STRAIGHT TALK

3rd Quarter 2021

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2021
<u>Market Returns</u>

Domestic Large
S&P 500
15.92%

Domestic Small
Russell 2000
12.41%

Intl Developed
MSCI EAFE
8.35%

Emerging Markets
MSCI EM
-1.25%

Fixed Income
Bloomberg US
Aggregate Bond
-1.55%

**Returns are from Morningstar, with dividends reinvested, and are through 9/30/21*

The third quarter came and went with little net change in markets. The delta variant threw a wrench in economic rebound expectations, even as most of us were able to enjoy a more "normal" summer. Perhaps the biggest news in the quarter came from China, where regulatory crackdowns and the Evergrande situation created headwinds for markets. Looking ahead we see clear signs of waning covid worries globally, which should, for a little while at least, provide a runway for a pickup in economic activity and better returns in stock markets.

Third-quarter returns were muted with lower trading volumes during the summer period. In total both US and International Developed markets moved less than 1% in the quarter. The outlier on the equity side was emerging markets, which saw a roughly 8% decline in the quarter, tied to news out of China. The Chinese government's move to crack down on large tech companies and restrict some for-profit businesses caught investors by surprise. To further complicate matters, the story around troubled property developer Evergrande continues to develop and create uncertainty for investors. It would be foolish to completely dismiss the investment opportunities in the world's second-largest economy, but some higher degree of caution is warranted given the recent developments.

Meanwhile, after some ups and downs in the first half of the year, bond markets were largely flat in the quarter. In total, the US Aggregate Bond Index gained just 0.05%. We have seen bond yields move higher more recently, a trend we expect will continue through this quarter. Signs point to an end of the delta wave, as covid cases decline across much of the country. While this resulted in lower growth expectations for Q3, it should ultimately benefit Q4 and Q1 2022 numbers. Higher growth, along with the higher inflation figures we have been seeing, should translate into higher bond yields and thus lower prices. While bonds may face headwinds in the short term, we believe that this will be made up for by higher stock prices as markets rally on the back of higher earnings expectations.

As much as we would all like to put covid behind us, and thought we might be able to as the vaccine rolled out, the most recent wave of cases proved otherwise. A degree of uncertainty still remains and we should not rule out the possibility of further waves that temporarily impact the economic recovery and cause consternation for investors. We also have to push out our timeline for economic normalization and expect a longer period of "no normal" which we talked about in our last commentary.

The ongoing supply chain disruptions have been well documented and by some accounts, will continue to exist well into next year. This is a perfect example of how the pandemic has impacted normal economic activity and how ultimately we may see changes as a result of this experience. We continue to expect economic evolution driven by technology and innovation across industries, but for now, we remain caught in the throws of the pandemic. This kind of economic disruption is messy and will create volatility, but the best money managers will work to foresee how things might change and invest accordingly.

The good news, for now, is that we expect the current quarter to be a good one for stocks as favorable seasonality coincides with lower covid cases and improving data. Earnings growth has outpaced stock market returns thus far in 2021, which has led to lower valuations from the elevated numbers earlier in the year. Bonds are likely to face continued challenges, but will still provide some safety in the event of stock market disruptions.

As always, please contact us with any questions or concerns, and enjoy a safe, happy, and healthy end to the year.

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