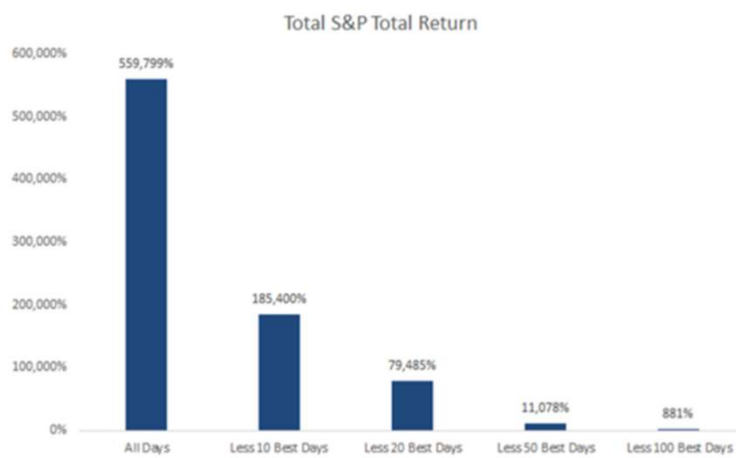
In September, the U.S. stock market posted its worst monthly performance since COVID, a microcosm of what drove a flat performing Q3 2021. The market witnessed increased volatility towards the end of the quarter, as it had to navigate a slew of negative headlines – potential tax increases, increased chances of a government default, the beginning of a more hawkish Fed, and continued polarizing views on if inflation will ultimately be transitory or not. It's been a tale of two markets this year – higher long-term interest rates and the outperformance of cyclicals in the first quarter and again in September, interrupted by lower rates and the outperformance of growth stocks in-between.

The stock market is now entering the fourth quarter – the part of a game that tends to be the make it or break it for most teams. You could fill two internets for what I don't know about fútbol, such as the use of halves and extra-time (and ties), but there is one thing I'm sure on, given the amount of widespread pessimism around the market, investors need a pep talk. And there is no better person to do that than the khakied, mustachioed, and heavily accented coach, Ted Lasso. Like Ned Flanders, he works with an almost religious determination, and if Ted Lasso was your advisor, he'd say the following things:

1. ***Market Volatility: "Taking on a challenge is a lot like riding a horse, isn't it? If you're comfortable while you're doing it, you're probably doing it wrong."***

Behaviorally, volatility can leave investors using *more curse words than Roy Kent*. Though, market fluctuations are a normal course of action over an entire market cycle. In fact, typically on average, the market tends to witness three (3) 5% pullbacks and one (1) 10% correction during a year. We witnessed our first 5% pullback in late September.



Source: Aptus, Bloomberg, Data as of 1/1/1928 – 9/30/2021

Given the amount of pessimism in the market right now, many investors feel like it's difficult to remain fully invested – but it's your time in the market that is the most important part of investing, not timing the market. If investors missed the 10 best market return days (dating back to 1926), their return would be 1/3 of the value if they simply stayed fully invested during that period. Attempting to time the market, may get your portfolio *relegated* to a lower division. To obtain alpha, one needs to minimize risk, and the best way to minimize return risk is to always be on the *pitch* – not on the bench.

2. ***Inflation Concerns: "He's Here, He's There, He's Every 'Fricken Where – ~~Roy Kent~~ Inflation"***

The word transitory is one of the most highly debated topics amongst economists right now – polarizing to say the least. Anecdotally, it feels as if *inflation is here, it's there, it's …every 'fricken where*. However, the key word here is anecdotal - one of the biggest mistakes that investor can make is to base their thesis on anecdotal feelings. Not to mention the fact that the market continues to dissect a plethora of data that either side, those for or against transitory inflation, could deem victory at any moment. But, right now, it appears to be a tie. And this is much to the dismay of Ted because *if God wanted games to end in a tie, he wouldn't have invented numbers.*

One of the best parts about our asset allocation is that we do not need to have a position on whether inflation will ultimately be transitory or sticky by nature – we're fine with a tie right now. Why?

1. *We Own More Equities and Less Bonds* - In a potentially inflationary environment, historically, traditional fixed income with extended duration has been the worst asset class to own. During inflationary periods, assets relying on returns in the distant future will be hit the most by rising rates (fears of inflation).
2. *We Own High-Quality Businesses* – Companies that have inelastic pricing power and a competitive moat that are able to quickly pass on increased costs to their customers, insulating margins. We believe that we own the highest-quality companies that exhibit these characteristics and should outperform if we see a period of prolonged inflation.
3. *We Are Overweight Small Caps Relative to our Benchmark* – U.S. Small Caps are the only major asset class to outperform inflation in every single decade dating back to the 1930s.

Of course, we are not rooting for inflation, but our portfolios are more than prepared to successfully navigate an environment that has persistent and sticky price increases.

3. Protect Against Drawdowns: "There's two buttons I never like to hit: that's panic and snooze."

At its simplest form, this is the most beautiful thing about our portfolios – *our investors should never have to hit the panic button because the Diamond Dogs (Aptus) never hit the snooze button*. Unlike our peers, we view volatility as an asset class, which allows us to own a small sliver of your portfolio to capture asymmetry to the upside when the market sees a drawdown, i.e., we believe that we perform very well when the markets see a correction. In its essence, by owning volatility, we minimize overall volatility in each portfolio. By owning volatility, this allows you to worry less about the current macroeconomic environment (and its outcome) and focus more on enjoying your life.

Knowing that your hard-earned assets are safe, when the rest of the market is panicking, allows you to hit that snooze button as many times as you'd like because, for me, *portfolios are a lot like my mom's bathing suits; I only want to see 'em in one piece.*

Conclusion:

Our portfolios continue to perform as we'd expect – this is no surprise, as we've built our allocations through the windshield, not the rear view. Much like the first three quarters, our goal for the fourth quarter is to *go out like Willie Nelson – on a high!* So, keep to the playbook, remain calm, and play your game…or simply hit the snooze button – we got it from here.

MARKET RECAP – Q3 2021

- September marked the worst month for the S&P 500 in the post-COVD bull market (March 2020), -4.7% on a total return basis. Q3 finished +0.6% but represented the weakest quarter since COVID. All major asset classes fell in September (except cash), led by stocks, while investment-grade corporate bonds fared best (-1.1%). Gold fell 3.9% and long-term Treasuries fell 2.9%. The equal-weighted S&P 500 beat the cap-weighted index (-3.8%), and international stocks led US stocks (MSCI ACWI ex-US -3.1%).

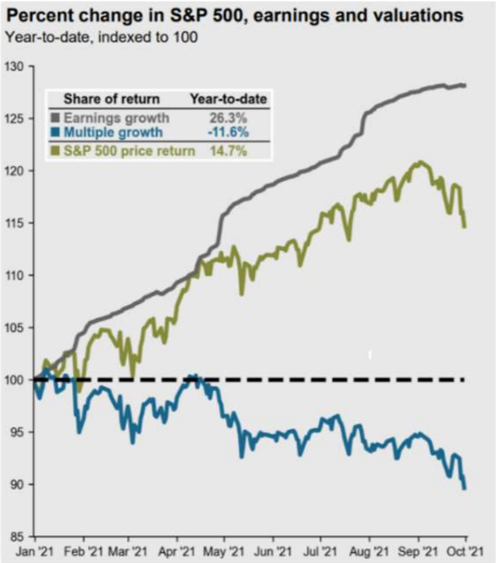
	Q3 2021	YTD	1-Year	3-Year	5-Year	10-Year
S&P 500	0.58%	15.91%	25.05%	16.20%	16.90%	16.63%
NASDAQ	-0.22%	12.67%	23.68%	22.44%	23.27%	20.93%
Dow Jones Industrial	-1.46%	12.12%	21.45%	11.72%	15.68%	14.72%
Russell 2000	-4.36%	12.40%	42.72%	9.62%	13.45%	14.63%
MSCI EAFE	-0.33%	8.84%	23.16%	8.56%	8.81%	8.10%
MSCI Emerging Markets	-8.03%	-1.16%	16.63%	8.74%	9.23%	6.09%
Barclays Agg. Bond Index	0.05%	-1.55%	-0.95%	5.13%	2.94%	3.01%
Investment Grade Bonds	-0.19%	-1.78%	1.33%	8.32%	4.91%	5.43%
High Yield Bonds	0.65%	3.71%	8.43%	6.23%	5.83%	6.25%

Source: Bloomberg. Data as of 9/30/2021. Returns over 1YR are Annualized.

- The S&P 500 is +16% YTD. For the first time in three quarters, the S&P 500 did not close at all-time highs. In fact, the last five days witnessed its largest pullback of the year – peak-to-trough of ~5%. The quarter was littered with headlines, potentially several headwinds. China, largely considered an economic partner before the pandemic, became "uninvestable" for some in the third quarter. Convinced that inflation was transitory, the Fed was forced to raise its projections of its favorite indicator of prices, the core PCE Price Index, from 3.0% in June to 3.6% last week. And the debates changed not regarding when the Fed might begin to taper but when the Fed will begin to tighten. No small change, that. Although those of a certain age might find it somewhat difficult to get too exercised about a 10-year Treasury hovering around 1.5%, the more important point may be that the yield hovered at less than 1.15% in August.

Source: Strategas, Data as of 9/20/2021

- *Yield + Growth +/- Multiple Expansion (Contraction) = Total Return Framework* – Historically speaking, around 70% of the market's return is derived from "growth", while the remainder 30% is from "yield". That has not been the case this year, which is normal in the second year of a recovery. So far in 2021, majority of the return has been derived from earnings growth, but multiple valuation expansion/contraction, which tends to be immaterial in the long-run, has substantially detracted from performance. This is typically normal in the second year of a recovery, which tends to see above-average market multiples. This is simply a reversion to the mean, as the market tends to be a forward-looking mechanism, pricing in substantial growth before it tends to occur, i.e., the market substantially priced in a successful economic reopening, in 2020.



Source: JPMorgan Asset Management "Guide to the Market", Data as of 9/30/2021

- *What Does Q4 Have in Store?* - During the first nine months of the year, the S&P 500 has returned 15.9%. Since 1950, there have been 22 other years where the S&P's return in the first nine months has been greater than this year. In all but two of those years, the S&P was positive during the fourth quarter with an average return of 4.5%. The bottom line here is that in years where performance starts strong, it historically ends strong.

Annual S&P 500 Performance
First 9 Months vs. Last 3 Months

Year	First 9 Months	Last 3 Months	Year	First 9 Months	Last 3 Months
1987	35.9%	-22.5%	1980	21.0%	9.5%
1954	34.8%	13.0%	2019	20.6%	9.1%
1995	29.8%	6.0%	1991	20.3%	8.4%
1997	29.6%	2.9%	1976	20.1%	3.2%
1989	29.0%	2.1%	2013	19.8%	10.5%
1958	28.7%	11.3%	2009	19.3%	6.0%
1975	26.3%	8.6%	1951	18.9%	4.2%
1955	24.7%	5.4%	1979	18.4%	0.1%
1967	23.2%	0.6%	1961	17.4%	8.1%
1950	23.0%	7.8%	2012	16.4%	-0.4%
1983	22.1%	0.4%	1963	16.3%	5.6%
			2021	15.9%	?

