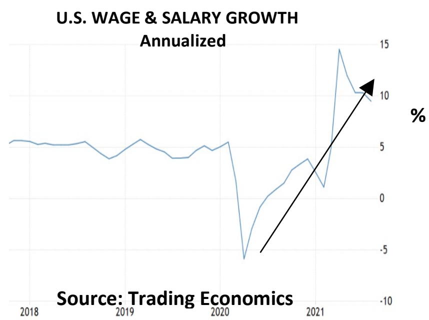
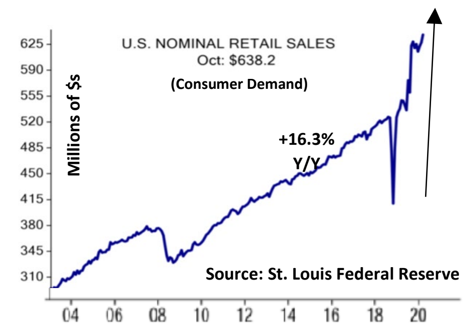
ECONOMIC/FINANCIAL MARKET COMMENTS

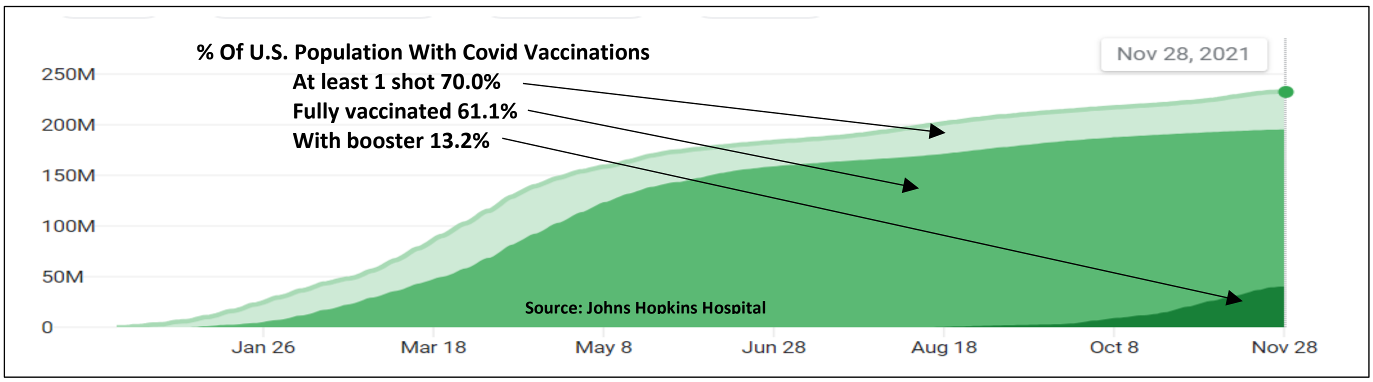
Reflecting on 21' / Thoughts on 22'

The Year

The post-pandemic economic recovery that began in the third quarter of 2020[i], continued solidly throughout 2021. The success and increasing use of vaccines, and the positive impact of stimulative monetary and fiscal policy helped reopen businesses, "jump-start" the re-employment process, increase wages and, fueled consumer demand. The charts below describe just how significant these changes have been for labor, business, and the economy in general.

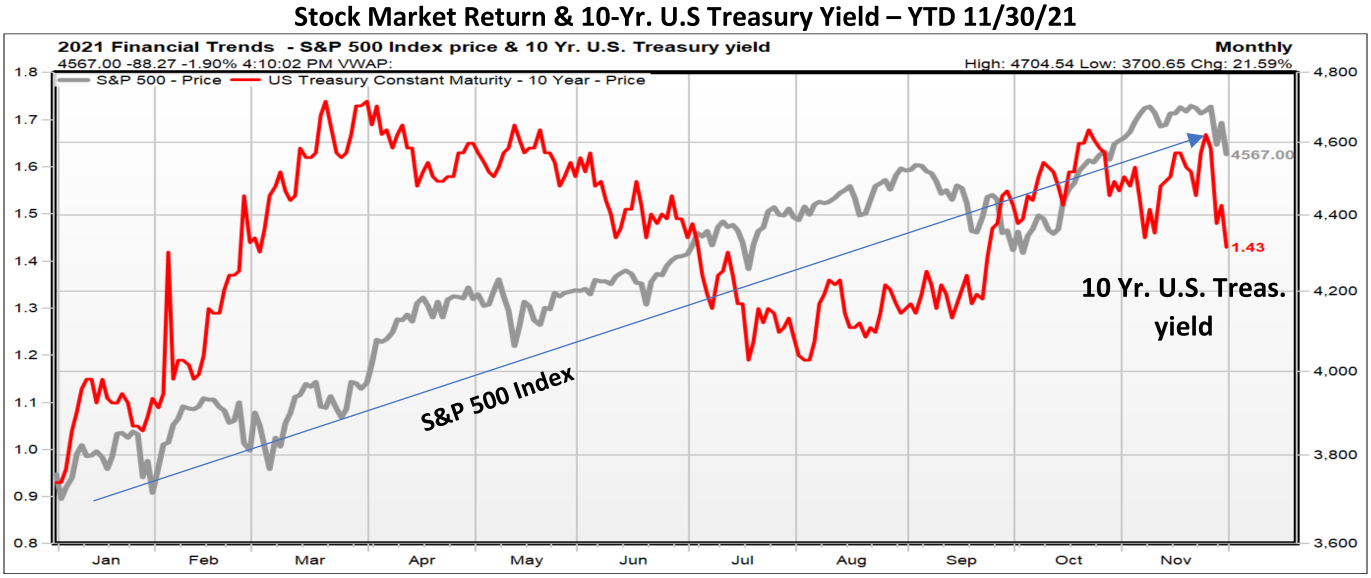






The strong economic reopening brought robust demand for items whose purchase was delayed by the recession as well as expectations for a roughly 40%+ increase in 2021 corporate profits. Economic recovery, growing corporate profits, low interest rates and, until recently, low inflation, is an ideal environment for positive equity returns. That has certainly been the case. As noted in last year's year-end comments, we anticipated positive returns in 2021, but not 20%+/- that the S&P and other major U.S. stock indexes have thus far achieved. Corporate earnings and revenue growth have surprised on the higher side, to support the market's 2021 move.

Stock Market Return & 10-Yr. U.S Treasury Yield – YTD 11/30/21



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The Financial Market

With less than a month remaining in 2021, the S&P 500 has risen in price by +21.59% (11/30/21)[ii]. That strong return reflects the importance of rapidly increasing corporate profits, the lack of "competition" from bond yields and, the confidence investors have that the positive economic environment will continue. This year stocks in the Energy, Financial and Technology sectors of the S&P 500 have been the strongest performers. Positive equity performance has not been limited to the U.S., as most major international equity markets, except China and Brazil[iii], have also achieved positive returns as economies continued to open.

The red line on the chart on the previous page displays the yield on the 10-year U.S. Treasury note (1.43%)[iv] which is considered a good proxy for interest rates in general. Though yields on this benchmark have risen this year they remain meaningfully below the historic average yield on the 10-year U.S. Treasury note of 4.31%[v].

Investment Actions

2021 has been a rewarding year for equity investors, but it hasn't been without challenges and volatility. A second look at the S&P price chart (previous page) will remind investors of the sharp, but short-lived periods of volatility and decline that occurred at various times this year. A resurgence in covid cases in January; delays in vaccine delivery in February; worries about stagflation (slowing economy & rising inflation) in May, and, in September, anxiety about the Delta variant, shortages, and China's increasing interference in businesses were reasons for those declines.

Legitimate concerns soon gave way to the recognition of trends that showed declines in covid cases and deaths. With those declines and the continuation of stimulative fiscal and monetary policy and rising household net worth, employment rose along with consumer demand and corporate profits (the "engine" that drives rising equity prices).

Since the stock market recovery began following the dramatic sell-off in February and March of last year (Covid virus fears), there have been eleven market declines greater than 1%[vi]. Each of those declines recovered shortly. We expect the increase in volatility and sharp selloffs that have occurred since the Friday following Thanksgiving to recover in a similar fashion. After good consideration, investors will likely shake off the initial headlines and focus on economic fundamentals and the ability of healthcare companies to modify their vaccines.

As investors, we don't attempt to "time" the market with short-term trades. We remain committed to our fundamental disciplines and longer-term viewpoints. However, when equity markets appear over-extended and portfolio equity allocations reach extremes, as they have this year, we don't hesitate to reduce equity exposure modestly and opportunistically. Proceeds from sales are then used to further diversify the equity portfolio and/or increase fixed-income investments. As we have mentioned in previous communiques, during the past eighteen months, additions to bond portfolios have primarily been in TIPS e.g., Treasury Inflation Protected Securities so that if/as inflation rises, so will the value of these bonds – an important consideration in today's environment.

When equity markets do just the opposite and decline on information that we believe is short-term oriented, overstated, or reactionary, we act just as opportunistically by adding to or initiating positions in companies that meet our fundamental and quality and disciplines.

During 2021 we took investment action that resulted in both purchases and sales in moderate amounts. The actions were taken, as always, with a primary focus on maintaining a long-term investment perspective, retaining a high quality, diversified portfolio, adhering to the disciplines we discuss regularly, and acting in a tax-efficient manner.

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Looking Ahead With Optimism and Vigilance

The fastest pace of the post-covid recovery is likely behind us, but the domestic and global economies should continue to be positive into the foreseeable future e.g., the next twelve to eighteen months. Thanks to improving health conditions, monetary stimulus, pent up spending, inventory rebuilding, and infrastructure spending, employment, wages, and corporate profits will increase to the benefit of many.

