Quarterly Economic Update
Third Quarter 2021

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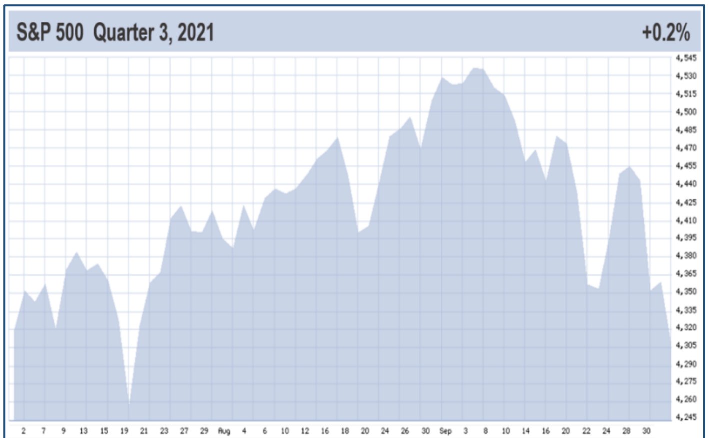
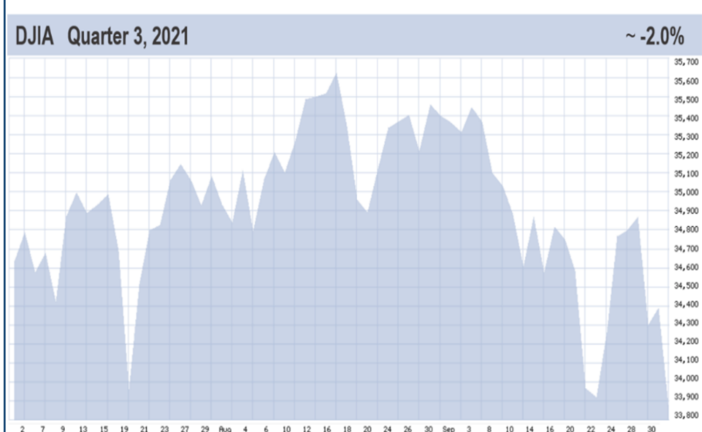
FEE-BASED FINANCIAL PLANNING

Equity markets ended the third quarter with mixed results. The quarter started with strong earnings reports lifting many large U.S. stocks during the summer and ended with the Federal Reserve (Fed) striking a dovish tone, confirming its hesitance to tighten policy too fast. Despite these positives, growth and infltation concerns late in the quarter meant many equities retraced their steps in September. The month of September ranks as the weakest month for equities over the last 20 years. History once again repeated itself and the third quarter of 2021 ended with the worst September for both the S&P 500 and the Dow Jones Industrial Average (DJIA) since 2011. *(Sources:barrons.com 9/30/2021; market.businessinsider.com 8/31/2021)*

The S&P 500 experienced its worst monthly performance in September since March of 2020. It closed the quarter at 4,307, after dropping 4.8% in September. Even with the drop, it still experienced its sixth consecutive quarter gain, up 0.2%. The Dow Jones Industrial Average (DJIA) ended the quarter lower than it started, finishing at 33,843, after dropping 4.3% in September. For the third quarter, it ended down almost 2%, marking the first quarterly loss for the DJIA since the first quarter of 2020. *(Source: www.wsj.com, 9/30/21)*





Source: bigcharts.com

MONEY RATES
(as posted in Barron's 10/4/2021)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction)c	0.08%	0.09%
Bank Money Marketz	0.07%	0.10%
12-month CDz	0.15%	0.27%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

A combination of factors continues to influence the direction of equity markets. Rising inflation expectations, impending interest rate changes, monetary policy changes (including tax law proposals), and continued COVID-19 concerns, have all been, and could continue to be, major factors in determining the direction of the economy. This could cause market volatility for investors in the near future.