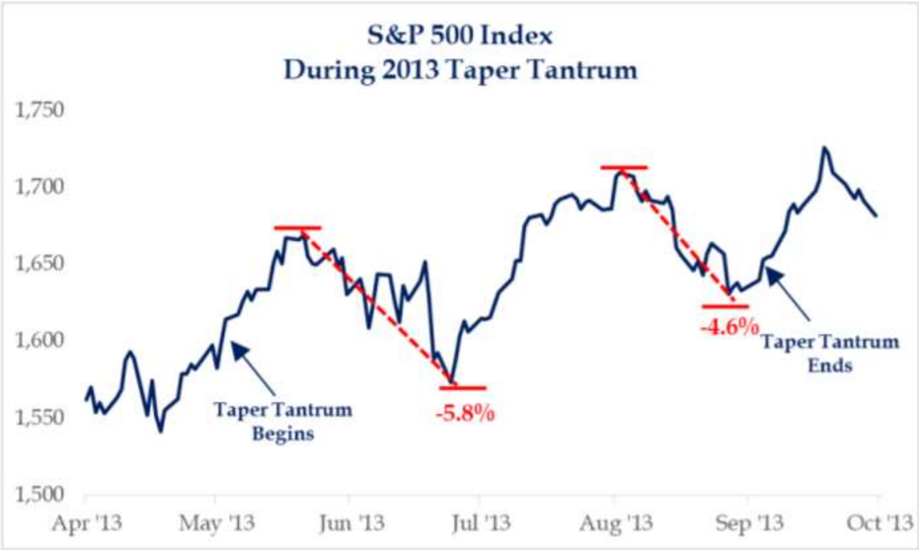
Source: Strategas, Data as of 9/30/2021

- *The Index is the Only Thing Left to Correct* – Large cap strength has masked pervasive weakness throughout the vast universe of "market of stocks". 91% of the S&P 500 and 98% of the Russell 2000 have experienced a 10% drawdown from their YTD highs. When we put the microscope on the NASDAQ Composite, it's even worse – 55% of its constituents have already seen a 20% correction and ~25% have seen a pullback of greater than 50%. The data clearly shows that there has been a correction beneath the surface or the last eight months. Can even make the argument that we've been in a stealth bear market for most of 2021.

Index % Decline From High	
Nasdaq 100	-2.2%
S&P 500	-2.3%
Russell 2000	-5.2%
Average Stock % Decline From High	
S&P 500	-11.3%
Nasdaq 100	-12.4%
Russell 2000	-27.0%

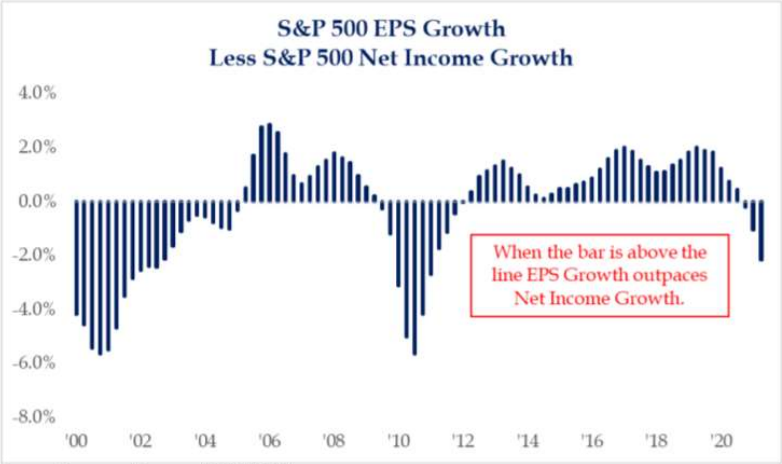
Source: Strategas, Data as of 9/30/2021

- *Equities Were Choppy During the 2013 Taper Tantrum* - In 2013, from the May 2nd trough to the September 5th peak in yields, the S&P overall gained 3.6%, but the path higher was not linear. In fact, during that four months stretch the S&P saw two roughly -5% pullbacks.



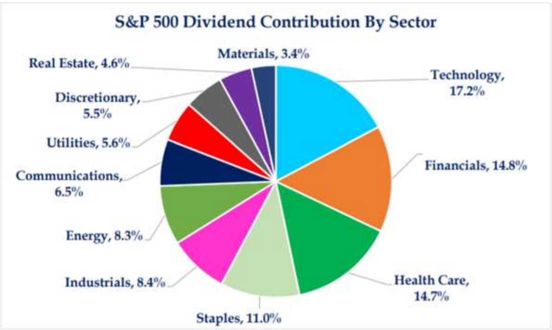
Source: Strategas, Data as of 9/30/2021

- *Buybacks On Pace To Surpass 2019 Levels But Below 2018 Highs* - Second quarter buybacks were reported yesterday, coming in just below $200 billion with the first half totaling $377 billion. Annualizing that figure would place full year 2021 buybacks at more than $750 billion, which would surpass the 2019 levels of $729 billion but shy of the $806 billion in 2018. Despite the return of buybacks, they are having a lesser impact on EPS growth as the share count reductions are more muted due to higher stock prices. Combine this with overall equity issuance, it's harder to boost EPS for now. However, with no expectations for buybacks to slow for the remainder of the year, a pullback in equity prices could be backstopped by buyback programs.



Source: Strategas, Data as of 9/30/2021

- Despite the dividend yield remaining historically low for the S&P 500, the aggregate amount of dividends paid is on pace for a record year. During the first 3 quarters, companies have paid $377 billion dollars, which is $108 billion less than the 2019 record. Historically speaking, the fourth quarter has been the most robust quarter for dividend payments as well. When measuring the aggregate amount of dividends paid, Technology, Financials, and Health Care are the top sectors. The important takeaway here is that while the traditionally defensive, yield oriented sectors of Utilities and Staples persistently underperform, there are opportunities throughout the index for dividend income.

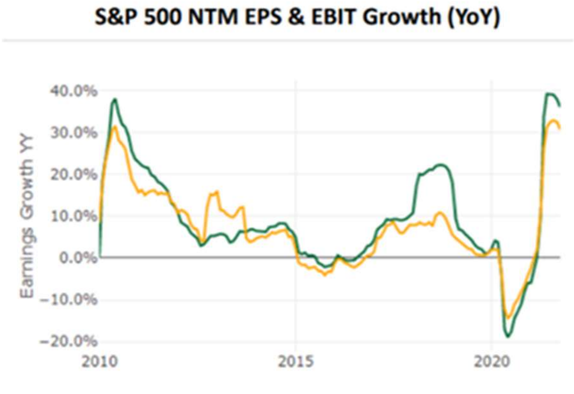


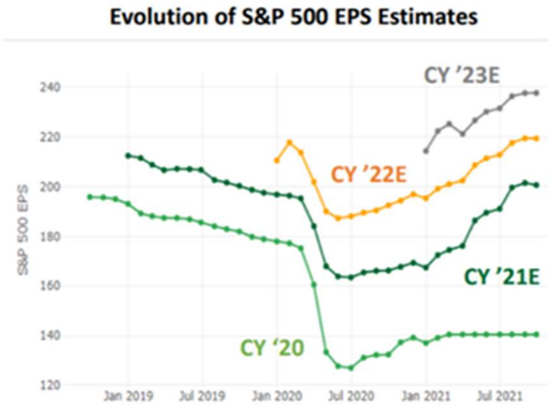
Source: Strategas, Data as of 9/30/2021

- *Earnings* - After reaching nearly $165 on a trailing twelve-month basis for S&P 500 EPS at the end of 2019, the pandemic resulted in a near 15% drawdown in earnings and in total is expected to take just six quarters to recover. The full-year 2021 estimates from Wall Street analysts continues to move higher, now standing at $202. But, the strong 2021 earnings are beginning to eat into 2022's growth rate, despite growth expectations falling from 16.7% at the beginning of the year to 9.3% today, however, they are still above what estimates were in the midst of the pandemic. The year-over-year percentage change in costs has moved higher again to 9.7% as of the end of September. This marks the highest reading since early 2012. As of now, there are no signs of cost pressures being alleviated as supply chains remain a mess, commodity prices are higher compared to before the pandemic, and labor shortages are forcing some companies to increase pay when hiring.

Source: Strategas, Data as of 9/30/2021

- *Earnings* - Despite concerns about the Delta variant and supply chain disruptions, second quarter earnings season proved to be a strong fillip for the overall market in July and August. Upward earnings revisions among companies in the S&P 500 have slowed in recent weeks and investors will be watching closely to see whether incipient increases in input costs are likely to have any long-term impact on already record-levels of profit margins in the upcoming earnings season. The good news is that the demand side of the economy still appears to be quite strong. The bad news is that too much money may be chasing too few goods given the current economic backdrop.





Source: Cornerstone Macro, Data as of 9/30/2021

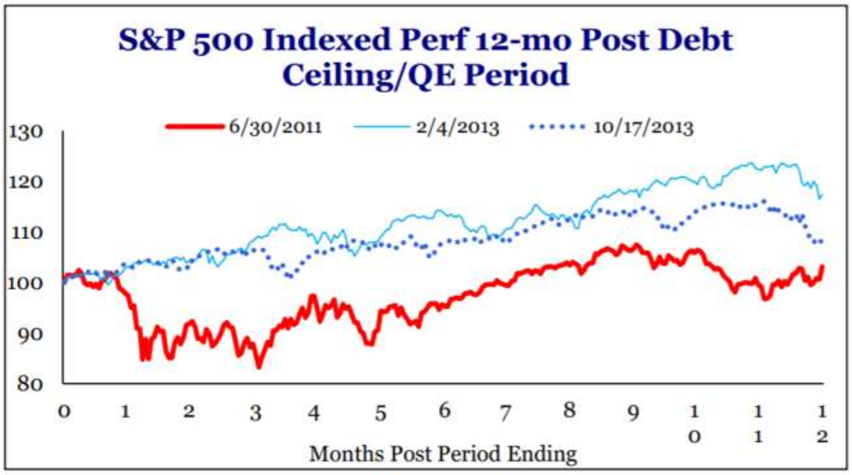
- *Interest Rates* - There have only been two instances where stocks fell during a rising rate environment. In fact, the annualized returns in each of these periods where rates rose 1% or more was 10.5%, which is right around the average long-term return for the U.S. stock market. It is worth noting some of these rising rate environments did precede some nasty stock market falls. Rates raced higher in 1987 right before the biggest one-day crash in history in October of that year. And rates rose in the final couple of years in the late-1990s dot-com bubble as the Fed was trying to snuff out a speculative mania. Most recently, September's rate move, though very short-term, proved to be a volatility one.