The supply chain problems that resulted from strong demand for almost everything from durable goods to tissue paper, and the "squeeze" on labor supply, (both are sources of inflation) should gradually ease and be returning to a more normal condition by mid next year. These dual challenges won't be fully remedied by then, but a trend in that direction should cool inflation.

The reappointment of Jerome Powell as Chairman of the Federal Reserve Board will maintain the continuity of Fed policy that is usually the preference of investors. The Fed though will face challenges it has not faced in the recent past due to the current spike in inflation and the need to taper monthly bond purchases and eventually raise short-term interest rates.

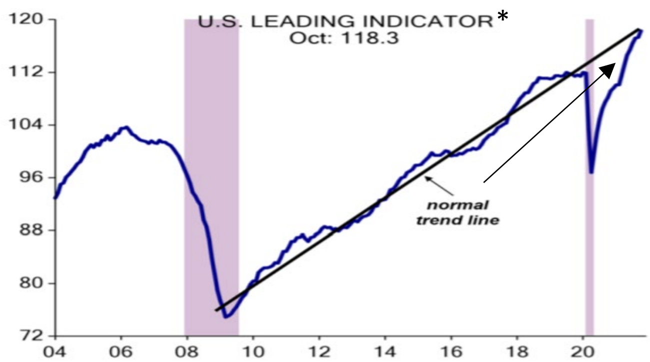
The U.S. economy has grown strongly (+5.5%E) this year, as have most global economies as they have rebounded from the effects of covid. We expect the economy will continue to grow but at a somewhat slower pace e.g., +4.0% (World Bank est.) and that S&P 500 earnings will again grow (8%-10%) but not at this year's breakneck pace.

Bottom Line:

For all the reasons that we have described previously e.g., improving health conditions, stimulative monetary and fiscal policies, increasing employment, etc., in addition to easing supply chain problems, and rising corporate profits, 2022 is expected to provide positive equity returns. Those returns are likely to be more consistent with historic returns in the high single digit range rather than the very high returns achieved during the past several years. The outlook remains positive for stock investors.

While optimistic we remain vigilant and focused on elevated equity market valuations, inflation, the polarized political environment, rising interest rates and the ever-present corona virus. Any significant negative changes in these issues will certainly cause us to modify our outlook. We will continue to be opportunistic but balanced in portfolios to reduce risk and preserve capital

As additional support for expectations that the economy and earnings are on a positive path, we share with you the following:



Source: St. Louis Federal Reserve Bank; Evercore ISI
*Economic data that corresponds with a future movement e.g., Initial Unemployment Claims, Avg. Hours Worked, etc.

U.S. Bureau of Labor Statistics; Evercore ISI

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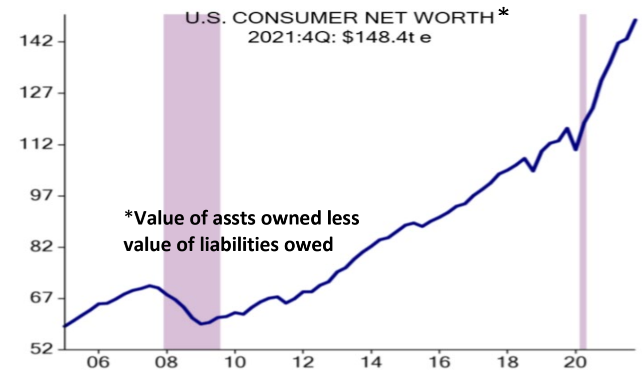

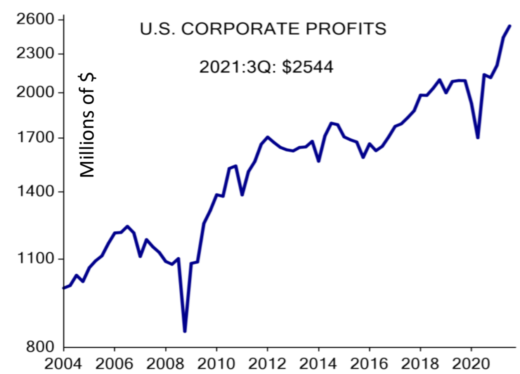

Thank You

As we have said many times and with great sincerity, we deeply appreciate your confidence in our capabilities, and we highly value our relationship and friendship. We have enjoyed meeting or attempting to meet with you face-to-face again and look forward to doing so again in the new year.

We look forward to any comments, questions, or critique that you may have. We wish you a healthy, peaceful, and safe holiday season with family and friends.

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.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

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[i] Trading Economics, 11/1/21
[ii] Factset Research Systems 11/30/21
[iii] Barron's Magazine 11/29/21
[iv] U.S. Treasury 11/29/21
[v] Y-charts.com 11/29/21
[vi] Bespoke Investment Group 11/26/21