Portfolio Manager Commentary

December 3, 2021

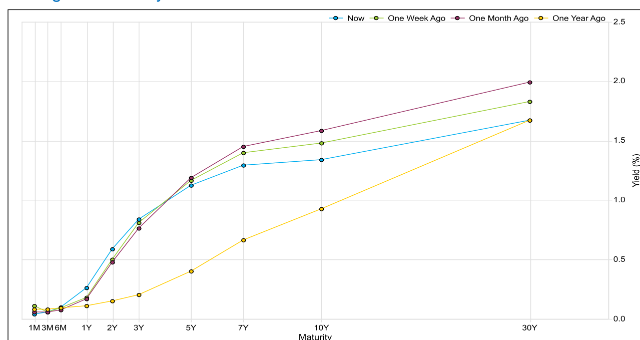
Economic Outlook

The Chicago Purchasing Manager's Index came in at 61.8 for November, in line with the overall U.S. PMI which was 58.3 for November. The Markit Services PMI was 58.0 for November and the ISM Services Index was 69.1 for November, both nicely expansionary. Factory Orders were up 1.0% for October. The S&P Case-Shiller Home Price Index was up 19.5% for the year ended September 2021. Finally, the U.S. unemployment rate was down to 4.2% for November from 4.6% in October. Average hourly earnings were up 0.3% for November after having been up 0.4% for October.

Fixed Income

Bond traders' faith in the Federal Reserve's power to curb inflation is about to face its biggest test in four decades. A drumbea t from Fed officials about combating rising consumer prices intensified in recent days after Fed Chair Jerome Powell told U.S. lawmakers that inflation has become "more persistent" and should no longer be referred to a s transitory. He said an elevated inflation rate that will "linger well into next year" lays the groundwork for the central bank to discuss winding down its asset purchases at a faster pace. The market reacted by narrowing the gap between short- and long-term Treasury yields, wagering that tighter monetary policy will slow down economic growth and begin to bring prices under control. The Fed's pivot comes as ana lysts expect data this week to show that the consumer price index surged 6.7% in November on a year-over-year basis, up from the 6.2% reported in October. That would be the highest reading for this metric since the Fed began aggressively fighting inflation back in the early 1980's. The hawkish tone from the Federal Reserve has led to a more pronounced flattening of the yield curve, a reaction that typically r eflects a jump in policy sensitive short-dated Treasury yields on expectations of rate hikes in the next 12 months. But the recent flattening has also been driven by declining ten - and thirty-year yields, signifying expectations for slower economic growth and inflation going forward.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.04%	3 mo	0.02%	3 mo	0.37%	3 mo	0.25%
6 mo	0.09%	6 mo	0.06%	6 mo	0.41%	6 mo	0.26%
1 yr	0.25%	1 yr	0.22%	1 yr	0.50%	1 yr	0.27%
2 yr	0.59%	2 yr	0.63%	2 yr	0.80%	2 yr	0.35%
5 yr	1.13%	5 yr	1.12%	5 yr	1.54%	5 yr	0.76%
10 yr	1.34%	10 yr	1.50%	10 yr	2.12%	10 yr	1.21%
30 yr	1.67%	30 yr		30 yr	2.70%	30 yr	1.74%

Equity

U.S. Equity fell as the S&P 500 finished down -1.21% for the week, in which the Omicron Coronavirus variants seemed to loom over the Market even without hard data regarding transmissibility, severity, or susceptibility. Hawkish language from the Fed also seems to b e something the Market is considering as the Fed is on track to accelerate tapering following the decline in the unemployment rate.

Utilities (+0.96%) was the sole positive sector for the week while Communication Services (-3.21%) and Consumer Discretionary (-2.17%) struggled the most. Contradictory to the beginning of the year, growth (+26.08%) has taken a sizeable lead on Value (+17.87%) as the year 2021 comes to a close.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.80%	14.89%
S&P 500 (LCap)	-1.21%	22.37%
S&P 400 (MCap)	-2.78%	17.15%
Russell 2000 (SCap)	-3.86%	9.34%
NASDAQ Composite	-2.62%	17.05%
MSCI EAFE (Int'l)	-0.13%	7.09%
iShares Real Estate	-0.01%	27.87%

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 ve rsus 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

Sources of statistical information are Bloomberg and Ned Davis Research.

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