The Stock Market Does Fine When Rates Rise
S&P 500 performance when the 10 year treasury yield rises 1% or more since 1950

Start Date	End Date	Starting Yield	Ending Yield	S&P 500
JAN '50	JUN '53	2.3%	3.1%	80.9%
JUL '54	OCT '57	2.3%	4.0%	60.7%
APR '58	JAN '60	2.9%	4.7%	40.4%
MAY '61	SEP '66	3.7%	5.2%	70.8%
MAR '67	MAY '70	4.5%	7.9%	-1.9%
NOV '71	SEP '75	5.8%	8.4%	2.8%
DEC '76	MAR '80	6.9%	12.8%	18.4%
JUN '80	SEP '81	9.8%	15.3%	11.4%
MAY '83	JUN '84	10.4%	13.6%	-1.5%
JAN '87	OCT '87	7.1%	9.5%	6.7%
OCT '93	NOV '94	5.3%	8.0%	2.2%
OCT '98	JAN '00	4.5%	6.7%	39.5%
JUN '03	MAY '06	3.3%	5.1%	39.1%
JUL '12	OCT '18	1.5%	3.2%	127.2%

Source: DFA, Data as of 9/30/2021

- *The Debt Ceiling and the* Fed - The debt ceiling is being pushed out to December 3rd along with government funding. This is important for Fed timing of the taper. In 2011 the Fed ended QE immediately before the fight over the debt ceiling that eventually led to a US credit downgrade. In 2013 the Fed took the opposite view and waited until Congress resolved the government shutdown and debt ceiling in October before tapering. We were on a similar path this time around but the short-term resolution through December complicates the Fed decision, especially with GDP and job growth slowing in Q3.



Source: Strategas, Data as of 9/30/2021

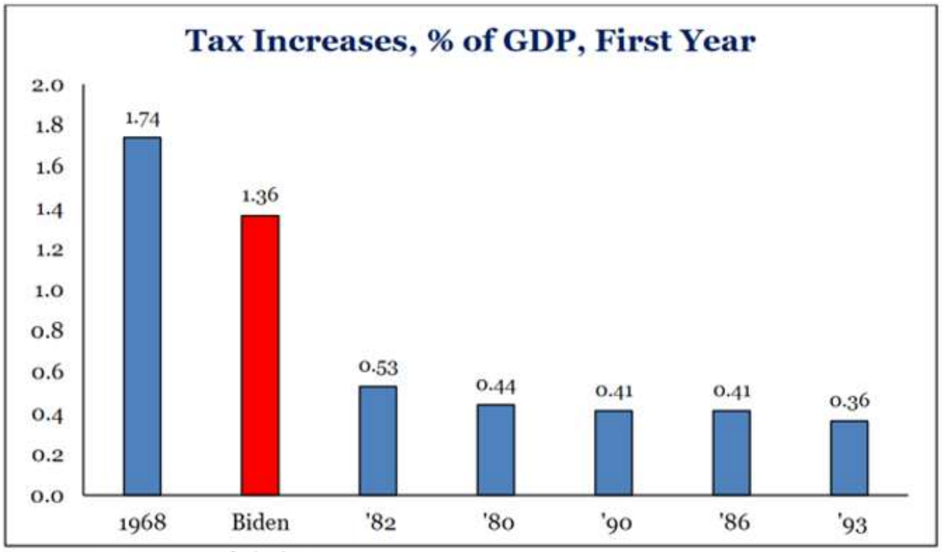
- *Stimulus Plans* - The remaining funds will likely take years to spend, as Congress set aside hundreds of billions of dollars for state governments, schools, and other non-emergency programs where spending will occur more gradually. As a result, the slowdown in coronavirus-related spending will likely be sharp this year even if Congress renews certain provisions like jobless aid and the expanded child tax credit. Not to mention, that we are the cusp of another (at least) $1.5T stimulus / infrastructure plan.

Covid-Era Fiscal Stimlus

When	What	Amount	% GDP
6-Mar-20	Coronavirus & Vaccine R&D	$8 Billion	0.0%
18-Mar-20	Paid Sick Leave & Un. Claims	$192 Billion	0.9%
27-Mar-20	CARES ACT	$1.7 Trillion	7.9%
21-Apr-20	Payroll Protection Plan	$483 Billion	2.2%
27-Dec-20	Phase 4	$900 Billion	4.2%
11-Mar-21	American Rescue Plan	$1.9 Trillion	8.8%

Source: Strategas, Data as of 9/30/2021

- *Tax Plans* – It is important to remember that the corporate tax changes are just one part of the Biden tax plan and more details are coming out about individual income tax increases. Combined the two tax increase proposals are likely to be in the range of 1.2% to 1.4% of GDP. We believe Congress will water down the Biden proposals, but the final product could still finish two times higher than the top tax increases years enacted over the last 50-year period.



Source: Strategas, Data as of 9/30/2021

- Since June of 2012, when FB first began trading, the S&P return has been negative for 32 months. In those months, and equal weight construction of FAAMG outperformed the S&P 500 69% of the time, which is on par with the traditionally defensive sectors of Staples and Utilities, which outperformed 59% and 72%, respectively. However, in months that the S&P 500 is up over the same period, FAAMG outperformed 65% of the time compared to just 36% & 38% for Staples and Utilities, respectively.

S&P 500 Negative Return Months Since June 2012

Month	S&P 500	Consumer Staples	Utilities	Equal-Weighted FAAMG
10/31/2012	-2.0%	-1.4%	1.4%	-7.1%
6/28/2013	-1.5%	-0.6%	0.6%	-1.3%
8/30/2013	-3.1%	-4.5%	-5.5%	2.7%
1/31/2014	-3.6%	-5.3%	2.9%	0.0%
7/31/2014	-1.5%	-3.4%	-6.9%	2.0%
9/30/2014	-1.6%	0.3%	-2.2%	0.4%
12/31/2014	-0.4%	-1.4%	3.2%	-4.3%
1/30/2015	-3.1%	-1.3%	2.3%	1.2%
3/31/2015	-1.7%	-2.4%	-1.3%	-2.0%
6/30/2015	-2.1%	-2.2%	-6.3%	-0.2%
8/31/2015	-6.3%	-6.0%	-4.0%	-4.9%
9/30/2015	-2.6%	0.1%	2.6%	-0.3%
12/31/2015	-1.8%	2.5%	1.8%	-1.0%
1/29/2016	-5.1%	0.4%	4.9%	-3.3%
2/29/2016	-0.4%	0.1%	1.4%	-4.9%
8/31/2016	-0.1%	-0.7%	-6.1%	1.2%
9/30/2016	-0.1%	-1.7%	0.1%	3.8%
10/31/2016	-1.9%	-1.0%	0.8%	0.3%
3/31/2017	0.0%	-0.7%	-0.5%	3.6%
2/28/2018	-3.9%	-7.8%	-4.4%	-0.4%
3/30/2018	-2.7%	-1.3%	3.4%	-5.8%
10/31/2018	-6.9%	2.1%	1.9%	-9.4%
12/31/2018	-9.2%	-9.5%	-4.3%	-8.8%
5/31/2019	-6.6%	-4.0%	-1.3%	-8.4%
8/30/2019	-1.8%	1.6%	4.7%	-2.5%
1/31/2020	-0.2%	0.2%	6.6%	5.5%
2/28/2020	-8.4%	-8.2%	-10.3%	-6.8%
3/31/2020	-12.5%	-5.9%	-10.2%	-6.5%
9/30/2020	-3.9%	-1.8%	0.8%	-9.3%
10/30/2020	-2.8%	-3.0%	5.0%	-0.5%
1/29/2021	-1.1%	-5.3%	-1.0%	0.2%
9/30/2021	-4.8%	-4.5%	-6.4%	-7.4%
	Percent Outperform	59.4%	71.9%	68.8%
	Percent Underperform	40.6%	28.1%	31.2%

Source: Strategas, Data as of 9/30/2021

Asset Classes

- As shown below in the white boxes during the last 15 years, diversification generally puts you somewhere in the middle of the return spectrum. That's a feature not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently overweight to next year's leading styles could be considered crazy; we see building a structure that minimizes the drag of large losers as far more realistic. From our perspective, in some years, like 2019, protection isn't necessary, but over a 20 - 30-year period all portfolios face periods of drawdown - much like we saw in 2020. We believe a proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	2006-2020 Ann.	2006-2020 Vol.
EMD LCL. 15.2%	EMD LCL. 18.1%	Treas. 13.7%	High Yield 58.2%	EMD LCL. 15.7%	TIPS 13.6%	EMD USD 17.4%	High Yield 7.4%	Muni 9.1%	Muni 3.3%	High Yield 17.1%	EMD LCL. 15.2%	ABS 2.7%	EMD USD 15.0%	TIPS 11.0%	High Yield 4.5%	High Yield 7.5%	EMD LCL. 11.9%
High Yield 11.8%	TIPS 11.6%	MBS 8.3%	EMD USD 29.8%	High Yield 15.1%	Muni 10.7%	EMD LCL. 16.8%	ABS 1.3%	Corp. 7.5%	MBS 1.5%	EMD USD 10.2%	EMD USD 10.3%	Muni 1.3%	Corp. 14.5%	Corp. 9.9%	TIPS 3.5%	EMD USD 6.9%	High Yield 11.2%
EMD USD 9.9%	Treas. 9.0%	Barclays Agg 5.2%	ABS 24.7%	EMD USD 12.2%	Treas. 9.8%	High Yield 15.8%	MBS -1.4%	EMD USD 7.4%	EMD USD 1.2%	EMD LCL. 9.9%	High Yield 7.5%	MBS 1.0%	High Yield 14.3%	Treas. 8.0%	ABS 1.4%	Corp. 5.8%	EMD USD 8.8%
Asset Alloc. 5.8%	Barclays Agg 7.0%	Asset Alloc. -1.[illegible]%	EMD LCL. 22.0%	Corp. 9.0%	Corp. 8.2%	Corp. 9.8%	Corp. -1.5%	MBS 6.1%	Treas. 0.8%	Corp. 6.1%	Corp. 6.4%	Treas. 0.9%	EMD LCL. 13.5%	Barclays Agg 7.5%	Muni 0.8%	EMD LCL. 5.1%	Corp. 5.9%
MBS 5.2%	MBS 6.9%	TIPS -2.4%	Corp. 18.7%	Asset Alloc. 7.6%	Barclays Agg 7.8%	Asset Alloc. 7.6%	Asset Alloc. -1.7%	Barclays Agg 6.0%	Barclays Agg 0.6%	Asset Alloc. 4.8%	Muni 5.4%	Barclays Agg 0.0%	Asset Alloc. 9.8%	High Yield 7.1%	Asset Alloc. -0.3%	Asset Alloc. 4.7%	Treas. 4.9%
Muni 4.8%	Asset Alloc. 6.2%	Muni -2.5%	Asset Alloc. 16.5%	Barclays Agg 6.5%	Asset Alloc. 7.7%	TIPS 7.0%	Barclays Agg -2.0%	Asset Alloc. 5.4%	ABS 0.2%	TIPS 4.7%	Asset Alloc. 5.3%	Asset Alloc. -0.6%	Barclays Agg 8.7%	Asset Alloc. 6.6%	MBS -0.7%	Barclays Agg 4.5%	TIPS 4.9%
ABS 4.7%	EMD USD 6.2%	Corp. -4.9%	Muni 12.9%	TIPS 6.3%	EMD USD 7.3%	Muni 6.8%	Muni -2.6%	Treas. 5.0%	Asset Alloc. -0.4%	Barclays Agg 2.6%	Barclays Agg 3.5%	TIPS -1.3%	TIPS 8.4%	EMD USD 5.3%	Corp. -1.3%	Muni 4.5%	ABS 4.3%
Barclays Agg 4.3%	Corp. 4.6%	EMD LCL. -5.2%	TIPS 11.4%	Treas. 5.9%	MBS 6.2%	Barclays Agg 4.2%	Treas. -2.8%	TIPS 3.6%	Corp. -0.7%	ABS 2.0%	TIPS 3.0%	High Yield -2.1%	Muni 7.5%	Muni 5.2%	EMD USD -1.4%	TIPS 4.3%	Muni 3.8%
Corp. 4.3%	Muni 3.4%	EMD USD -12.0%	Barclays Agg 5.9%	ABS 5.8%	ABS 5.1%	ABS 3.7%	EMD USD -5.2%	High Yield 2.5%	TIPS -1.4%	MBS 1.7%	ABS 3.0%	Corp. -2.5%	Treas. 6.9%	MBS 3.9%	Barclays Agg -1.6%	MBS 4.1%	Asset Alloc. 3.8%
Treas. 3.1%	ABS 2.2%	ABS -12.7%	MBS 5.9%	MBS 5.4%	High Yield 5.0%	MBS 2.6%	TIPS -8.6%	ABS 1.7%	High Yield -4.5%	Treas. 1.0%	MBS 2.5%	EMD USD -4.3%	MBS 6.4%	ABS 3.4%	Treas. -2.5%	Treas. 4.0%	Barclays Agg 3.2%
TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 2.4%	EMD LCL. -1.8%	Treas. 2.0%	EMD LCL. -9.0%	EMD LCL. -5.7%	EMD LCL. -14.9%	Muni 0.2%	Treas. 2.3%	EMD LCL. -6.2%	ABS 3.8%	EMD LCL. 2.7%	EMD LCL. -6.4%	ABS 3.4%	MBS 2.5%

