While the first eight months of 2021 were awash in investors' unabashed enthusiasm, September put the brakes on the party and forced market participants to take heed of emerging risks and rethink lofty valuations. September saw the S&P 500 drop 4.76%, the first meaningful retreat since September/October of 2020. Inflation, geopolitical events, partisan wrangling in Washington and ongoing supply chain disruptions, all grabbed headlines, served to chill sentiment and introduce previously (within the last year) unseen volatility. Despite all the noise, stocks have still returned 15.92% year to date and in our view, the positives continue to outweigh the negatives.

The hope for leaving the COVID-19 pandemic in our rear-view mirror was dashed by the emergence of the Delta variant, which introduced new lockdowns, mandates and stressors and all of the accompanying knock-on effects. Positively, the link between transmission and hospitalization/death seems to have been severely weakened due to vaccine rollouts as those states and countries with high vaccination rates fared far better in the most recent surge than those with less robust uptakes. Likewise, vaccination rates have ticked up, perhaps due to the onslaught of Delta; 77% of people 12+ in the US now have received at least one dose and with approval for children ages 5-12 on the horizon, it appears likely that we'll be able to return to some level of post-pandemic "normal."

Nonetheless, Delta's surge resulted in the introduction and further exacerbation of numerous economic imbalances. Most notably, inflation has been a major flashpoint amongst investors and the general public alike, as prices have risen across the board for everything from gasoline, to groceries, to cars and homes. COVID-related disruptions in labor, manufacturing and production and shipping and logistics have wreaked havoc on supply chains, making the availability of raw materials and finished goods scarcer and putting a kink in multiple links of the chain, so to speak. These disruptions have manifested themselves in higher prices, with the CPI rising 5.4% in September from the prior year, the fastest rate in more than a decade.

The Federal Reserve continues to maintain their stance that inflationary effects will be largely "transitory" and should abate once the pandemic subsides and supply chain issues are resolved, however fears of sticky inflation abound. Many consumers are flush with discretionary cash from a combination of government stimulus and rising wages, brought on by a tightening labor market. The Fed will have a tight rope to walk between removing accommodative policy too soon and risking a market selloff or curtailment of the recovery and letting inflation run too hot for too long.

Whether the current inflationary environment will be merely transitory, or long-lasting, remains to be seen and the answer will be borne out over the coming quarters. However, despite this, the best hedge against inflation has been and continues to be owning quality, dividend-paying equities. Companies with strong market position, pricing power and the ability to reasonably pass on price increases to consumers are those which will benefit the most. Despite the noise surrounding inflation and COVID, corporate earnings have been extremely impressive and arguably the main driver of strong market returns in 2021. While there will be an inevitable slowdown in both economic and earnings growth, we view this more as a factor of the unsustainably robust growth coming out of the nadir of 2020 and easy year-over-year comparisons, rather than a signal of trouble ahead. In fact, looking back to 1950, in years where GDP growth exceeded

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4% and earnings subsequently slowed, on average the S&P 500 returned 7% in the 12 months that followed.

All of this to say that, while we approach this next market cycle with cautiousness, we don't necessarily see reason to sound the alarm. It is true that while the risk/reward paradigm has shifted slightly back toward the middle, we continue to see more upside, than not. Our ongoing bias to domestic, quality equities has proven profitable, a dynamic that we believe will endure. Fixed income remains a low-yielding proposition; one that we currently view as a ballast, mitigator of volatility and supply of cash, if needed, rather than a source of excess return, or income. We expect corporate earnings to remain strong and anticipate an abatement of the pandemic-related economic effects in the near-to-mid-term, supporting our overweight to stocks. We look forward to hearing from you and hope that you are staying healthy and safe!

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