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MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

SERVING CLIENTS FOR OVER 30 YEARS

Q3 2021

MARKET & ECONOMIC REVIEW

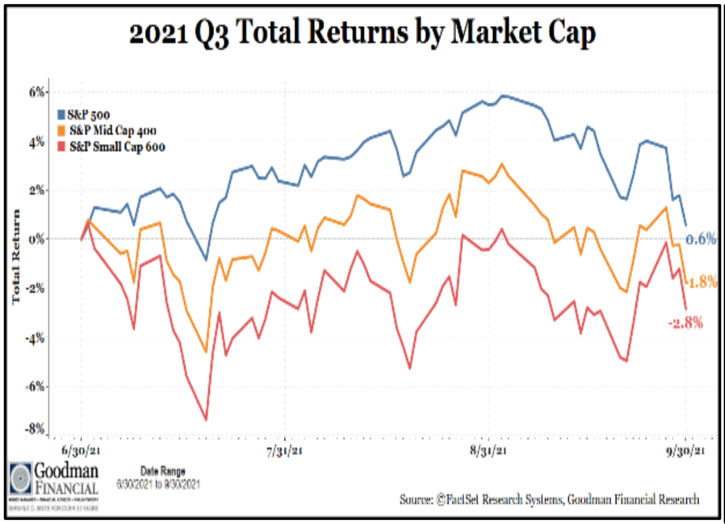
Major Equity Market Indexes & Commentary

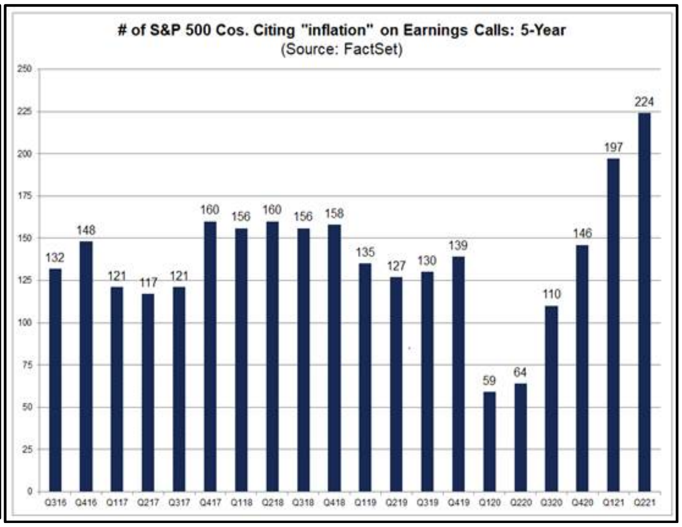
INDEX	DESCRIPTION	6/30/21	LOW CLOSE	HIGH CLOSE	9/30/21	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	4,298	4,258	4,537	4,308	+0.2%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	34,503	33,844	35,625	33,844	-1.9%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	14,504	14,275	15,374	14,449	-0.4%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	2,311	2,131	2,329	2,204	-4.6%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	28,792	27,013	30,670	29,453	+2.3%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,375	1,221	1,375	1,253	-8.8%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	453	444	476	455	+0.4%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

- Stocks were mostly lower in Q3, ending their winning streak at five quarters in a row. In the U.S., only the S&P 500 eked out a gain, all other major stock indices were lower, especially small and mid-cap stocks as seen in the chart below. Stocks were due for a breather after the phenomenal run they have had since coming out of the bottom in March of last year, to the point that they are now trading at lofty valuations.
- Inflation is on the mind of just about everyone. It's no surprise then that the topic should be coming up on corporate earnings conference calls. As seen in the chart below, the number of S&P 500 company management teams mentioning "inflation" on those calls reached a multi-year high this quarter, according to FactSet. Those companies who are unable to pass along higher costs to their customers are seeing margins and profits coming under pressure. This concern, along with concerns of rising interest rates, are the likely culprits behind the recent negative stock returns.





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MARKET & ECONOMIC REVIEW
Fixed Income Rates & Commentary

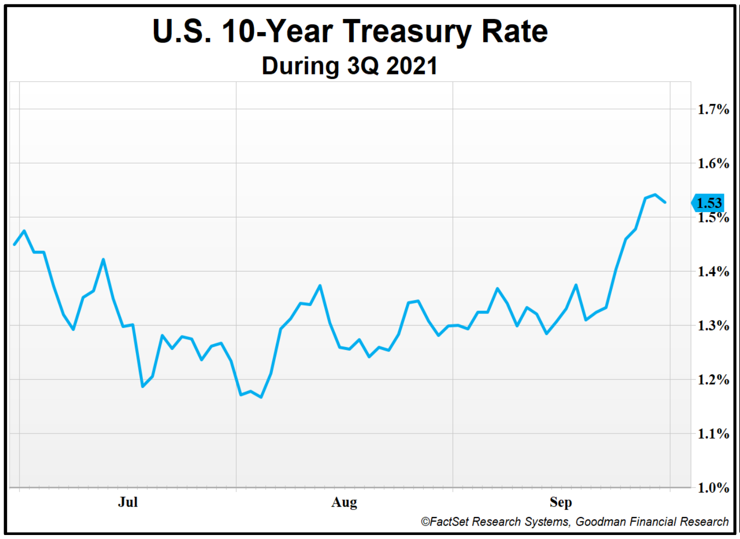
DESCRIPTION	6/30/21	9/30/21	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	6/30/21	9/30/21	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	0	15 Yr. Mortgage Rate	2.34%	2.15%	-19
90 Day Treasury Bill	0.05%	0.04%	-1	30 Yr. Mortgage Rate	3.02%	2.88%	-14
2 Yr. Treasury Note	0.25%	0.28%	+3	Prime Rate (U.S.)	3.25%	3.25%	0
10 Yr. Treasury Note	1.45%	1.53%	+8	LIBOR (3 Month)	0.15%	0.13%	-2
30 Yr. Treasury Bond	2.06%	2.08%	+2	5-Year CD	0.27%	0.27%	0