Source: JPMorgan Asset Management Guide to the Market, Data as of 9/30/2021

- *The Dollar's Impact on Asset Class Returns* - A weak dollar would benefit foreign stock market companies and funds held by U.S. investors. Those who own international stocks are subject to currency fluctuations, so if the dollar falls, that means your foreign stocks are worth more once they're converted to our currency. One of the biggest reasons international stocks have badly lagged U.S. stocks in recent years is because the dollar has been so strong.

The Dollar's Impact on Asset Classes
Average Annual Returns, 1974-2019

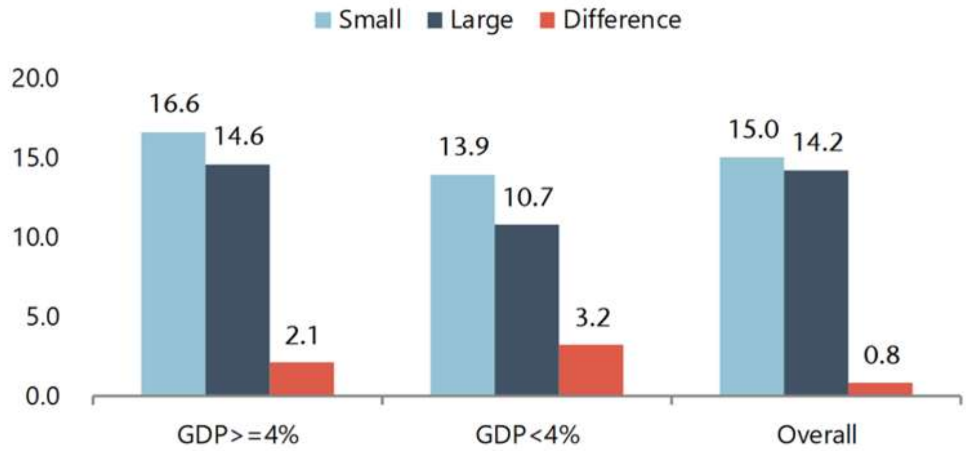
Asset Class	Years When the Dollar is Up	Years When the Dollar is Down
GOLD	-0.8%	17.6%
S&P 500	10.8%	12.9%
FOREIGN STOCKS	2.0%	18.6%
EMERGING MARKETS	2.7%	22.5%

Source: Jefferies, Data as of 9/30/2021

- In Q3 2021, Large Caps outperformed Small Caps with the S&P 500 returning +0.58% vs. -4.36% for the Russell 2000. Since the March 23, 2020, equity bottom, the equal weighted S&P 500 has outperformed the market cap weighted by 17.15% compared to 48% in early 2000s and 28% in post-GFC early cycle. The Russell 2000 has outperformed the S&P 500 by 26.64.60% since March 23, compared to 45% in the early 2000s and 27% in post-GFC early cycle.

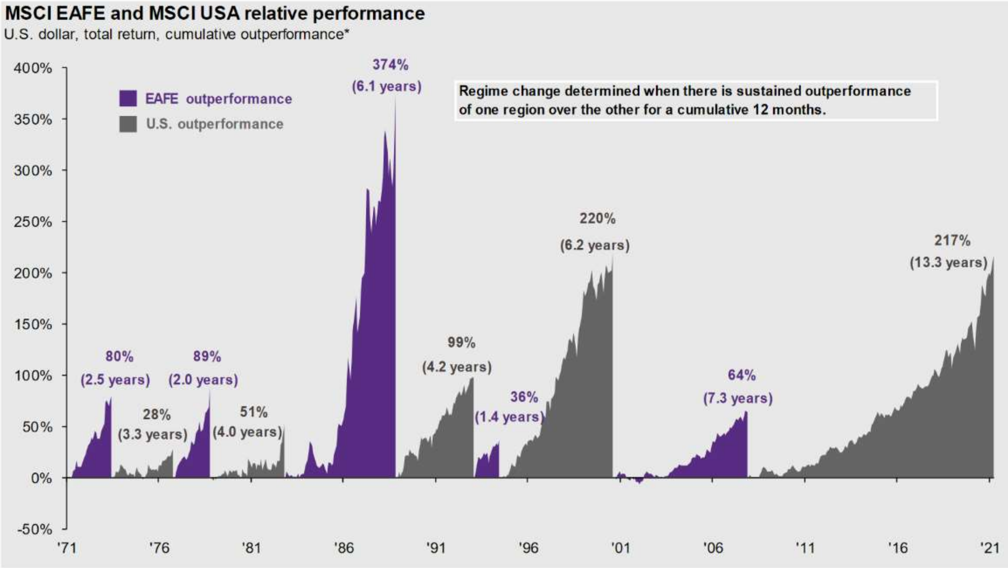
Source: Bloomberg, Data as of 9/30/2021

- From our observations U.S. small cap stocks, which are not as well capitalized and thus more dependent on an economic rebound, tend to outperform when GDP > 4%.



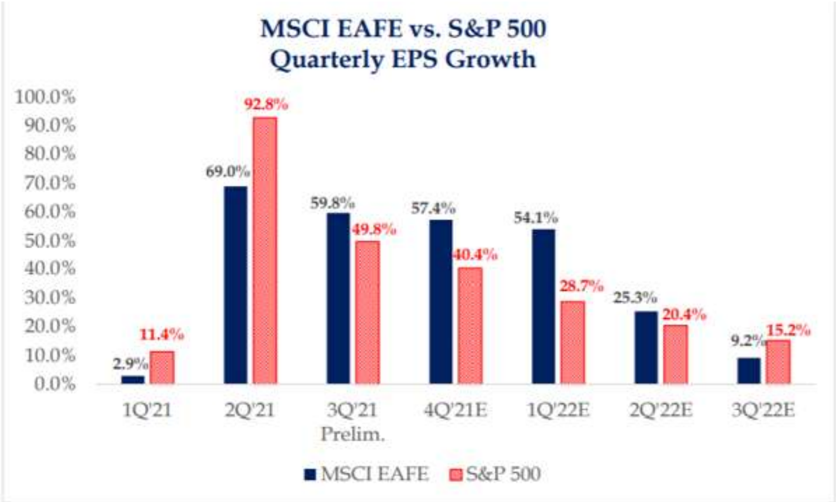
Source: Jefferies, Data as of 9/30/2021

- *The Decade of International* – The first decade of the new century was "*The Lost Decade of U.S. Large Caps*". The most recent decade has been coined "*The Lost Decade of International*". Moving forward, international securities are expected to have higher growth than domestic equities, and sport a 27% discount to the S&P 500, when it normally trades at an 8% discount. But, as we saw over this past quarter, many international equities, specifically those in Emerging Markets come with more risk, given their political landscape – cough, cough, China.



Source: FactSet, MSCI, J.P. Morgan Asset Management.
*Cycles of outperformance include a qualitative component to determine turning points in leadership.
Guide to the Markets – U.S. Data are as of March 31, 2021.

- *International Earnings* - On the international side, the story is similar to the U.S. large cap growth vs. value story. The MSCI EAFE is expected to see stronger earnings growth than the S&P 500 until the 3rd quarter of 2022. This should not be all that surprising as the sector orientation of the MSCI EAFE is more comparable to the U.S. value indexes with Financials garnering a larger share.



Source: Strategas, Data as of 9/30/2021

Equity Attribution

- Last month, the Russell 2000 (-3.5%) led the Russell MidCap (-4.3%) and Russell 1000 (-4.7%). Only Energy saw positive returns across all three; Financials and Discretionary also outperformed. Value beat Growth across sizes in Sept. (but only in small caps in Q3), and the Russell 2000 Value is the best-performing size/style index for the year. YTD, small caps still lag large by 3%, but have been leading since mid-Aug. We see smaller/more domestic companies as better-positioned in a backdrop of US growth outperformance, risks to multinationals from China policies, capex/infra. spending and less-stretched multiples.

Leading US Indices (Total Return)	2Q'20	3Q'20	4Q'20	2020	1Q'21	2Q'21	3Q'21 (sorted)	YTD
S&P/Citigroup Growth	26.2%	11.8%	10.7%	33.5%	2.1%	11.9%	1.9%	16.4%
S&P 100 Mega-Cap	20.8%	9.8%	10.7%	21.5%	5.1%	9.4%	1.0%	16.2%
S&P 500 Total Return	**20.5%**	**8.9%**	**12.1%**	**18.4%**	**6.2%**	**8.5%**	**0.6%**	**15.9%**
Nasdaq	30.9%	11.2%	15.6%	44.9%	3.0%	9.7%	-0.2%	12.7%
Dow Jones Wilshire 5000	22.1%	9.0%	14.4%	20.0%	5.8%	8.1%	-0.6%	13.7%
S&P/Citigroup Value	13.1%	4.8%	14.5%	1.4%	10.8%	5.0%	-0.8%	15.3%
S&P 400 Mid-Cap	24.1%	4.8%	24.4%	13.7%	13.5%	3.6%	-1.8%	15.5%
S&P 600 Small-Cap	21.9%	3.2%	31.3%	11.3%	18.2%	4.5%	-2.8%	20.1%
Russell 2000	25.4%	4.9%	31.4%	20.0%	12.7%	4.3%	-4.4%	12.4%

Source: Strategas, Data as of 9/30/2021

- *Divergent Performance Amongst Inflationary Sectors* - For what has been popularly described as a highly rotational market, the Consumer Staples and the Utilities never got the memo. Both sectors have been the antithesis of "rotational," offering zero relative advantage all year. Energy was the best performing and (only positive) sector last month (+9.3%), driven by a big rally in energy commodities (WTI +9.5%, US natural gas +34.0%). On the other hand, Materials (the other sector most positively geared to inflation) was the worst performing sector (-7.4%), hurt by slowing China and industrial activity, coupled with supply chain issues that Chemical companies have warned about. Financials was the second best performing sector (-2.0%), followed by Consumer Discretionary (-2.6%), while bond-proxy sectors led by Real Estate (-6.6%) lagged.

