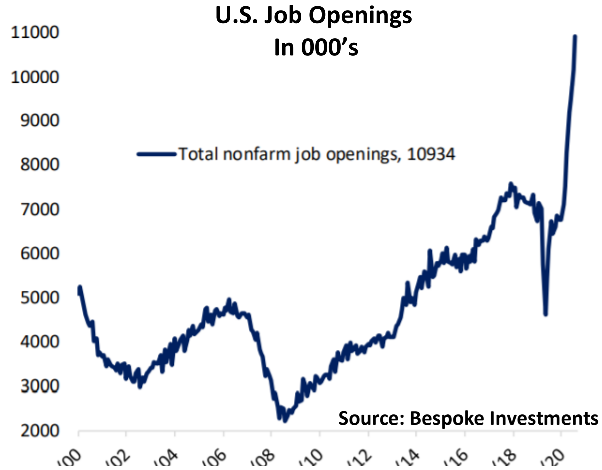
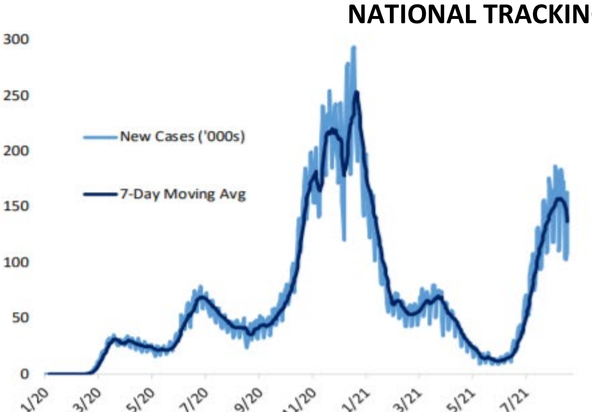
**Positive Employment Trends**

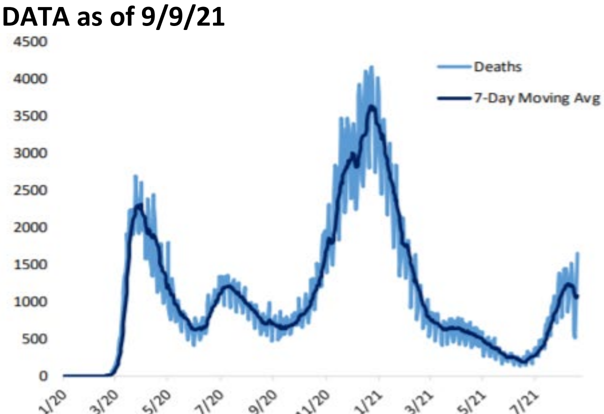



The Covid-19 virus and its variants, particularly as they impact the young, remain critical concerns around the globe, however, recent data from John Hopkins University suggests (7-day moving average) that the recent spike in both new cases and deaths in the U.S. may have peaked. We monitor these trends closely.

**NATIONAL TRACKING DATA as of 9/9/21**




**Source: John Hopkins Hospital**

## Managing Client Investments

Our investment outlook the past several years, despite the chilling impact of Covid-19, has been a constructive one. Interest rates have been very low[v], inflation almost non-existent[vi], corporate earnings were growing, tax policy was favorable, and until the past year, unemployment too was very low. As 2021 began we remained positive, but not complacent.

With investor optimism and stock valuations rising (to historic levels) and the equity portion of portfolios reaching guideline highs, we acted to reduce equity allocations. With the S&P 500 setting new highs more than 50 times in the first eight months of this year, we repeated that action several times. In doing so, we took the opportunity to further diversify the equity portfolio by purchasing the stock of several additional companies that meet our strict fundamental guidelines e.g., consistent revenue, earnings and dividend, growth, expanding profit margins, and increasing free cash flow.

Just as importantly, we increased portfolio exposure to bond investments with the purchase of U.S. Treasury Inflation Protected bonds. These securities are indexed to inflation to protect from a decline in purchasing power. The decision has been a rewarding one and if, and as inflation increases, the TIPS will continue to be a very strategic investment that enhances future decisions making flexibility.

**Things to Remember**

So far, 2021 has been another rewarding year for investors with a bias toward equity investments. As mentioned previously, the S&P 500 (broad equity market proxy) had increased by more than +18% through (9/10/21). This, after positive total returns the two previous years of +31.2% in 2019 and +18.0% in 2020. During the past ***TEN*** calendar years, the compound annual rate of return (dividends reinvested) of the S&P 500 has been 13.9% per year[vii]; meaningfully above its historic (50 yr.) annual return 10.1%[viii]. We would love to see a continuation of the past ten year's average stock returns, and we don't wish to "burst anyone's bubbles", but the likelihood that those rates will continue is not high.

While there will always be some volatility, and some down years, we would anticipate that long-term returns will be more in the range of the S&P 500's compound average return during the last 20 years of approximately 7.3%. That is an attractive long-term return, and we are long-term investors. Rates of return that are consistent, positive, real (above inflation) and achieved in a tax efficient manner is always our objective for clients.

We remain optimistic about the long-term opportunities for the U.S. and for returns from the capital markets. There are always factors to be concerned about, but remember that during the past one hundred years, this country has been involved in two world wars, multiple undeclared wars, a depression, a Great Recession, inflation, deflation, Republican administrations, Democratic administrations, and the Covid virus - and survived. That survival is due to the great amounts of human, financial, technological, educational, and natural resources this country processes. That's not likely to change.

We appreciate your confidence, highly value our relationship, and look forward to maintaining the relationship far into the future.

We look forward to your comments and critique' and the opportunity to meet with you soon.

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification and asset allocation do not protect against market risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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[i] Barron's Magazine/The Wall Street Journal 9/11/2021
[ii] Bespoke Investment Group, 9/10/2021
[iii] U.S. Department of Labor, 9/9/2021
[iv] U.S. Bureau of Labor Statistics, 9/10/2021
[v] United States Treasury Department
[vi] U.S. Bureau of Labor Statistics; Trading Economics
[vii] New York University Sloan School of Business; Stocks, Bonds & Bills. Moneychimp calculator
[viii] New York University Sloan School of Business; Stocks, Bonds & Bills. Moneychimp calculator