QUARTERLY INSIGHTS
October 2021

We thought you might be interested in our Firm's latest quarterly commentary discussing our thoughts on the current economic conditions.

After a historic run of new highs and rising over 20% this year alone, U.S. equity markets are finally experiencing their first 5% pullback in 11 months. Industry analysts feel that a number of concerns are responsible for this modest decline:

- inflation appears more persistent than transitory, especially with regard to housing, energy, and auto prices
- transportation of goods to market across the globe remain slow and yet to be resolved
- an ineffective federal government…
    - Congress' delay in passing a bipartisan infrastructure bill
    - continued failure to address responsible spending (and the debt ceiling)
    - the motion to raise taxes indiscriminately
- heightened speculation when the Federal Reserve will curtail liquidity stimulus

The confluence of all these concerns may be temporarily holding the market back yet none of these obstacles are beyond resolution. And none of these market risks are new to investors.

Throughout history, the reality is that there have always been economic, political, and financial industry concerns. Also claimed to weigh on financial markets today is Evergrande, the Chinese real estate developer responsible for $300 billion in troubled debt. China is overbuilt, with more than 20% of its housing unoccupied, and mostly financed aggressively through debt. Some feel Evergrande's debt problems may cause the next global financial meltdown, similar to a 2008 Lehman Brothers contagion. However, most analysts believe Evergrande's problems will be limited. If too painful for its people and excessively embarrassing for China's government, President Xi Jinping can exert the power to redirect financial losses to those who can absorb them best while protecting others.

What analysts have yet to address is, why do these problems matter more now than in months before? Such fears failed to impede investors from repeatedly pushing the global stock market to successive all-time highs (more buyers than sellers) since the beginning of COVID. What is new are investors' changing perceptions regarding the significance of these problems. The answers that the media has supplied are that mounting risks make this September a potentially hazardous time for stocks or that September is the toughest month for stocks. If there was any truth to this allegation, perhaps we should remove September from the calendar.

In recent weeks, further examination reveals that our media's changing tone implies these risks merited an expected weakness in financial markets. Why? Investors often temporarily accept these questionable truths as gospel and subsequently follow media sentiment. As a result, some buyers become sellers, causing a shift in investor psychology and therefore change in market direction, as witnessed now. Unquestionably, investor sentiment or mood changes often and abruptly, yet rationally self-corrects over time. Financial markets seldom, if ever, are predictable in the short run. However, over the past four decades I have observed that when there is an abrupt increase in stock price volatility, it resurfaces until a renewed catalyst reinstates the market's up-trend. Looking ahead, most forecasters expect the current correction to be contained. The promising news is that 11 of the 12 previous extended upward market moves similar to this one (lasting 211 trading days) have occurred within larger bull markets. So history favors a renewal of this upward secular trend as well.

Equity and fixed income performance will likely be influenced by the level of clarity the Federal Reserve provides before reducing financial stimulus and raising interest rates. Fortunately, economists expect the Fed to offer sufficient advance notice, emphasizing that raising rates will come later than tapering bond purchases. Fed Chairman Powell is confident about the continued strength of our economy. He cites the absence of broad-based inflation pressures, only moderate increases in wages, and that long-term global disinflationary pressures remain intact. Ongoing pent-up demand for goods and Fed stimulus continue to set the stage for a strong rebound in growth in the fourth quarter, regardless of near-term inflationary pressures.

In summary, equity trends have much to overcome, yet continue to lean positive in the intermediate and longer-term. During periods like we are currently experiencing, it is important to remember 1) long-term results matter most, and 2) patient investors get rewarded. In contrast, investors with a short-term focus seldom achieve satisfactory sustainable results. So perspective is essential. Our firm remains mindful of today's financial, economic, and political forces in relation to our stewardship of your financial assets. We thank you for your confidence and trust in our team and for the opportunity and privilege to make a positive contribution in your lives.

Respectfully,

Randy

Randy Garcia
Chief Executive Officer