S&P 500 Sectors (Total Return)	2Q'20	3Q'20	4Q'20	2020	1Q'21	2Q'21	3Q'21 (sorted)	YTD
Financials	12.2%	4.4%	23.2%	-1.7%	16.0%	8.4%	2.7%	29.1%
Utilities	2.7%	6.1%	6.5%	0.5%	2.8%	-0.4%	1.8%	4.2%
Communication Services	20.0%	8.9%	13.8%	23.6%	8.1%	10.7%	1.6%	21.6%
Health Care	13.6%	5.9%	8.0%	13.4%	3.2%	8.4%	1.4%	13.5%
Technology	30.5%	12.0%	11.8%	43.9%	2.0%	11.6%	1.3%	15.3%
Real Estate	13.2%	1.9%	4.9%	-2.2%	9.0%	13.1%	0.9%	24.4%
S&P 500 Total Return	**20.5%**	**8.9%**	**12.1%**	**18.4%**	**6.2%**	**8.5%**	**0.6%**	**15.9%**
Discretionary	32.9%	15.1%	8.0%	33.3%	3.1%	6.9%	0.0%	10.3%
Staples	8.1%	10.4%	6.4%	10.7%	1.1%	3.8%	-0.3%	4.7%
Energy	30.5%	-19.7%	27.8%	-33.7%	30.9%	11.3%	-1.7%	43.2%
Materials	26.0%	13.3%	14.5%	20.7%	9.1%	5.0%	-3.5%	10.5%
Industrials	17.0%	12.5%	15.7%	11.1%	11.4%	4.5%	-4.2%	11.5%

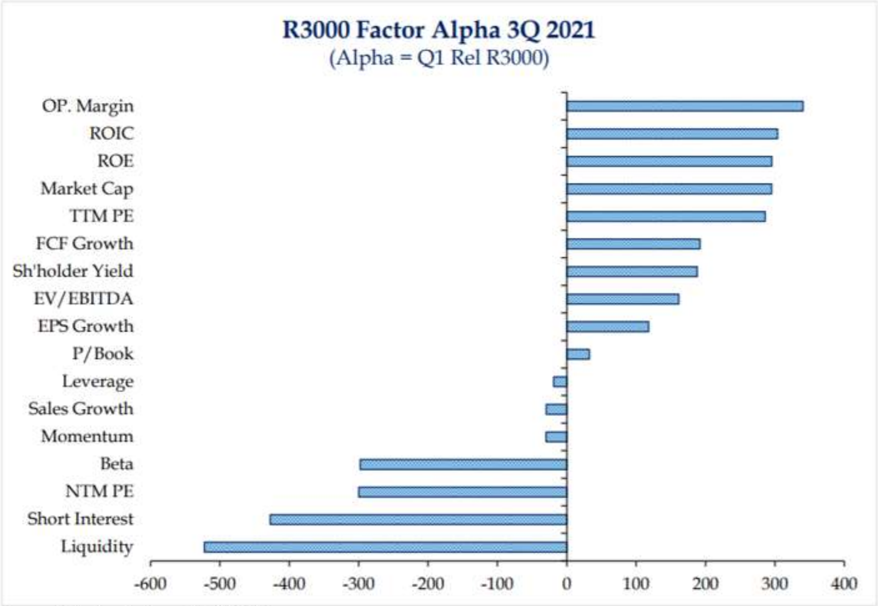
Source: Strategas, Data as of 9/30/2021

- The Russell 2000 (+12.4%) lags both the Russell Midcap (+13.8%) and Russell 1000 (+15.2%) thus far in 2021 - also lagging in the second half. Energy continues to be the top-performing sector across small (+74.3%) and large-caps (+44.6%), followed by other cyclical/reopening sectors (Consumer Discretionary, Financials, and Real Estate). Defensives (Utilities, Staples, Health Care) lagged the most within both size segments. We continue to believe the economic backdrop and relative valuations support a preference for small caps over large caps through the rest of the year.

		Small Caps		Large Caps		
Period	**Length of Period**	**Cumulative**	**Annualized**	**Cumulative**	**Annualized**	**Excess**
05/32-02/37	4.8	1045.7	67.1	343.3	36.8	30.3
05/40-05/46	6.1	521.8	35.6	166.9	17.8	17.8
01/64-12/68	5.0	210.2	25.9	49.8	8.6	17.3
12/74-06/83	8.6	1089.1	33.8	236.3	15.3	18.5
10/90-02/94	3.4	138.6	29.8	66.1	16.4	13.4
03/99-03/06	7.1	144.2	13.6	6.1	0.9	12.7
02/09-11/15	6.8	292.7	22.5	215.4	18.6	3.9
3/18/20 to ?	**1.6**	**129.1**	**68.8**	**89.0**	**49.5**	**19.3**
Average	**5.4**	**443.2**	**38.6**	**143.9**	**21.0**	**17.6**

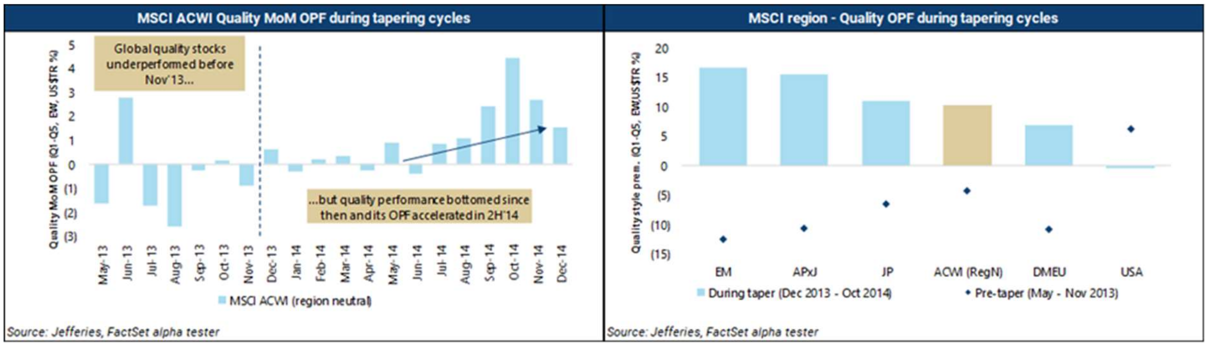
Source: Jefferies, Data as of 9/30/2021

- Despite a 40% jump in the VIX during Sept., Quality (which has historically outperformed when volatility rose) was the worst performing factor group (-6.2%). Similarly, High Quality stocks (B+ or better in S&P Quality rating) underperformed Low Quality stocks (B- or worse) by 56bps (-4.4% vs. -3.8%) but finished 3Q much stronger (-0.9% vs. -4.9%). Risk factors were the best performing group last month as Energy rallied (-0.2%), while the Russell 1000 Value index outperformed the Growth index (-3.5% vs. -5.6%).



Source: Jefferies, Data as of 9/30/2021

- *Focus on Quality* - One of the key lessons that we can take from the previous taper cycle is that after the initial shock, markets quickly priced in the taper risks. However, as the Fed started to withdraw liquidity, there were some unintended consequences such as falling commodity prices and slowing growth, with put pressure on the US bond yields. This is in turn led to quality coming back in favor.



- *Small Versus Large* – Small Caps have underperformed Large Caps by 1300bps since the middle of March. We are in the midst of a longer period of going nowhere for small caps, but this is not anything we haven't seen before. The outperformance since March 2020 looks almost exactly like the last three outperformance cycles. We did think we needed the "pause that refreshes", but we also think the size segment should begin to perform better this fall.

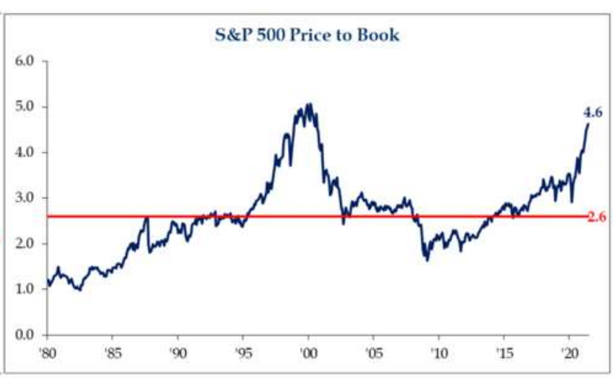
Source: Strategas, Data as of 9/30/2021

Equity Valuations

- *Market Valuations* - Historically, the price to earnings ratio spikes during recessions and falls as earnings recover following a recession. Over the last three cycles this has occurred at the beginning of a longer bull-market for equities rather than at the end. Based on this logic, it would appear there is still time for the current run-in equities, although the path may not be a straight line upward. For the most of this year, we have seen multiples compress substantially more than what the market has witnessed from a growth perspective. Given the continued outperformance of the mega-cap stocks, we've continued to see U.S. Small Cap and International equities valuation compress more than Large. In fact, as of quarter end, Small Caps trade at a 23% discount to Large Caps (historically as 4% premium), and International trades at a 27% discount to Large Caps (historically an 8% discount). S&P 500 NTM P/E: 20.31x, Russell 2000 NTM P/E 15.86x, International NTM P/E: 15.07x, and Emerging Markets NTM P/E: 12.13x.

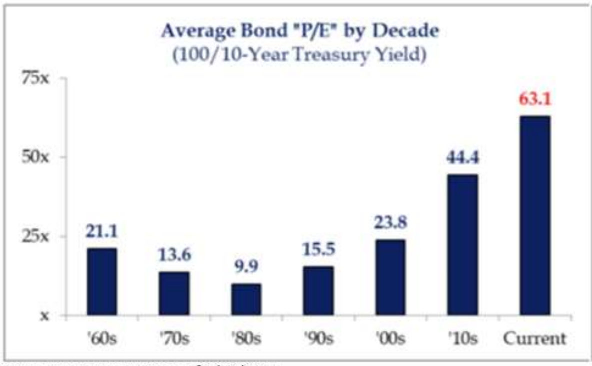
Source: Charles Schwab, Data as of 9/30/2021

- *Valuations Appear Stretched* – The price-to-sales ratio for the S&P 500 is now trading at 3.1x - nearly double the historical average. Price-to-book shows the same thing. In fact, based on data going back to 1980, a price to book ratio of 4.6x currently is only exceeded by levels previously seen during the dot com bubble, when it reached 5.1x. Based on these measures alone, stocks would appear to be rather expensive currently.



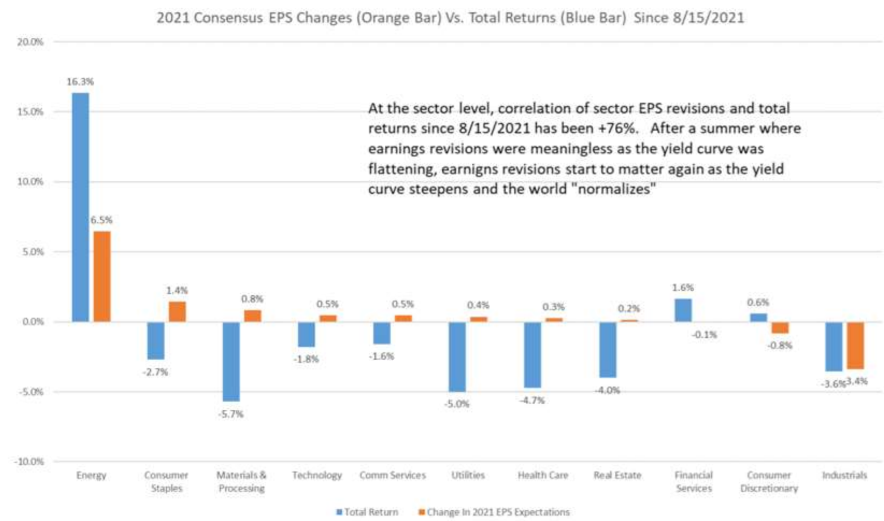
Source: Strategas, Data as of 9/30/2021

- *But Don't Forget About the Relative Opportunity Set* – Relative to the alternative options for investors, equities continue to remain attractive – especially versus bonds. Another way to measure valuations in the fixed income world is take the bond price ($100) and divide it by the 10-Year Treasury Yield to get a "P/E" multiple. The graphic below shows how expensive bonds are compared to history. Keep in mind those bond earnings come with zero potential for growth... and you thought tech was expensive! Furthermore, the equity risk premium currently stands at 246bps compared to a historical average of 63bps. While it has come in some recently, the forward prospects for earnings remain strong suggesting the measure should continue to hold true.



Source: Strategas, Data as of 9/30/2021

- *And Don't Lose Sight of Growth (The Denominator)* – Despite a meaningful number of pre-releases in September/early October around supply chain impacts to EPS in 3Q, overall EPS expectations have not rolled over (yet). Consumer discretionary (autos and retail) and Industrials are 2 areas where supply chain stress has caused EPS to start coming down. Energy, staples and materials have seen EPS revised higher since Mid-August



Source: Raymond James, Data as of 9/30/2021

- Small caps remain historically cheap vs. large caps, and the discount widened in June: the relative forward P/E of the Russell 2000 vs. Russell 1000 fell to 0.77x from 0.84x, its lowest since Nov. 2020. Historically, small caps trade at a 4% premium to large caps. And even on most other measures, the relative multiple of small vs. large caps remains below history.

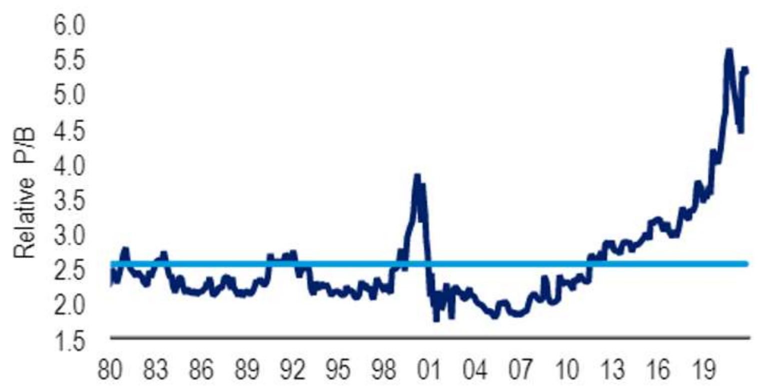
Source: BofA, Data as of 9/30/2021

Equity Styles

- *Overall Relative Valuations Remain at an Extreme* – Any way you slice it, we think Growth looks expensive versus when compared to Value. With the return differential still exceeding two standard deviations, our 10-year rolling return differential between growth and value chart remains one of the most perplexing amongst investors. The 2016 election turned out to be a head fake concerning the reversal of the secular trend, but Covid looked like it was the true catalyst. However, that trend has paused as of late, and only time will tell if this is the long-awaited return of value.

Exhibit 5: Growth valuations vs Value remain near record highs above the historical average.

Russell 1000 Growth vs Russell 1000 Value relative median Price to Book Value, Jan. 1980 - Sept. 2021

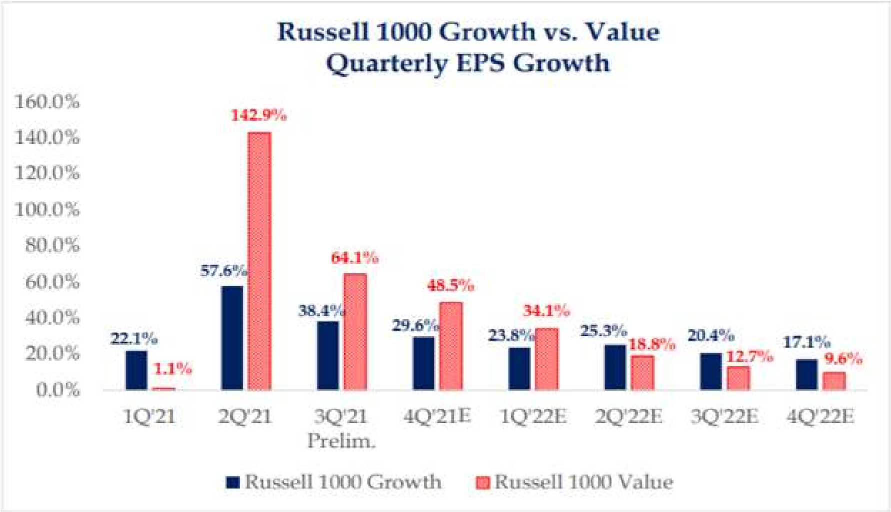


Source: BofA, Factset, Data as of 9/30/2021

- *Valuations and Performance* - The Russell 1000 Value outperformed the Growth index by 1.8% YTD (before this quarter, Value had the best 1H since 2016) but finished well below the peak 13.6% lead it had as of May with Growth stocks rebounding in June and again in August. With this, you saw relative valuations spread out back to year-end levels.

Source: Strategas, Data as of 9/30/2021

- *Earnings Growth - Value / Growth* - Using the Russell for large caps, the value style is expected to experience greater earnings growth compared to the growth style until the second quarter of 2022.



Source: Strategas, Data as of 9/30/2021

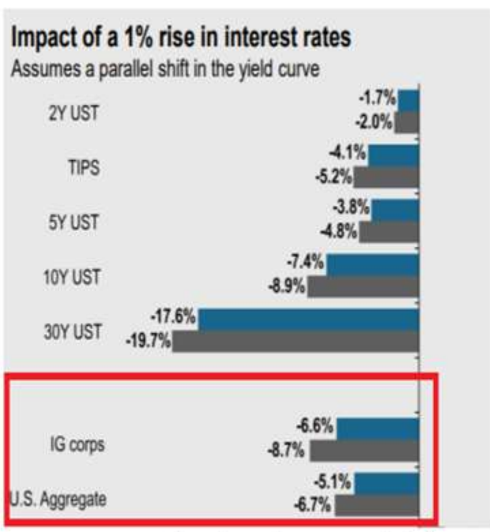
Fixed Income

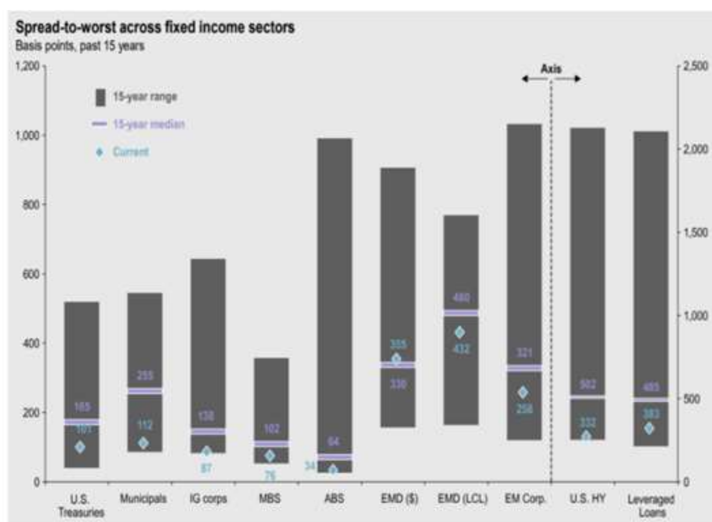
- *Quarterly Performance* – If you didn't pay any attention to bonds over the 3rd quarter on the surface, we think you didn't miss much. Following a large move lower in yields on Q2, bond yields hovered around the lower-end of the yield range (1.20-1.25%) for nearly the entire period. Then came September 22nd where the inflation narrative begun creeping back into markets and lifted both short-term and long-term interest rates as the market processed the potential for both a QE taper and the potential for sooner-than-anticipated interest-rate hikes. The Barclays Aggregate reacted quite negatively (remember duration is nearly 7 years) and lost 120bps in the last 8 days of the month (and quarter), the largest surprise being the correlation to equity markets as both dropped in unison. Credit faced a similar market of generally lower spreads throughout the quarter (both HY and IG), where spreads grinded to pre- Covid lows. Tides changed as equity markets faced pressure and spreads widened to close the quarter.

	Q3 2021	YTD	1-Year	3-Year	5-Year	10-Year
Barclays Agg. Bond Index	0.05%	-1.55%	-0.95%	5.13%	2.94%	3.01%
Investment Grade Bonds	-0.19%	-1.78%	1.33%	8.32%	4.91%	5.43%
High Yield Bonds	0.65%	3.71%	8.43%	6.23%	5.83%	6.25%
Barclays Gov't 1-5YR	0.03%	-0.44%	-0.43%	3.28%	1.82%	1.46%
Barclays Intermediate Tsy.	-0.01%	-1.15%	-1.38%	4.00%	1.98%	1.81%
Barclays Long-Term US Tsy.	0.47%	-7.49%	-10.27%	9.22%	3.31%	4.39%
Treasury TIPS	1.75%	3.51%	5.19%	7.45%	4.34%	3.12%
U.S. MBS	0.10%	-0.67%	5.19%	7.45%	4.24%	3.12%

Source: Bloomberg. Data as of 6/30/2021. Returns over 1YR are Annualized.