COVID-19 still appears to be the major player in the economy. As the Fed stated during the FOMC meeting in September, “The path of the economy continues to depend on the course of the virus.” *(Source: federalreserve.gov, 9/22/2021)*

Pending policy changes are also a major concern for equity market analysts who feel that significant policy measures may lead to a surge in inflation. *(Source: forbes.com, 9/22/2021)*

All eyes are on when the Federal Reserve will commence their “tapering”, which is the process of slowly pulling back the stimulus they have provided during the COVID-19 pandemic. Since June of 2020, the Federal Reserve has been purchasing $80 billion of Treasuries and $40 billion of mortgage-backed securities every month. This debt has accumulated to over $8.4 trillion in response to the pandemic crisis.

The FOMC statement from September 22, 2021, reaffirmed the Fed’s commitment to, “ using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.” *(Source: federalreserve.gov, 9/22/2021)*

Key Points

1. **The third quarter ended with volatility in September.**
2. **Interest rates remain at near zero, but interest rates may rise sooner than expected.**
3. **Inflation continues to be a concern and is closely being monitored by the Fed.**
4. **“Tapering” may commence as early as November.**
5. **Having a predetermined entry and exit strategy can help you save time, money, and reduce risk and stress.**
6. **Call me with any questions or concerns about your personal investment strategy.**

For the quarter, financials and utilities outperformed many other sectors. At the other end of the spectrum, large industrials and materials struggled, although September’s sell-off hit almost all sectors. Energy was an exception during the quarter as rising supply constraints drove prices higher. If you look back to March of 2020, investors have been on a rollercoaster ride. The remainder of this year and the start of 2022 could continue to keep us at the edge of our seats. It looks to be a period in which we could see a lot of changes. As your financial planner, it is my objective to stay apprised of key issues that I feel may directly impact you and your financial goals. As such, my objective is to continue to monitor the progress of the economic recovery and how the Fed will respond with monetary policy.

Inflation & Interest Rates

Interest rates and inflation concerns continue to be at the forefront of the economic news. Inflation is a concern for savers, as it directly affects purchasing power and lifestyle options. During the Federal Reserve's September meeting, it was announced that the federal funds rates will remain at 0 – 0.25%. They are expecting to maintain this range until, "labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to a sustainable 2 percent and is on track to moderately exceed 2 percent for some time."
(Source: federalreserve.gov, 9/22/2021)

The Fed is continuing to monitor unemployment and economic improvements. "The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments", the Fed announced in its press release following their September meeting.

Fed officials predict that in 2021 the U.S. economy will grow by approximately 6.5%. The Fed also indicated that, while still far away from "maximum employment", if the trend remains positive that tapering could soon commence. *(Source: reuters.com 9/28/21)*

Fed Chairperson Powell said, "While no decisions were made, participants generally viewed that so long as the recovery remains on track, a gradual tapering process that concludes around the middle of next year is likely to be appropriate."*(Source: www.cnbc.com 9/22/21)*

Fed watchers are keeping a close eye on any indication of when the Fed will begin tapering down the purchase of bonds. Some are concerned that if the Fed waits too long to taper down bond buying and keeps rates near zero, that this could lead to inflation.

Greg McBride, CFA, and Bankrate's Chief Financial Analyst cautioned, "The stock market has been a direct beneficiary of the Fed's stimulative actions and the prospect of reducing that is sure to spark heightened market volatility." *(Source: www.bankrate.com, 9/22/21)*

While the Fed is keeping the federal funds rate near record lows, in response to the Fed suggesting that we could see a balance sheet tapering starting in November, interest rates rose slightly during the end of September.

While we have seen and will probably continue to see short-term volatility, many analysts are still optimistic. "Despite short-term volatility, the long-term view of sustained economic growth, declining unemployment and improved household balance sheets is intact – and that is ultimately good for corporate profits and stock prices," McBride stated. "Investors should view any pullback through that lens and treat it as a buying opportunity." *(Source: www.bankrate.com, 9/22/21)*

Treasury Yields

The 10-year Treasury yield finished the quarter at 1.52%. Since the Federal Reserve is discussing tapering soon, the demand for bonds would decrease, thus reducing their prices and raising their yields. Some Wall Street analysts are expecting the 10-year Treasury yield to rise to 1.7% or higher. With a 2% long-term inflation rate expected a resurgence of higher yields like investors saw in March of 2021 when it hit 1.75%, could be possible, according to St. Louis Fed data. *(Source: barrons.com, 9/28/21)*

Today's interest rates are still historically low, however, interest rates may be on the rise sooner than expected, and during periods of rising interest rates, bond prices fall. I am monitoring interest rates movements and investors need to remember bonds can be critical when creating a diversified and balanced portfolio.

