4th Quarter 2021 Preview Prepared by William Ramsdell - September 30th, 2021

September negated the modest gains July and August afforded. An exhausting list of factors contributed to the reversal in what has been an extended upward trend that initiated with a similar but more rapid decline during October 2020. Drama over continued government funding along with the delay of the bi-partisan infrastructure bill (held captive by the desire of a few to bundle the much larger $3.5 trillion tax and spending plan) have played a role which – to borrow a phrase from the Fed, is likely transitory. Present structural inputs originate with major supply chain issues, employment deterrents and inflation shock - all weighing on shares. Add the failure of Evergrande Group - the Chinese property developer – to make good on debt payments to several of its lenders. An ongoing campaign of increasing regulations and constraints on internet technology companies by the Chinese Government, along with a recent ban on crypto mining and transactions in China – are also weighing across global equity prices. Interestingly enough, the Peoples Bank of China may be developing its own central bank digital currency. Stock prices are generally at their lowest prices since May, with a lot of turmoil in equity prices beneath the overall index performance, which has been driven by a handful of large cap technology companies.

Looking forward there are several positive developments. The Peoples Bank of China is injecting vast sums into its financial system. It is highly probable that China will support its economy and keep a tremendous level of liquidity in the system, as is the case with the Federal Reserve Bank and the European Central Bank. The perpetual ramping of balance sheets by central banks will result in structural inflation, as opposed to the favored "transitory" inflation - the party line for the Fed during 2021. With the US economy gradually recovering in fits and starts from the pandemic, the central bank could/ should start scaling back asset purchases by November, and complete the process by the middle of next year. The tapering process will follow. Rate hikes are not projected to occur anytime soon.

What the Fed does not do, the markets likely will. Rates on the 10 year bond have escalated rapidly since September 22nd, market driven and independent of the Fed to slow the economy down a bit, while potentially keeping inflation in check. Until supply chain issues and labor shortages are remedied, we will continue with higher wage inflation/ consumer goods and services inflation. Continuing initial jobless claims have increased over the last several weeks – a surprising development. Labor shortages are creating havoc for companies unable to find individuals willing to work. Case in point: FedEx is struggling to operate at capacity, offering significantly higher wages to attract workers. The situation should wane as extended unemployment benefits dry up, and fears of coronavirus variants subside. The longer term trends in initial jobless claims should soon fall to pre-pandemic levels. The overall unemployment rate may have an extended journey before witnessing the record low levels - pre-pandemic.

The next few months may be fraught with worry over coronavirus variants and associated economic fallout, coupled with the ever present dysfunction in Washington. The proposed tax law changes to capital gains rates and other disincentives to investment are being scaled back, and are no cause for panic. Keeping a long term perspective on equity investments is critical. There will always be the inevitable correction or general periods of distress for equities. If these periods were predictable, equity markets would cease to exist. Reacting to negative events trigger selling at depressed prices. All publicly available information in the market is immediately factored into securities prices, with a sub-component looking 6 to 9 months out. Broadening ones time horizon to months/ years will assist in navigating through periods of distress.

Best for the final months of 2021. Take good care. Thank you.

Notes: