

Thoughts from the Holy City – October 2021

“In the end, it’s not the years in your life that count. It’s the life in your years.”

~ Abraham Lincoln

The third quarter concluded with the equity markets in flux as several uncertainties stoked fear in investors, and the seven-month streak for the S&P 500 came to an end. Uncertainties are no stranger, as we have dealt with quite a few economic and market uncertainties in the past 18 months. There is China and the potential default of one of the largest real estate firms, Evergrande. Congress remains in gridlock over the federal debt ceiling and the looming potential government shutdown, and the continuing surge in Covid-19 has sparked fresh fears in governments across the world. Lastly, the supply chain issues have caused problems and that coupled with a rise in inflation has fed officials and economists lowering their growth forecasts for 2021. All being said, the markets continue to climb higher and the economy continues to rebound from the depths of the pandemic, and we remain optimistic.

The recent September pull back came quickly and rebounded in the same manner. One must keep in mind that pullbacks in the equity markets are perfectly normal, healthy, and frankly, welcomed in some cases. Pullbacks can be uncomfortable, especially when the news outlets are flashing red with “markets in turmoil” across the screens, but we must remain steadfast in our long-term strategies. September ended with the DJIA positive 10.58% for the year, the NASDAQ +12.11%, and the S&P 500 +14.68%. Meanwhile, the fixed income markets continue to face headwinds ending September down 1.57% as measured by the Bloomberg Aggregate Bond Index, and the international markets are positive 6.24% on the year as measured by the MSCI EAFE.

As is usually the case, while there are several headwinds for the economy and markets, the positives outweigh the negatives. Unemployment continues to decline as more Americans head back into the workforce, wages continue to increase, depleted inventories are replenished, and business capital expenditures continue to get a boost. As a result of the economy rebounding at a sustainable pace, pressure on the Fed has eased and they can now look ahead at what exactly needs to be done to continue in a positive direction. The Fed has indicated that they will most likely begin “tapering” in 2022, but that does not necessarily mean they will begin raising interest rates and tightening policy. As alluded to in previous commentaries, tapering is different than tightening. Interest rates will naturally tick higher, but our belief is that it will be in moderation as demand from foreign buyers and domestic investors remains steady.

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Portfolio positioning will continue to remain imperative as we navigate the coming months and years. Management of capital continues to change as rates are at historical lows and fixed income is still unattractive. Despite the low yields in fixed income, it still plays a crucial part in the overall asset allocation as a safety net for market disruptions. Headwinds remain in this space as interest rates and bond prices move inversely to one another, but we reiterate the importance of maintaining a balanced approach to investing. We believe the current rally in the equity markets has room to run as the macroeconomic backdrop remains favorable, earnings growth continues to be positive, and interest rates remain low.

Congress will most likely come to an agreement regarding the debt ceiling and the attention will focus on the tax proposals on the table. The proposed tax hikes are quite aggressive in their current form but given the history of previous tax hikes and the likelihood of an agreement in the “middle,” they will most likely not derail the bull market in stocks. Our goal as wealth managers is to cut through the noise and help clients achieve their goals and pursue their purpose. The ethos of wealth management is the alignment of one’s purpose and values with their resources that can facilitate action and make them a reality. It is the connection of those values and purpose with the resources that helps one feel fulfilled. *“In the end, it’s not the years in your life that count. It’s the life in your years.”*

Be Well,

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The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. An investment cannot be made in these indexes. It is not possible to invest directly in an index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

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