Emotional Investing Cycle

The last quarter of the year can be a rewarding one, but it also can be a challenging one. Being aware and concerned about your financial situation and investments is natural and healthy. Your savings represent your capital for future use and can be the result of someone's hard work. For those at or near retirement, you hope it will, in large part, allow you to maintain a comfortable lifestyle through your retirement. This is why you need to be highly cautious of emotional investing moves. Investors should seek to become aware of their behavior in times of volatility, as well as opportunity. Being too fearful or overly optimistic can many times lead to rash or poor decisions. Your emotions can make you a reactive, instead of a proactive, investor.

Knowing your investing behavior and how to effectively control it is an important tool to help navigate not only volatile times, but it can help you avoid impulse investing on "too good to be true" opportunities.

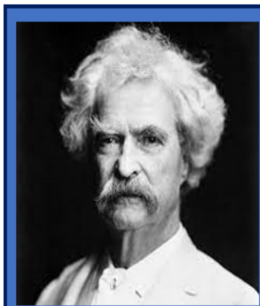
Having a firm grasp of the three major things you can control can will help you maintain discipline and direction toward your goals. Those three things are:

1. Your required rate of return
2. Your time horizon
3. Your behavior

Treasury Yields Comparison

January 4, 2021				March 19, 2021 *(Highest 30-year yield in 2021, to date)*				September 30, 2021			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
0.36	0.93	1.46	1.66	0.90	1.74	2.36	2.45	0.98	1.52	2.02	2.08

Source: www.treasury.gov



"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February." ***Mark Twain***

Remaining focused on the plan that you have set for yourself can be difficult when markets rise and fall, but it can be a critical part of your investing success or failure.

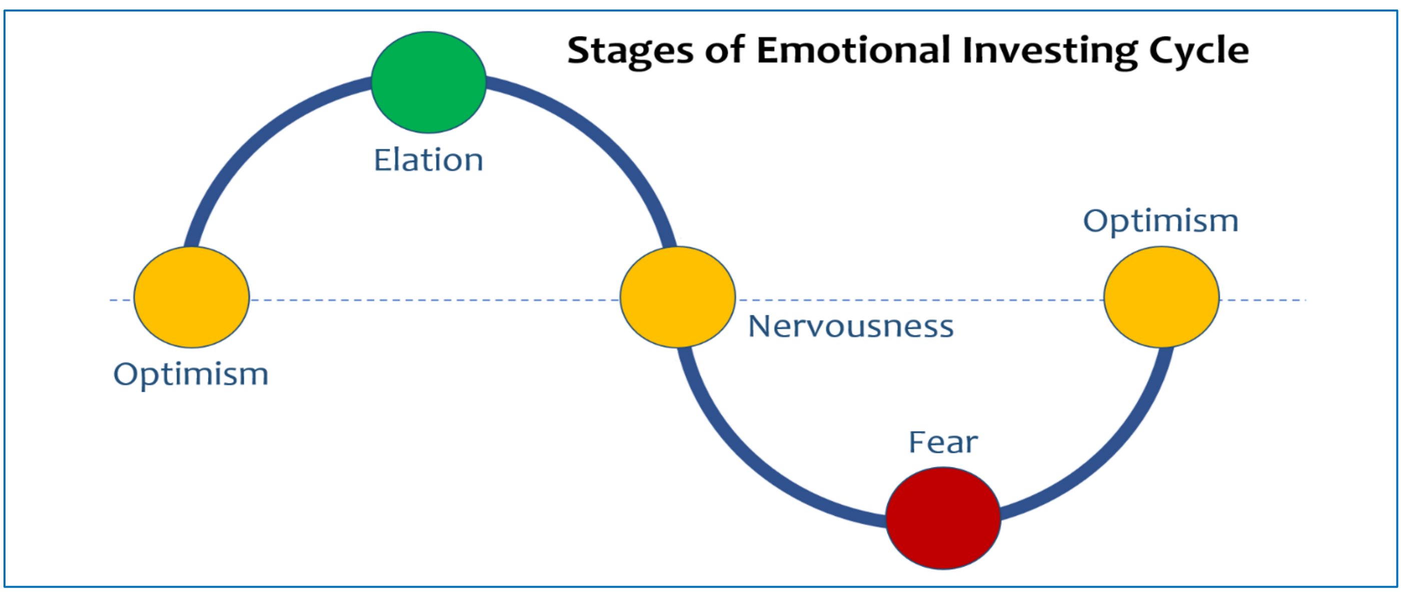
As your financial planner, one of my goals is to help my clients be comfortable with their investing experience. Equity markets will always have the potential to move up and down. Making sure your investment plan is focused on your personal goals, your required rate of return, and timelines can help you through all the stages of the investing cycle.