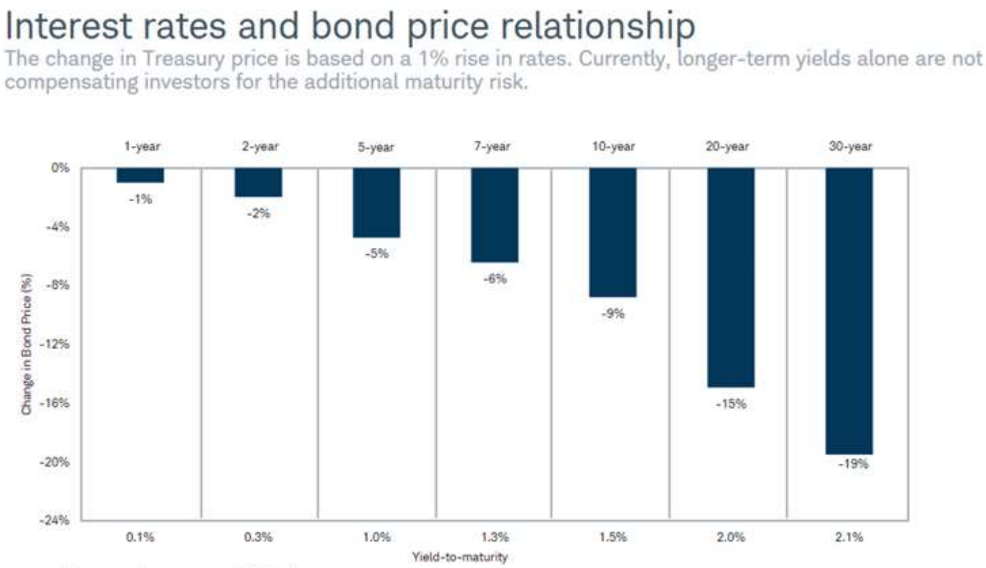
- *The Opportunity Set* - The income component of bonds (Also known as carry) has slowed to its weakest pace on record, as historically low bond yields reduce the coupon income available to global creditors. The Bloomberg Global Aggregate Bond Index has produced just 87 bps of carry (i.e. coupon income) year-to-date, leaving investors with less protection against adverse movements in local currencies, credit spreads and interest rates. The total-return contribution from carry has declined in three consecutive years and is averaging less than 10 bps a month in 2021. Since 2012, carry has contributed 1,617 bps to index performance, greater than the 1,482 bps of total return generated over the period. This is the worst backdrop we've EVER seen for bonds.





Source: JPMorgan Guide to the Market, Data as of 9/30/2021, Total Return = Blue, Price Return = Grey

- *Interest Rate Risk* - The lack of income and increase in duration of nearly all bond funds magnifies interest rate risk, significantly. Essentially the bonds are priced for absolute perfection and the scary part of the trade is all the convexity of the payout is to the downside. Even if things end up being perfect, investors are realizing a ~1% income from the AGG while 5-YR inflation breakeven hover around 2.6% - investors, in real terms, are losing 2%+ of their investment, per year.



Source: Goldman Sachs, Data as of 9/30/2021

- *Credit Risk* – Since mid Sept, we've seen the credit spread of high yield bonds widen by about 40bps.

Source: Bloomberg, Data as of 9/30/2021

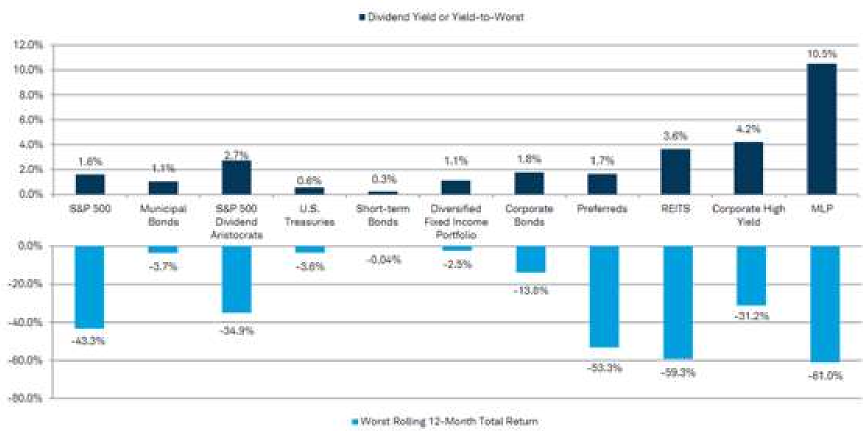
- *High Yield Spreads* – Since mid Sept, we've seen the credit spread of high yield bonds widen by about 40bps. Something very different for what we've seen for the most of 2021 - a period of tightening spreads. The 3- Year Annualized forward returns as measured across different High Yield (credit) spreads look awfully low, even after the recent move in spreads. Higher spreads indicate more compensation for credit risk. When spreads are near current levels, the forward returns are dismal, and that's before factoring in inflation.

Percentiles	All Periods (1/1994 - 3/2016)	
	Credit Spread (bps)	Annualized 3-Year Returns
Max	1,833	26.1%
90%	794	13.5%
75%	655	11.3%
50%	477	8.6%
25%	329	4.2%
10%	288	0.3%
Min	235	-7.6%
Number of Observations:		267

High (wide) Credit Spread Periods

Source: Barclays Capital, Data as of 9/30/2021

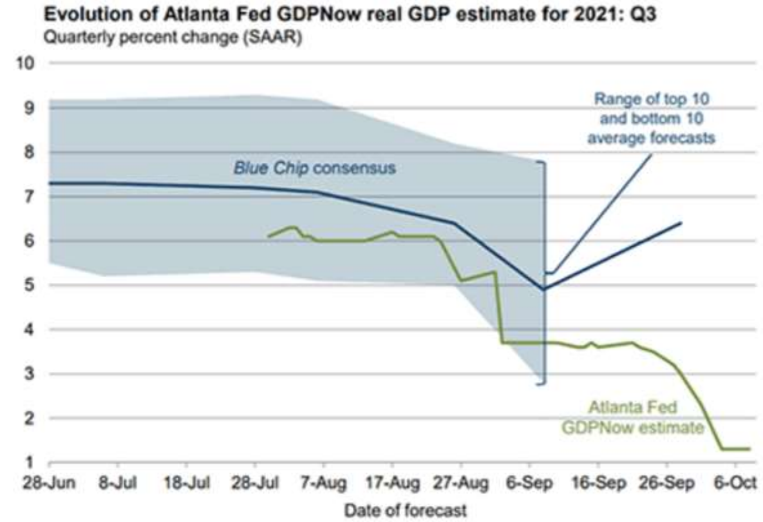
Higher yields usually come with higher risks



Source: Goldman Sachs, Data as of 9/30/2021

Economic Review

- *Economic Growth (Gross Domestic Product) – The Atlanta Fed GDPNow Model (Green Line) adjust current quarter GDP estimates as new economic data is released. Estimates were 6%+through mid-August before plummeting as supply-chain issues have caused weakness in economic data in the second half of Q3 2021.*



Source: Blue Chip Economic Services, Data as of 9/30/2021

	2020				2021				2022			
	1Q	2Q	3Q	4Q	1Q	2Q	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q Pct. AR	-5.1%	-31.2%	33.8%	4.5%	6.3%	6.7%	2.0%	4.0%	3.0%	3.5%	2.7%	2.0%
Core CPI Q/Q Pct. AR	2.0%	-1.1%	4.0%	1.8%	1.2%	8.1%	2.8%	2.2%	2.1%	2.4%	2.3%	2.3%
Fed Funds - EOP	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
10 Year Treasury Yield	0.7%	0.7%	0.7%	0.9%	1.7%	1.5%	1.5%	1.8%	-	-	-	-
F = Forecast; A = Actual												

Source: Strategas, Data as of 9/30/2021

- *Fed Tapering* - Monetary policy remains accommodative, but the recent FOMC statement strongly foreshadowed a QE taper, noting that "if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." It was a unanimous vote. The November FOMC meeting is live and is the platform expected to announce the beginning of the tapering. Per Fed commentary, the QE taper should be finished by the middle of next year.

Percent

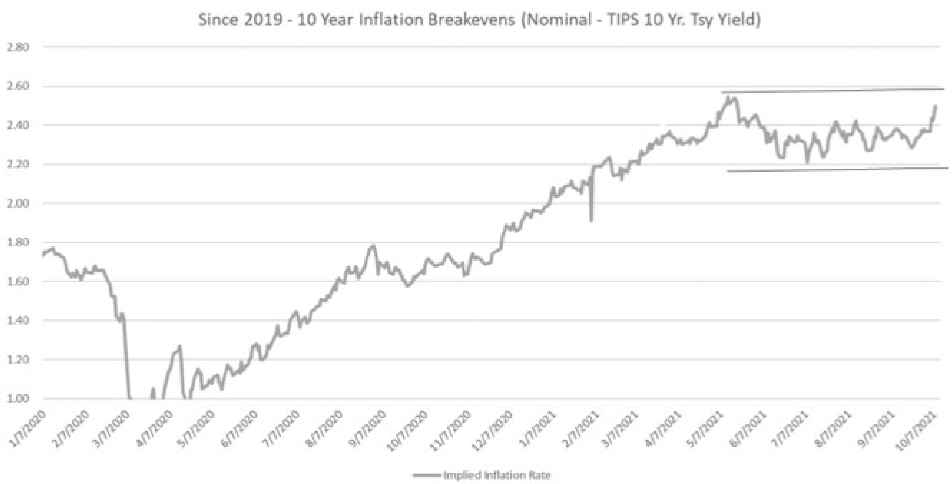
Variable	Median[1]					Central Tendency[2]					Range[3]				
	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run
Change in real GDP	5.9	3.8	2.5	2.0	1.8	5.8–6.0	3.4–4.5	2.2–2.5	2.0–2.2	1.8–2.0	5.5–6.3	3.1–4.9	1.8–3.0	1.8–2.5	1.6–2.2
June projection	7.0	3.3	2.4		1.8	6.8–7.3	2.8–3.8	2.0–2.5		1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7		1.6–2.2
Unemployment rate	4.8	3.8	3.5	3.5	4.0	4.6–4.8	3.6–4.0	3.3–3.7	3.3–3.6	3.8–4.3	4.5–5.1	3.0–4.0	2.8–4.0	3.0–4.0	3.5–4.5
June projection	4.5	3.8	3.5		4.0	4.4–4.8	3.5–4.0	3.2–3.8		3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9		3.5–4.5
PCE inflation	4.2	2.2	2.2	2.1	2.0	4.0–4.3	2.0–2.5	2.0–2.3	2.0–2.2	2.0	3.4–4.4	1.7–3.0	1.9–2.4	2.0–2.3	2.0
June projection	3.4	2.1	2.2		2.0	3.1–3.5	1.9–2.3	2.0–2.2		2.0	3.0–3.9	1.6–2.5	1.9–2.3		2.0
Core PCE inflation[4]	3.7	2.3	2.2	2.1		3.6–3.8	2.0–2.5	2.0–2.3	2.0–2.2		3.5–4.2	1.9–2.8	2.0–2.3	2.0–2.4	
June projection	3.0	2.1	2.1			2.9–3.1	1.9–2.3	2.0–2.2			2.7–3.3	1.7–2.5	2.0–2.3		
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.3	1.0	1.8	2.5	0.1	0.1–0.4	0.4–1.1	0.9–2.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	0.6–2.6	2.0–3.0
June projection	0.1	0.1	0.6		2.5	0.1	0.1–0.4	0.1–1.1		2.3–2.5	0.1	0.1–0.6	0.1–1.6		2.0–3.0

Source: The Federal Reserve, Data as of 9/25/2021

- *Historical Inflation* - Inflation has been both tame and steady for the past decade, averaging just 1.7% over the past 10 years. If anything, a primary criticism has been the inability to see inflation consistently hit the Fed's 2% target. A low level of predictable inflation is good, as it gives consumer and businesses an incentive to spend or invest, facilitating economic growth. But like most economic reports, inflation readings have been unsteady since COVID, which brought a brief period of deflation at the onset followed by a rapid rise in inflation in the first half of 2021. We'll see if much of this inflation is supply-chain disruption driven.