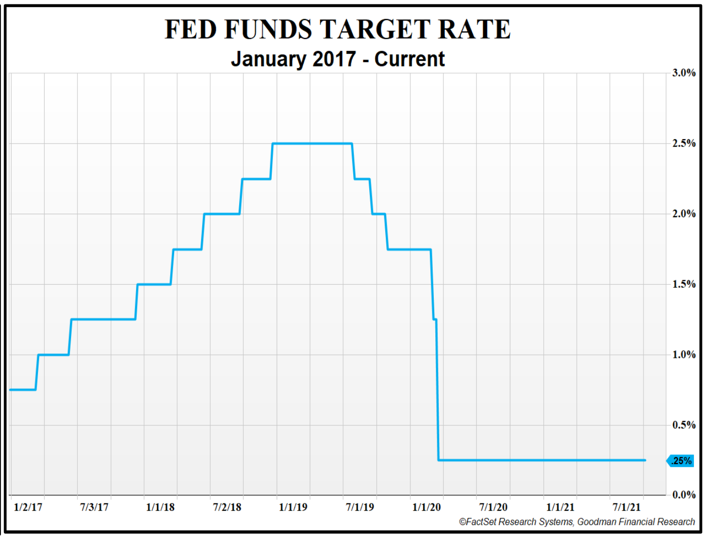
***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury

FIXED INCOME COMMENTARY

- Interest rates barely budged for the quarter, but there was more going on ***during*** the quarter. As seen in the chart below (left), the 10-year treasury rate rose only 8 basis points (1/100 of a percent) for the quarter, but fell by 0.28% during the quarter to as low as 1.17% in early August, before rising from there by 0.36% to end the quarter at 1.53%. Such changes might seem small, but in the context of very low 1% rates, they have meaningful effects on the prices for longer-dated bonds.
- The Federal Reserve (Fed) remains on hold with their overnight federal funds rate, as seen in the chart below (right). At their September meeting, roughly half of the participants in the Fed's Open Market Committee predicted rates would need to rise sometime in 2022, while the rest continue to see rates near zero even beyond 2022. With unemployment falling to near 5% and inflation at concerning levels, it seems surprising the Fed could be complacent at this time.
- A number of Fed members have signaled that the Fed needs to start to wind down its "Large Scale Asset Purchase Program" (LSAPP), otherwise known as quantitative easing, whereby the Fed is buying $120 billion per month of treasuries and mortgage-backed bonds. It is now widely believed that the Fed will make it official at their November meeting that they will begin to wind down their LSAPP purchases by $15 billion per month, such that they will dial down to zero by mid to late 2022. The Fed is hoping to avoid another "taper tantrum" by signaling their intent well ahead of time. It will be interesting to see what, if any, impact the Fed's wind down will have on long-term interest rates, especially as the federal government continues to run significant fiscal deficits. The risks to those rates would seem to be to the upside in our view.





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Q3 2021
MARKET & ECONOMIC REVIEW
U.S. Economic Commentary

INDICATOR	DESCRIPTION	6/30/21	9/30/21	QTD CHANGE*
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Claims dropped this quarter once again as supplemental unemployment benefits began to expire in many states and as millions of job openings are waiting to be filled.**	364	326	⬇ -10.4%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The September unemployment rate fell to a surprising low 4.8%, breaching the 5% level much faster than economists were previously expecting.**	5.9%	4.8%	⬇ -110 bps
Average Weekly Earnings*	The average weekly salary earned by private, nonfarm employees. **Wages are back to growing again, after falling some in 2020. Unfortunately, wage increases are having trouble keeping up with rising rates of inflation, thus “real” wages are falling.**	$1,055	$1,066	⬆ +1.0%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Falling sentiment is likely due to falling real wages due to high inflation, the Covid Delta variant and, falling housing affordability.**	85.5	72.8	⬇ -14.8%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The PMI had a slight recovery after stalling the past few months. Supply chain issues continue to constrain this measure.**	60.6	61.1	⬆ +0.8%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Existing home sales saw a slight pickup after falling the past few months due to both lower inventories of homes and to significantly higher prices.**	5.80	5.88	⬆ +1.3%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization picked up from last quarter as manufacturers work to catch up to strong demand. This measure would likely be higher but for continuing supply chain issues.**	75.8%	77.0%	⬆ +1.2%

***These items are as of 8/31/21, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- The number of green arrows in the accompanying table reflects the ongoing strength of the U.S. economic recovery currently underway. Any indicators of weakness seen in the economy are mostly due to severe supply chain disruptions that have caused some manufacturing lines to shut down from both the lack of components and hard to find workers.
- As seen in the chart below (left), economic growth estimates for the quarter (Q3) have been declining, though growth for the quarter is still estimated to come in at a solid 5.3% annualized rate, per FactSet. Q4 estimates also reflect a similar 5% growth rate. Economists predict that GDP growth rates will then begin to slow for the next few quarters.
- As seen in the chart below (right), U.S. factory capacity utilization continues to march higher and is now above pre-Covid levels. It still has a ways to go to reach the prior high of 2019, but should be attainable once many of the global supply chain issues can get resolved. Certainly, current unmet underlying demand for manufactured products would support further utilization.
- Given that there are nearly 11 million U.S. job openings, one would think that job growth should be higher and unemployment lower than they are currently. Declining covid cases and the ending of supplemental unemployment benefits will likely begin to draw more employees into the workforce.