Having pre-determined entry and exit points is an important strategy to integrate into your overall investment approach. Optimizing your return while managing risk should be a priority when investing. Taking the time to evaluate both ends of your personal strategy can help save you a lot of time, mental frustration, and help avoid emotionally driven decisions.

As the saying goes, "We are our own worst enemy". This can hold true when an investor does not have a set plan and spends time and energy vacillating on their decisions. Emotions, media magnification and sensationalism, and loss aversion can be major roadblocks and interrupt even the best intended investor's sound investment judgment.

Four factors that investors should focus on are:

1. **Your required rate of return.** The minimum amount of return required for



an investor to achieve their financial goals and objectives.

2. **Your time horizon.** The amount of time you want to be invested in any particular situation can help you determine your entry and exit points. Longer-term horizons provide more flexibility than shorter-term horizons. Where many investors tend to stray is when they try to outguess the market.

3. **Your behavior.** How well can you emotionally endure the potential ups and downs of your investments? Market volatility is part of the investment experience and can create panic and anxiety. Making rational decisions during this mindset can be more difficult. Staying the course of a pre-determined strategy can help alleviate emotion-based decisions.

4. **Your overall strategy.** Are you looking at something that doesn't quite fit with your overall strategy? Perhaps the media is influencing you to make a rush decision on a trending investment. If it isn't congruent with your overall strategy, the odds are there is more risk involved. Pressure can create more risk and potentially cause setbacks in your goals. New opportunities may arise, but not all with be the right opportunity for your overall strategy.

Saving time, money, reducing risk and stress can all be a byproduct of carefully creating and most importantly, adhering to, entry and exit points in your investments.

