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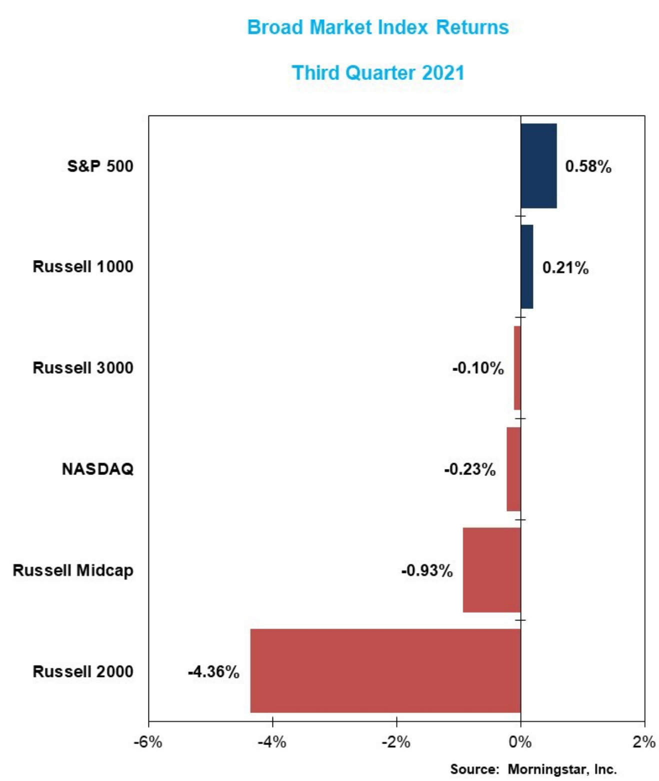
As the seasons change, our hope is that you and your loved ones are well and enjoyed the summer. Likewise, as the "new normal" evolves, there has been continued recovery and growth for the U.S. economy in the 3rd Quarter. With the Delta variant, Covid-19 continues to impact economies and markets around the globe.

While equities have continued to steadily rise during the year, it is not without near-term challenges and periods of volatility. While the longer-term outlook remains positive, uncertainty remains including movement towards tighter monetary and fiscal policy, inflation, and global supply chain issues. What the remainder of the year holds remains to be seen.

The Economy



The US economy posted slowing but above-average growth in the quarter, supported by the dual tailwinds of accommodative monetary policy and historic fiscal stimulus. Lockdowns that had defined the early stages of the pandemic have for all intents and purposes ended, but there remain supply chain disruptions causing bottlenecks for many goods. Within this context, the Bureau of Economic Analysis released the third estimate of the second quarter 2021 real GDP, a seasonally adjusted annualized increase of 6.7%, slightly higher than the prior estimate, and an improvement over the 6.3% increase in the prior quarter. The employment situation also improved, but the most recent gains were less than expected. The August report showed that employers added 235,000 jobs in the month, and that the unemployment rate fell to 5.2%. The Federal Open Market Committee (FOMC) maintained its supportive monetary policy response to the pandemic, leaving the funds rate target range of 0% to 0.25% unchanged. However, the central bank provided advance notice that it would begin tapering its $120 billion monthly asset purchases, perhaps starting in December. The FOMC's "dot plot," a forecast of future rate changes, turned somewhat more hawkish, indicating the committee now expects the first interest rate hike to occur sometime in 2022.

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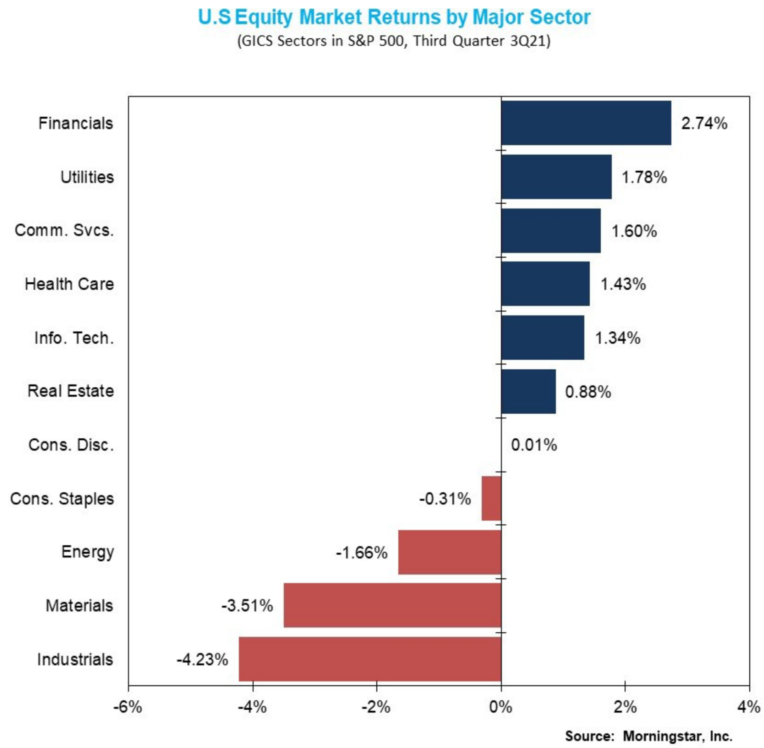
Highlights

GROSS DOMESTIC PRODUCT (GDP)



In the latest data available, the Bureau of Economic Analysis released the third estimate of the second quarter 2021 real GDP, a seasonally adjusted annualized increase of 6.7%, a notch better than the prior estimate, and an improvement over the 6.3% increase in the first quarter of 2021, as the economy continued to make up ground lost during the pandemic. As has been the case for most of the rebound, strength was especially strong in consumer segments, as consumers continue to benefit from the unprecedented fiscal stimulus coursing through the economy. Business investment was another segment that contributed positively. Inventories and trade were offsets. Corporate profits rose by 9.2% (not annualized) during the quarter after having risen 5.1% in the prior period. Inflation spiked, rising the fastest since the early 1980s.

HOUSING

The housing segment continued to improve in fits and starts, as low supply and high home prices have made it difficult for potential homebuyers to purchase a home. Existing-home sales for August (the latest monthly data available) rose to an annualized rate of 5.9 million units, about 2% lower than the results from July, and down about 2% from year-ago levels. The inventory of existing homes was approximately 2.6 months of supply, lower than levels of the prior year. Existing-home prices in August increased 15.6% from August 2020. Analysts believe the housing market remains in solid condition, even if mortgage rates were to rise from current levels.

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EMPLOYMENT

The August employment report (the latest data available) showed a modest slowing with respect to the job's situation, as new variants of the virus have dampened travel and leisure activities. In addition, the effects of the vast amounts of fiscal stimulus in the system have begun to dissipate. Employers added 235,000 jobs during the month, far lower than the consensus expectations of a gain of 750,000. The mining and manufacturing industries experienced the strongest gains, while losses in leisure/hospitality were the main reason for the overall slowdown. Economists indicate that employment will continue to trend higher such that the economy reaches full employment sometime in 2022. The unemployment rate in August declined to 5.2%, and the labor force participation rate remained level at 61.7%.

FED POLICY

The FOMC made no change to the federal funds rate target range of 0% to 0.25% but did provide the long-awaited advance notice of its plans to begin tapering the $120 billion of monthly asset purchases. Analysts believe the tapering could begin in December. The committee modified the language regarding inflation in the communication following its most recent meeting, stating that prices remain "elevated." The FOMC's "dot plot" – the forecast of the fed funds rate – now signals that the federal funds rate may be raised in 2022, whereas in prior statements the expectation was 2023. The median projection of committee members is that the fed funds rate will be 1% in 2023 and 1.8%in 2024.

Interest Rates

Fixed income securities' prices on balance were lower (and yields higher) in the quarter as the economic rebound continued and inflation began to pick up steam. Inflation was a concern to bond investors, and even though growth slowed from prior quarters, yields were firm. The upcoming negotiations in Congress over raising the debt ceiling and passing an infrastructure bill could create heightened volatility for bonds in the coming weeks. As mentioned above, the FOMC made no change to its policy stance, but indicated that it sees the fed funds rate rising in 2022, earlier than had previously been expected. The FOMC is expected to maintain the target federal funds rate range at between 0% to 0.25% for the next several quarters.