Source: Bureau of Labor Statistics, Data as of 9/30/2021

- *Inflation Moving Forward* - We believe that much of the market thinks that inflation expectations are at peak levels. The 10-year breakeven rate rose steeply to 2.6% in mid-May, owing to concerns over the potential for spiraling inflation. We are not arguing that inflation will be historically weak. Current expectations of a 2.5% 10-year breakeven rate is not weak – and we do expect the 10-year breakeven rate to remain above 2.0% for the foreseeable future. We are, however, arguing that inflation spiraling out of control will not occur, as temporary supply issues will eventually be resolved. We expect strong, but healthy, inflation expectations (i.e., 10-year breakeven rate >2%), alongside strong and healthy economic growth. But, the continuation of longer-than-expected supply-chain issues have kept a floor on inflation expectations, as of late.



Source: Raymond James, Data as of 9/30/2021

- *The Impact of Inflation on Investment Returns* – We believe a primary focus for long-term investors should be the growth of purchasing power of their investment; stocks have as good of a track record in accomplishing this goal, relative to other asset classes. With that said, stocks post higher nominal returns in periods of low inflation than in high inflation, even before factoring in the erosion that inflation causes to real returns.

S&P 500 When CPI > 5%										
Year	1973	1974	1975	1977	1978	1979	1980	1981	1990	AVERAGE
CPI	8.9%	12.2%	7.0%	6.8%	9.0%	13.3%	12.4%	8.9%	6.1%	9.4%
	-14.3%	-25.9%	37.0%	-7.0%	6.5%	18.5%	31.7%	-4.7%	-3.1%	4.3%

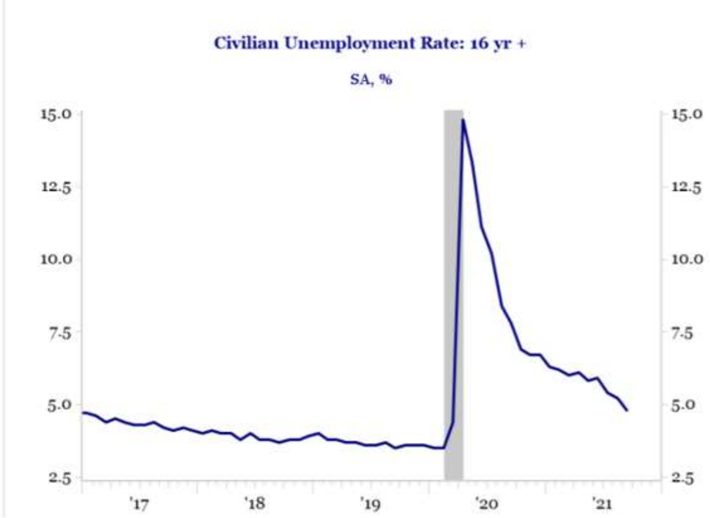
Source: Aptus Capital, William Bernstein, Data as of 9/30/2021

- *Interesting Phenomenon that in the Middle of an Ongoing Health Crisis, Americans Have Never Been More Financially Fit* - U.S. household net worth hit a record $142 trillion last quarter. Setting a new record is not unique; since clawing out of the Great Financial Crisis hole, net worth has been on an upward trajectory, setting all-time highs in 31 of the last 34 quarters. Rather, it is the sudden verticality in the change of net worth that is notable. At 20% growth over the past year, net worth is growing at its fastest pace of the post-war era. $31 trillion has been added to household net worth in the past five quarters. Knowable and unknowable risks remain, and the macro future is impossible to predict. That said, U.S. recessions are almost always related to the consumer, as 70% of GDP comes from consumer spending. Consumer balance sheets are well fortified and flush with cash - ready to spend when supply chain and virus risks ease.

U.S. Household Net Worth ($T)	Q2 2021	Q1 2020	COVID 5 QTR. % Change	Q2 2011	10-YR Change (%)
Total Assets	$ 159.3	$ 127.1	25.3%	$ 81.6	95.2%
Deposits	$ 17.1	$ 13.9	23.0%	$ 8.6	98.8%
Total Stock Inv.	$ 47.0	$ 26.5	77.4%	$ 15.7	199.4%
Other Fin'l Assets	$ 49.2	$ 46.1	6.7%	$ 31.9	54.2%
Real Estate	$ 34.9	$ 30.6	14.1%	$ 18.4	89.7%
Other Non-Fin'l Assets	$ 11.6	$ 10.0	16.0%	$ 6.9	68.1%
Less: Total Liabilities	$ 17.7	$ 16.6	6.6%	$ 14.1	25.5%
Total Net Worth	$ 141.6	$ 110.5	28.1%	$ 67.5	109.8%

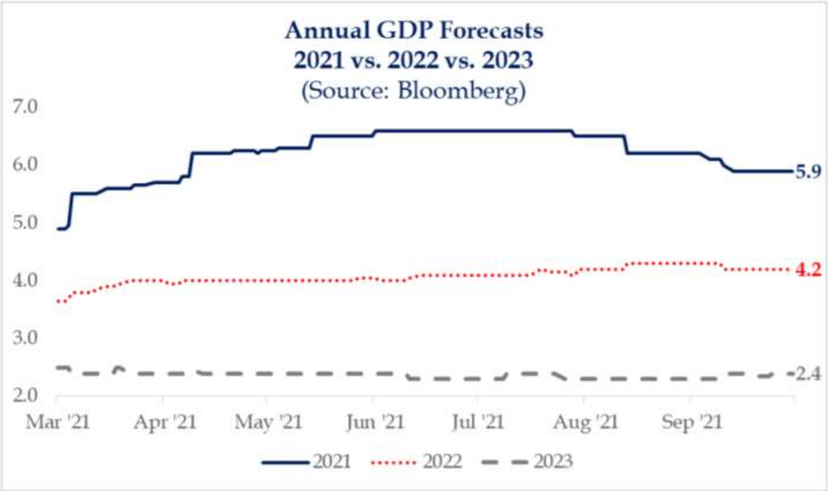
Source: Federal Reserve, Aptus Capital. Data as of 9/30/2021.

- *Payrolls* – There has been significant improvement in the labor market over the last year, but this metric remains key as we move past the large fiscal boost in 2020/21. We've had two difficult payrolls reports in Q3 2021 - August and September. The economy remains 5.0M jobs below the pre-pandemic level. Couple that with over 11.0M job openings – America has a labor problem. Economists believe that we should see some of this problem subside, as we are no longer providing unemployment benefits to individuals, as it rolled off in September. Bottom line, the recent job's report certainly makes the Fed taper decision a closer call for November. Yet with plenty of job openings & wages rising, exiting QE still makes some sense. Whether the fed funds rate needs to rise much after the taper is done (likely mid-2022) will be another consideration. We would expect the "taper but don't tighten" mantra to continue.



Source: Strategas, Data as of 9/30/2021

- It's no secret that growth estimates have been revised lower for 2021 as shortages & disruptions continue to cause problems but we are thinking about it slightly differently. Our take is that it has the effect of spreading out growth over a longer period of time. As the chart below shows, the downward revisions are occurring to just 2021 estimates for now. With many companies receiving orders that they cannot fulfill, a concern is that economic weakness could result in cancelled orders.



Source: Strategas, Data as of 9/30/2021

The Backdrop for Q4 2021:

The Good:

- ***Health of the Consumer*** – We believe the aggregate consumer is flush with cash, and once pent-up demand can safely be unleashed, the U.S. economy is set to rip higher. While we know that the cruel nature of the pandemic has had an adverse financial impact on many (particularly those less fortunate), in aggregate, the consumer coffers are presently funded. Relative to before COVID (Q1 2020), the average U.S. Household are worth ~30% more. Consumer balance sheets are well fortified and flush with cash - ready to spend when supply chain and virus risks ease.
- ***Better than Anticipated Earnings*** – After reaching nearly $165 on a trailing twelve-month basis for S&P 500 EPS at the end of 2019, the pandemic resulted in only a 15% drawdown in earnings – it only take 6 quarters to recoup the damages. We remain optimistic, as we continue to see the full-year 2021 estimates from Wall Street analysts continues to grind higher, now standing at $200 - well above the 2019 level. Given the health of the consumer, and if we see peak supply chain stress in the market, we believe that there is upside to these estimates.

The Bad:

- ***Fed Tapering Misstep –*** For the most of Q2 and Q3, the yield curve paused its steepening. Now, it is up the Fed Chair Jerome Powell to recognize the level of flattening. This means caution in communication if the Fed is to avoid the mistakes of the Yellen Fed, namely inverting the yield curve and slowing the flow of liquidity to main street by redirecting said liquidity towards Wall Street. We believe that tapering could offset this flattening, though even after the announcement in Jackson Hole, it has yet to be seen.
- ***Longer-than-Expected Supply Chain Issues –*** It's no secret that there is a supply chain problem in the United States. Furthermore, it appears to be lasting much longer than originally anticipated. Given the lack of supply, coupled with extreme demand, we've seen substantial increases to the price of goods. If these bottlenecks continue to persist, it could dampen future expectations for consumer spending.

The Ugly:

- ***Possible Policy Errors Through Fiscal Tightening (Taxes) in 2022*** - The lags associated with the long-term benefits of infrastructure spending are notoriously long and variable. Tax increases, on the other hand, tend to be retroactive and immediate. From a market perspective, the fear is that a fiscal drag sterilizes the positive impacts of reopening and already passed stimulus, leading to an economic environment more consistent with the period of secular stagnation after the GFC.
- ***Faster-than-Expected Inflation –*** The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations. Right now, 5YR inflation breakeven figures are well above the Fed's 2% target. For markets, how the Fed chooses to address inflation is as important as the inflation itself.

Disclosures

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The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

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The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

*The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 31% of the total market capitalization of the Russell 1000® companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

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The Russell 1000® Growth Index is an unmanaged, market capitalization-weighted index that measures the performance of those companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000Ò Value Index measures the performance of the large cap value segment of the U.S. equity universe. It includes those Russell 1000Ò Index companies with lower price-to-book ratios and lower expected growth values.

The Russell 3000® Index measures the performance of 3,000 large U.S. companies. The Index is market capitalization-weighted, comprised of stocks in the Russell 1000 and Russell 2000 indices and represents approximately 98% of the U.S. equity market.

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