# Portfolio Manager Commentary

September 17, 2021

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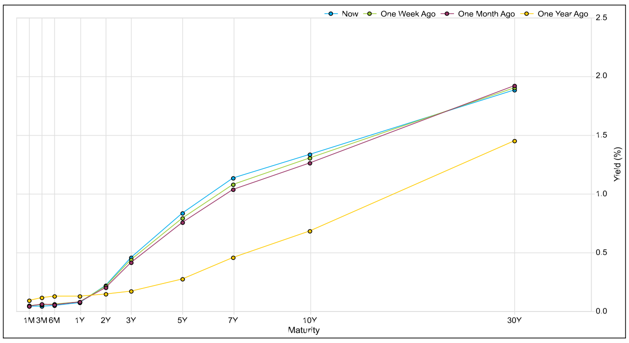
## Economic Outlook

U.S. 3-Year Annualized Inflation Expectations increased to 4.0% in August from 3.7% in July. Actual Consumer Prices were up 0.3% in August versus July's level of 0.5%. Retail Sales were up 0.7% in August versus having been down 1.7% in July. Industrial Production was up 0.4% in August versus +0.8% July. Finally, Capacity Utilization came in at 76.4% in August versus 76.2% in July.

## Fixed Income

Bond bears, long frustrated by stubbornly low Treasury yields, are preparing for a make-or-break week as the Federal Reserve is expected to start laying the groundwork for reducing stimulus during their meeting this week. The bond market enters this potentially pivotal stretch at a crossroads: ten-year yields are testing the upper end of the recent trading range as traders anticipate that the Federal Open Market Committee will hint at its plan to curb bond purchases at the conclusion of their meeting on Wednesday. For the bearish contingent, which is the majority on Wall Street, this meeting represents one of the last prospective triggers this year for a decisive breakout in yields. Primary dealers surveyed by Bloomberg News predict on average that the ten-year yield will end the year around 1.70%, which is substantially higher than its closing yield last week of 1.36%. Fed tapering signals are hardly the only focus. Strategists also see likely ammunition for bears in the central banks new forecasts for its benchmark rate. An unexpected hawkish shift in these projections in June jolted financial markets and flattened the yield curve by the most since the early days of the pandemic. According to a separate Bloomberg survey of economists, the Fed is likely to hint on Wednesday that it will be ready to taper soon with a formal announcement of its plan to be released at its November meeting.

### Change in Treasury Yield




### Current Generic Bonds Yields

| Treasuries | | Agencies | | Corporates | | Municipals | |
|---|---|---|---|---|---|---|---|
| 3 mo. | 0.03% | 3 mo | -0.07% | 3 mo | 0.15% | 3 mo | 0.16% |
| 6 mo | 0.04% | 6 mo | -0.04% | 6 mo | 0.17% | 6 mo | 0.16% |
| 1 yr | 0.06% | 1 yr | 0.02% | 1 yr | 0.20% | 1 yr | 0.17% |
| 2 yr | 0.22% | 2 yr | 0.24% | 2 yr | 0.33% | 2 yr | 0.18% |
| 5 yr | 0.86% | 5 yr | 0.69% | 5 yr | 1.09% | 5 yr | 0.53% |
| 10 yr | 1.36% | 10 yr | 1.45% | 10 yr | 1.88% | 10 yr | 1.12% |
| 30 yr | 1.90% | 30 yr | | 30 yr | 2.69% | 30 yr | 1.83% |

## Equity

U.S. Equity finished the week lower as the S&P 500 Large Cap Index fell -0.60%. Equity seems to be in the September slump as the S&P has fallen ~-2% Month-to-Date. On the headlines front, FactSet Research Systems notes "CPI and retail sales offered some reprieve for both inflation and growth worries though stagflation mentions continued to pick up amid lingering supply chain and input pressures and recovery headwinds from spread of Delta variant. Sell-side previews noted Fed expected to offer explicit tapering hints at next week's meeting, but strategists also expect monetary policy to remain extremely accommodative."

All sectors but Energy (+3.39%) and Consumer Discretionary (0.65%) finished the week negative with Materials lagging the most (-3.19%). Leading the sectors year-to-date, Energy (+33.14%) saw a rebound as the sector has been in a multi-month consolidation. The sector has now broken out of a price and relative downtrend and finds support at the 200-day moving average.

| Index Returns | Last Week | YTD |
|---|---|---|
| Dow Jones Industrials | -0.15% | 14.36% |
| S&P 500 (LCap) | -0.60% | 19.14% |
| S&P 400 (MCap) | -0.48% | 15.91% |
| Russell 2000 (SCap) | -0.13% | 12.65% |
| NASDAQ Composite | -0.51% | 16.68% |
| MSCI EAFE (Int'l) | -0.84% | 11.81% |
| iShares Real Estate | -0.04% | 26.07% |

Source: FactSet Research Systems

## Asset Allocation

**Current Sentiment**

| | |
|---|---|
| Cash | Favorable |
| Short FI | Neutral |
| Intermediate FI | Neutral |
| Inflation-Adjusted FI | Neutral |
| High Yield FI | Unfavorable |
| International FI | Unfavorable |
| Equity Income | Neutral |
| Large Cap Equity | Favorable |
| Mid Cap Equity | Neutral |
| Small Cap Equity | Unfavorable |
| International Equity | Unfavorable |
| Emerging Markets Equity | Unfavorable |
| Real Estate | Neutral |
| Commodities | Unfavorable |

**Summary below - Current stance on most asset classes:**

**Cash** - Overweighting due to market volatility and uncertainty from Covid-19.

**Short Term Bonds** - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

**Intermediate Term Bonds** - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

**Inflation-Adjusted Bonds** - Low inflation expected in near-term providing zero real return.

**High Yield Bonds** - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

**International Bonds** - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.

**Equity Income** - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.

**Large Cap Stocks** - A favorable weighting is recommended. Growth continues to be a more favorable style and should continue to be overweighed versus Value.

**Mid Cap Stocks** - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

**Small Cap Stocks** - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

**International Stocks** - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight is recommended.

**Emerging Market Stocks** - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.

**Real Estate** - Pricing has begun to stabilize and long-term valuations appear attractive. Real Estate should continue to be a strong alternative to other asset classes.

**Commodities** - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher, and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended

Sources of statistical information are Bloomberg and Ned Davis Research.