ROUNDTABLE™ QUARTERLY COMMENTARY

QUARTER THREE | 2021

For our latest information and analysis on the COVID-19 economy and the government's response, visit our COVID-19 Resource Center on wealthenhancement.com

Mixed Market in the Third Quarter

As the U.S. begins to pivot away from the market environment created by unprecedented fiscal stimulus, equity markets were mixed in the third quarter. The S&P 500 Index was up less than 1% in Q3, while more volatile segments tied to Small Caps and FAANG stocks were down 4% and world stocks posted a flat return for the first quarterly period since COVID-19 began. The third quarter of 2021 kicked off the world's collective judgment of the economy and equity markets' ability to stand up without the aid of major stimulus, and a few concerns stand out: interest rates, inflation, and elevated asset values.

Interest Rates & Inflation Among Chief Concerns

Led by the Fed, central banks signaled that the world is nearing the end of ultra-low interest rates. Rate hikes remain unlikely before 2022, but the market is preparing for the monetary support to be curtailed via other policy tools. It's unlikely that further bond purchases can solve many of the issues holding back economic growth and employment, so it's logical for the Fed to ease the use of that tool. The Fed has done a better job of telegraphing this than the last attempt to taper support, but the possibility of some form of "taper tantrum" and market volatility remains. Add in that additional fiscal stimulus from Washington is still being debated and aimed at long-term infrastructure spending versus the justifiably rapid rescue measures during the COVID crisis, and you can see why, in recent weeks, the market appears nervous that less stimulus will be coursing through the economy.

Key economic indicators, including GDP, employment, and inflation, were far above expectations early in the year and signified a robust recovery. Meanwhile, supply chain issues and labor shortfalls created inflationary markers that gave many investors pause and indicated that interest rates may already be behind schedule. We witnessed rising prices for oil and energy, automobiles, and beef/poultry proteins. Those items accounted for over half of the last reported CPI figure of 5.3% annualized. The increases will likely subside as supply chain issues get resolved, but unlike lumber, which normalized quickly, the throughput of higher real estate prices and rising rents is on our radar.

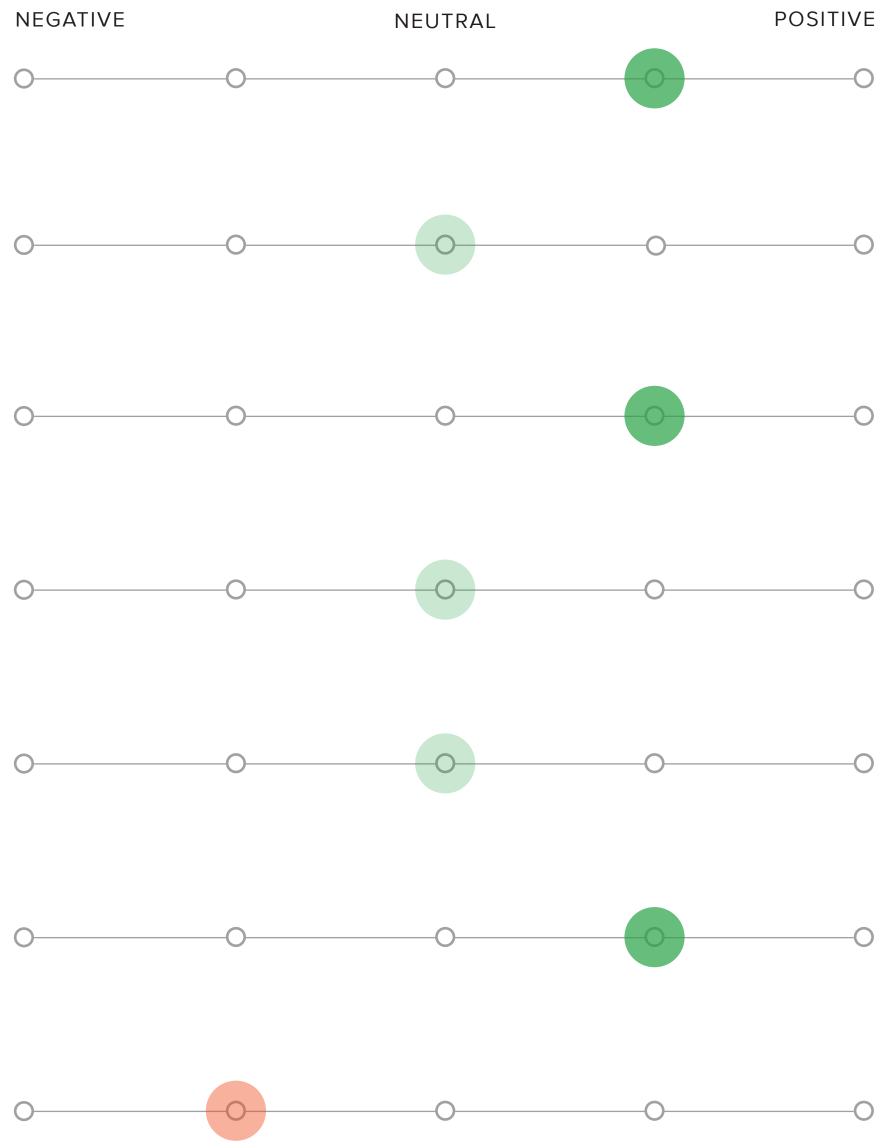
Looking Ahead

As we continue to analyze key metrics and position portfolios to win during multiple market environments, we anticipate more volatility ahead as we navigate the challenges of interest rates, inflation, and elevated asset values. These challenges are interconnected, and the importance of all three are items we'll continue to monitor closely and will likely drive future portfolio adjustments. As we contemplate what's ahead, we believe it's never been more important to manage risks through proper diversification and to be aware of the potential changes to the tax landscape to you as an individual.

7 MARKET **MOVERS**

CURRENT OUTLOOK

Our Investment Management team believes that markets are generally driven by seven elements. We explore these "7 Market Movers" each quarter and explain how we see each of them influencing market activity.



GLOBAL ECONOMIC GROWTH

Above-average real growth is expected into 2022, but near-term factors like a tight labor market, materials shortages, inflation, and potential tax changes cause uncertainty as we look ahead.

INTEREST RATES

The Fed signaled that quantitative easing through bond purchases will gradually end before they look to increase interest rates. It will be a long time before we'd consider monetary conditions to be purposefully tight to keep the economy from overheating.

STYLE/FACTOR EXPECTATIONS

A concentration has developed in market capitalization-weighted indexes, and we foresee owning assets driven by Quality, Value, Momentum, Size and Low Volatility as key ingredients to investor success.

GEOGRAPHIC EXPECTATIONS

Valuations poorly predict short-term performance, however, non-U.S. markets continue to offer a comparative discount. Further market multiple expansion in the U.S. seems unlikely, but forward market returns driven by a multitude of factors and key inputs remain in place.

INFLATION

Supply chain issues, labor shortages, and logistics are impacting production and services. These issues seem temporary, however, if energy prices continue to climb rapidly, growth will be affected.

ALTERNATIVES

We continue to see opportunities to complement traditional stocks and bonds as the market digests the future of interest rates, inflation, and elevated valuations.

TAXES

Adjusting corporate tax rates would likely reduce earnings for S&P 500 companies by 5% in 2022. Tax changes for the wealthy are more acute, but individual tax increases rarely spill into the market in a material way.

Geographic performance is represented by the S&P 500 for U.S. and MSCI EAFE Index and Emerging Markets is represented by MSCI Emerging Markets.
Alternatives include the HFRI, NAREIT, and Managed Futures Index.