The McCrea - Bollinger Group

First Kentucky Securities Corporation

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A Crack in the China Bull

Some of us old timers might remember the iconic commercial by one of our large competitors that featured a bull navigating its way through a china shop. Today we may be witnessing a crack in the China bull that may have worldwide economic implications.

Over the past 40 plus years the world has witnessed the single largest poverty-reduction program in human history. In the 1970's the U.S. opened the door to trading with China's Deng Xiaoping. Deng Xiaoping unleashed economic reforms that allowed the Chinese economic bull to stampede ahead to higher growth and create huge opportunities for both China and it's trading partners. In the 40 years since trillions of dollars in wealth have been created, lifting hundreds of millions of people out of poverty.

For decades Communist Party leaders gave market forces wide room to flourish. Over recent years even mainland communist China had begun to see the light. Chinese companies were allowed to be listed on exchanges at home and abroad. Investors across the world poured money into China helping fund the Chinese growth. China's economic growth has been so strong that it has not only outpaced U.S. growth but in recent years it has brought predictions of the Chinese economy overtaking the U.S.

The first crack in the China bull started in the 1980's and was barely noticed. The early economic impact of China's one child policy had its positives - more people able to work and less mouths to feed. The long-term impact is just beginning to be felt – the ever-shrinking China. The working-age population peaked in 2014 and the total population now is beginning to shrink. China is aging fast, leaving less workers supporting more retirees for decades to come.

The next major crack surfaced last year. For decades an independent Hong Kong had become the beacon of capitalism for the world. All of that changed last year, with barely a peep from the rest of the world, China took over Hong Kong. In a few short weeks major Hong Kong corporations found themselves with the Chinese government as indirect partners.

Finally, Chinese leaders began to have concerns about capitalism which seemed to be eroding the ideological basis for continued Communist rule. Chinese leader, Xi Jinping, who is effectively the country's president for life. has taken steps to tighten the grip on the market forces. Executives, companies, and entire industries formerly favored by Xi and the ruling Communist Party have been stripped of power and value without warning, Chinese corporations, and their investors are hostage to the whims of Xi Jinping.

What this means for you

The world is more interconnected than ever. The Chinese markets are down more than 30% from their high for the year. We have concerns of a "contagion" spreading from China to the rest of the world's markets. We continue our long-held stance of being substantially underweighted in international stocks. The U.S. stock market remains over valued by most historic measures. We recently increased cash holdings and are in a more defensive positions than normal. An injured bull can be a dangerous thing.

These statements are the opinion of the author and not those of First Kentucky Securities Corp. The content presented is for informational purposes only.

The investment markets are constantly changing. As long-term investors, we look at these changes as opportunities for your overall investment strategy. What is your timetable? How best to balance risk and rewards based on your objectives? What are the important reasons for you to build and protect wealth? We monitor each investor's portfolio against changing market conditions to maximize performance. It is our simple approach to produce wealth for you.

Your Team: Sheree Bollinger, Bruce McCrea,
Chris McCrea, Caroline Flatt, & Bryan McCrea

We are pleased to announce that TC Falkner is joining our group as the new Junior Partner!

TC has been supporting our team since he was hired originally as an intern in 2018. He graduated from the University of Louisville in 2019 with degrees in both Finance and Economics. Since then he has been with us as a full-time associate. TC has been an integral part of our portfolio research team and has passed all the advisor required exams. He is currently working towards completing the CERTIFIED FINANCIAL PLANNER™ designation this fall.

TC's unique perspective will help us with everything from portfolio management to financial plan development, as well as allowing us to continue to provide a high service level for our clients. We are excited to introduce you to TC as our new Junior Partner.

You can reach TC directly at **(502) 814-9638** or **tcfalkner@firstky.com**

Social Security increase for 2022 might be the largest in decades due to recent inflation

Excerpt by Lorie Konish, CNBC Business

The Social Security cost-of-living adjustment for 2022 could be 6.1% due to inflation, according to a new estimate. The Senior Citizens League, which calculated the figure, said that would be the biggest increase since 1983. The new estimate comes as the Consumer Price Index increased 5.4% from a year earlier, the largest gain since August 2008. Higher food and energy prices were among the culprits that helped push the inflation measure higher which in turn helped push the estimated 2022 Social Security COLA higher.

The COLA could be subject to change, as there are still a couple more months of data to report before the Social Security Administration determines the official number for next year. However, one thing unlikely to happen during that time is any action from the Federal Reserve. Central bank Chairman Jerome Powell said that the Fed is still "a ways off" from changing its monetary policy.

Source: CNBC Business

To learn more about the Social Security increase, go to ***www.cnbc.com/2021/07/14/social-security-cost-of-living-increase-for-2022-may-be-largest-in-decades.html***

Market Commentary

US Equity Increased demand for equities continues to push the S&P 500 higher. Even with the late September pullback, the S&P finished with a **0.6%** return last quarter and a **15.9%** year-to-date return through the third quarter. On average, second quarter earnings increased and many companies saw higher sales and margins boost their bottom lines. The market continues to be driven by extra cash that consumers and businesses are spending and investing. This has resulted in market valuations not seen since the tech bubble of the early 2000s. The P/E multiple for the S&P is nearly double the historical average. September's late pull back in equities may provide a glimmer into the future direction of the markets. If tax hikes, Fed tapering, and/or new COVID strands materialize, it is very likely the market could experience a correction heading into the final quarter of the year. For now, we are continuing to focus on inflation friendly investments, and rotate more towards value-oriented companies. We continue overweighing our strategic allocations to financials, materials, and energy. Looking forward, we expect rising inflation and rising interest rates to restrict the overall growth in equities.

Interest Rates Interest rate risk continues to build as the bond yields remain at all-time lows. While the Fed is keeping the pedal to the medal with short-term interest rates near zero, they have begun talk of tapering their bond purchases in the first public acknowledgement that signs of inflation are becoming a concern. We believe the combination of rising inflation and the new tapering plans will increase the likelihood of a rise in long-term rates against the Fed's will. Both the July and August CPI reports listed the inflation rate above 5% year-over-year. The 10-year treasury bond ended the quarter at a yield of **1.52%**, leading to a guaranteed loss of more than 3% after inflation. Eventually the markets (and the Fed) will respond to negative real returns in the bond market. We believe this will cause the 10-Year Treasury yield to climb above 2.0% in the not-too-distant future.

Source: Morningstar