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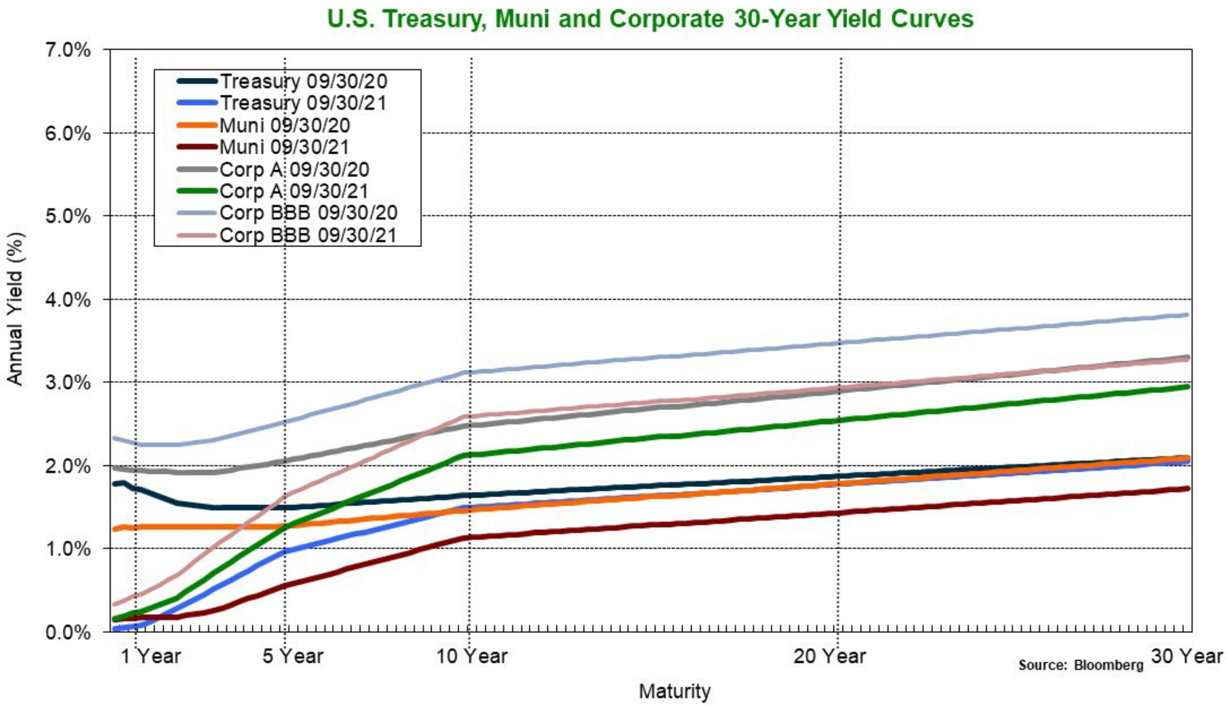

The shape of the Treasury yield curve remained similar to that at the end of the second quarter. Yields on the shortest-term maturities rose a mere 0.10%, while yields in the intermediate- and long-term segments of the curve were essentially flat. By the end of the quarter, the yield on the benchmark 10-year US Treasury note was higher, ending at 1.49%, compared to 1.47% on June 30.

The yield on the 10-year Treasury trended lower at the outset of the quarter, from a high of 1.47% near the beginning of July to a low of 1.17% in early August as economic growth cooled. However, yields marched higher from that point as investors began to worry that the elevated inflation was not going to be merely transitory, as the FOMC had previously indicated.

Total returns on fixed income securities were mixed during the quarter. The Bloomberg Treasury 5-7 Yr. Index declined by -0.1% for the quarter. The Bloomberg US Credit Corporate 5-10 Yr. Index edged up by +0.04% during the three months. High yield securities, which often follow the performance of equities, edged higher, posting a return of +0.9%. Municipals posted moderately lower results in the quarter, as the Bloomberg Municipal Bond Index inched down by -0.3% during the quarter. Prices of non-US fixed income securities were lower in the quarter, as the Bloomberg Global Aggregate ex-US Index dropped -1.6%. Emerging markets bonds gave up recent gains, with the JPM EMBI Global Index lower by -0.5%.

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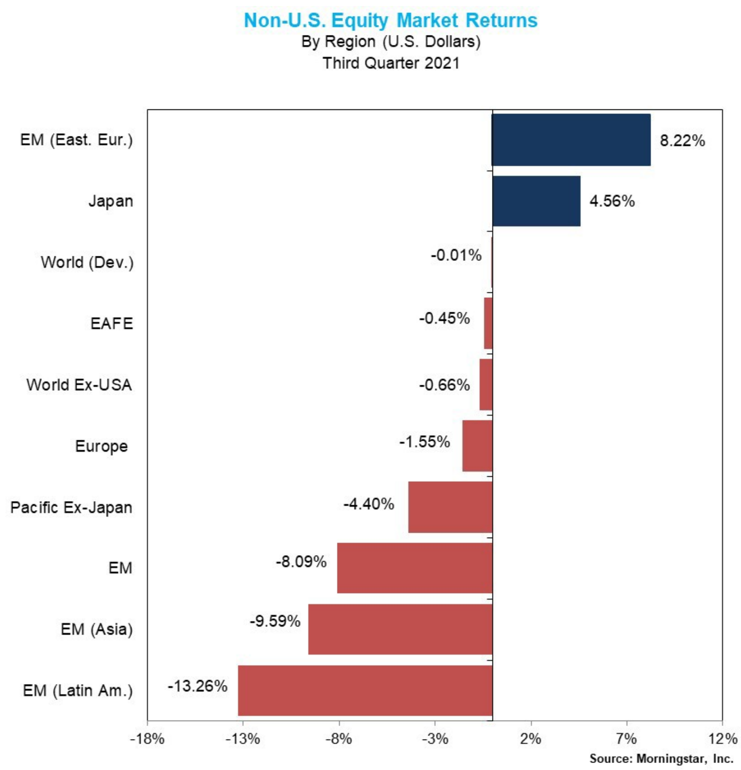
Equity Markets

Stocks finally encountered some headwinds after generating consistent positive monthly returns since March. Broad-based indices posted their sixth consecutive quarter of gains, but heightened inflation and rising yields created higher volatility later in the quarter. The S&P 500 rose steadily from the beginning of the quarter through early September, at which time it had gained 5.9%. However, seasonal influences, looming debt ceiling negotiations, and concern about inflation caused investors to take a portion of their profits. When the quarter ended, the S&P 500 Index had advanced +0.6% and has gained +30% over the past 12 months.

Performance of seven of the 11 primary economic sectors was positive during the quarter. Financials, Utilities, and Communications Services were the strongest performers on a relative basis, generating returns of +2.7%, +1.8%, and +1.6%, respectively. The Industrials, Materials, and Energy sectors were the poorest relative performers, posting returns of -4.2%, -3.5%, and -1.7%, respectively.



The Russell 1000 Index of large capitalization stocks generated a +0.2% total return. Within the large cap segment, growth stocks outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, underperformed large caps, and finished the quarter with a total return of -4.4%. Small cap value outperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a modest loss of -0.2%. The Dow Jones Industrial Average of 30 large industrial companies declined by -1.5%.

Real Estate Investment Trusts (REITs) were higher during the quarter, with the DJ US Select REIT Index up +1.3%. Commodities also posted solid gains, with the Bloomberg Commodity Index adding +6.6% for the quarter.

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International stocks also generated mixed results during the quarter, and generally performed in line with US equities. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, slumped by -3.0%. The MSCI EAFE Index of developed markets stocks eased by -0.5%. Regional performance was generally negative for the quarter. Eastern Europe was the strongest performer on a relative basis, with a return of +8.2%. China was the poorest relative performer, declining -18.2%. Emerging markets performance was very poor, as the MSCI Emerging Markets Index was lower by -8.1%.

Looking Forward

The global economy is moving forward in fits and starts, with varying results in different regions of the world. Covid-19 continues to be somewhat of a headwind for the economy, with the Delta variant raising concerns over a rise in new cases. At the same time, questions about the long-term efficacy of vaccinations, and debates about vaccine and mask mandates are causing increased societal polarization. In the US, growth has been resilient, but expectations have been moderated in recent weeks due to the impact of the Delta variant. The euro zone is faring better than expected from the perspective of economic prospects, with analysts forecasting 4% growth in 2022. In Asia, lower vaccination rates have caused governments to re-impose restrictions, putting a damper on economies. Economists are increasingly focusing on consumer sentiment, because as the effects of fiscal stimulus fade economies will need to rely on positive expectations about the future to sustain growth. Supply chain disruptions also remain a hurdle. Since Asia is a critical player in the supply chain, economists argue that improvement in supplies will be slow to come until the region sees a drop in Covid cases. In terms of central banks throughout the world, the expectation is that many will begin tapering soon, and that they will begin to raise rates in 2022, assuming growth is positive, and inflation remains elevated. Despite stumbling into the end of the quarter, stock prices are not far off all-time highs, and still have valuations that are also near record levels. Historically, when valuations have been close to where they currently stand forward returns have been muted.

Please let us know if you have any questions regarding your portfolio. Likewise, if you have any upcoming cash needs or planned, financial life events that we are not aware of, please let us know.

As we continue serving you remotely, we are happy to talk or host a Zoom meeting with you at any time. As always, thank you for your relationship and continued trust and confidence in Ramsey & Associates.

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Important Disclosure Information

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