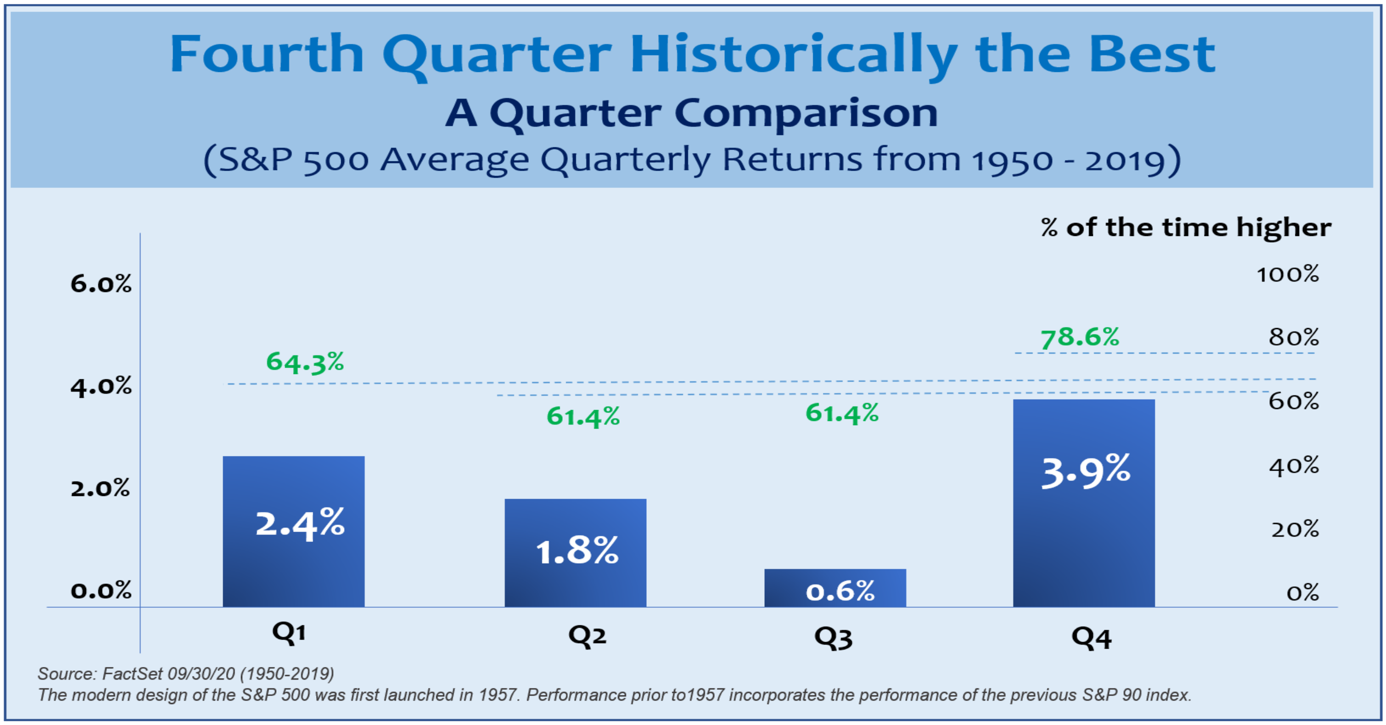
Investor's Outlook

If you look back at history, the fourth quarter is usually a positive one for investors. The fourth quarter of the year has empirically been the best for equity markets. According to Truist Securities data, even though October is typically a very volatile month, stocks have risen 79% of the time in the fourth quarter since 1950, with an average gain of 4%. *(Source: barrons.com 10/5/21)*

There are still many key factors that could affect what direction equity markets will move in the fourth quarter. As mentioned previously, rising inflation expectations, impending interest rate changes, monetary policy changes - including tax laws, and continued COVID-19 concerns, will continue to be major factors in the direction of the economy.

September and October have historically been difficult months for equity markets. Overall, 2021 has been a positive year for equity investors, and historically, a positive first half of the year has traditionally brought a positive second half. **Historical results are no indication of future results and I still believe that caution should be the principal notion for investors.**

Having a solid strategy for your investments is important. Staying disciplined and following that strategy during times of volatility is equally important. As your financial planner, I am here



to help you pursue your goals. Prior to making any financial decisions, I always recommend you contact me so I can help determine the best strategy. Many times, there are other things to consider, including tax ramifications, increased risk, and time horizon fluctuations when changing anything in your financial plan.

Regardless of how equities are performing, investors should always focus on their personal objectives and long-term goals. Even when investing for the long-term, there is no guarantee that market volatility will decrease, stabilize, or increase over any timeframe.

My advice is not one-size-fits-all. I will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or required rate of return, please call my office, or bring it up at our next scheduled meeting. If you ever have any concerns or questions, please contact me!

I am here for you!

I pride myself in offering:

- consistent and strong communication
- a schedule of regular client meetings
- continuing education for every member of my team on the issues that affect my clients

A skilled financial planner can help make your journey easier. My goal is to understand my clients' needs and goals and then try to create a plan to address them.

HELP US GROW!

This year, one of my goals is to offer our services to several other people just like you!

Many of my best relationships have come from introductions from my clients.

Do you know someone who could benefit from my services?

I would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Invite a guest to a workshop,
- ✓ Encourage someone to schedule a complimentary financial checkup.

Please call Morgan at (385) 388-4386 and we would be happy to assist you!