NEWSLETTER – OCTOBER 2021

MARKET TRENDS 9.30.21

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	-0.14%	13.06%
US Stocks		
S&P 500	0.57%	15.89%
Large Cap Value	-0.83%	15.97%
Large Cap Growth	1.11%	14.15%
Mid Cap	-1.79%	15.46%
Small Cap	-4.41%	12.27%
International Stocks		
Developed Markets	-0.95%	7.85%
Emerging Markets	-8.67%	-2.17%
Fixed Income		
Taxable Bonds	0.06%	-1.59%
International Bonds	0.05%	-2.00%
Municipal Bonds	-0.42%	0.45%
Alternatives		
Emerging Markets Bonds	-0.95%	-2.15%
Floating Rate	0.08%	0.37%
Preferred	0.05%	4.36%
Gold	-1.25%	-8.12%
Real Estate	0.77%	21.11%

Source: Factset

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STOCKS END THIRD QUARTER IN TURMOIL

The S&P 500 Index ("S&P") notched its sixth consecutive positive quarter, eking out a 0.6% gain. September comes with a history of market volatility, and this September was no exception; equities had their worst month since March 2020. The S&P fell -4.8%, the Dow Jones Index and the technology-heavy Nasdaq both declined slightly during quarter, falling -1.5% and -0.38%, respectively. Domestic mid-caps and small caps trailed the S&P this quarter, as did emerging market stocks.

Fixed income performance was flat for the quarter. The Barclays Aggregate Index increased 0.1% and the Barclays Municipal Bond Index decreased -0.3%. Yields on 10-year U.S. Treasuries stayed in a tight range for much of the quarter, only to end above a 1.5% interest rate. This was due to the Federal Reserve indicating that it will begin reversing pandemic stimulus programs as early as November and will start raising interest rates next year, given the inflation jump.

QUESTIONS AMIDST A VOLATILE FALL

There was no shortage of risks conspiring to bring the equity market down including debt ceiling negotiations, fiscal policy, tax policy, and monetary policy uncertainties. In addition, questions over whether Jerome Powell will remain head of the Federal Reserve, global supply chain bottlenecks, slowing economic and earnings growth, and inflation fears. All considered, the equity markets have been extremely resilient.

ISN'T THE EQUITY MARKET TOO HIGH?

The fall is historically a volatile time for the equity markets. No one really knows why for certain. Sometimes it feels as if it's because of the change of season, the anxiety of back to school, or the coming winter. Often, we see a pickup in sentiment and demand that buoys the market toward the end of October into year-end.

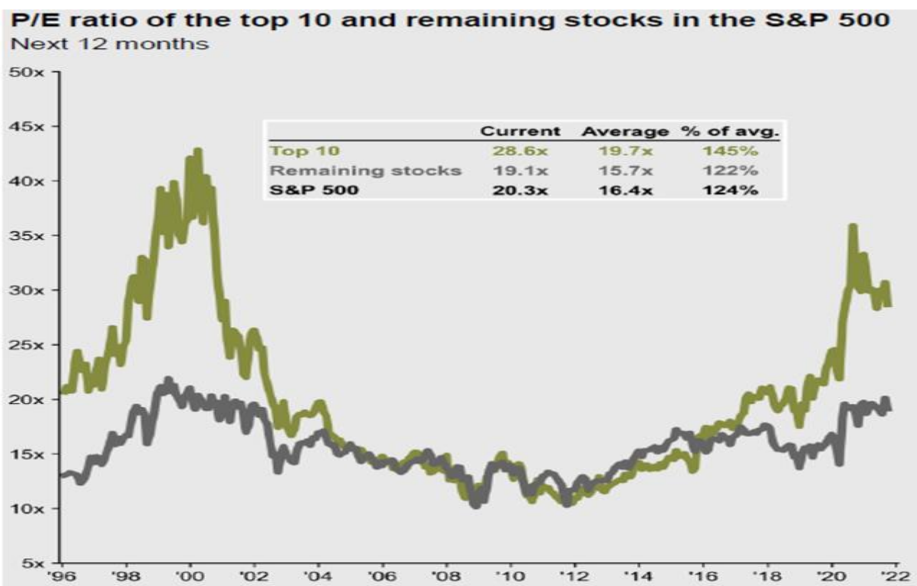
This year is particularly complicated as we continue to experience a tremendous shortage of labor and bottlenecks in the supply chain. News reports provide daily reminders that container ships line the shores of our ports waiting to unload. Used cars are in high demand because the semiconductors required for new cars are in short supply. The surge in home prices indicates a housing shortage that will likely take years to address. Our infrastructure has fallen behind global competitors, but politicians have not yet agreed on legislation to address these challenges. It appears that our government has devolved into a political system incapable of doing the necessary work of the people. We haven't seen these challenges in decades, if ever.

It's important to note that there is a difference between the economy and the stock market. The stock market is a leading indicator and acts as a precursor to what it sees happening in the real economy in the future. The recent market volatility is unsettling, but not unusual. Therefore, we manage your portfolios in a diversified manner considering your investment time horizon, cash needs and risk tolerance.

IS THE EQUITY MARKET TOO EXPENSIVE?

Yes and No! Certain pockets look expensive such as domestic mid to larger cap growth stocks, SPACs, IPOs and EV sector. However, large, dividend paying stocks domiciled domestically trade at a reasonable valuation – i.e., bank stocks and healthcare look attractive. International and emerging market equity-based companies also look appealing for long term investors, which we are. For all the news about the market's resilience this year; that just refers to the overall S&P 500 Index. Most of the stocks in the S&P have experienced significant weakness and corrected. According to Charles Schwab, more than 90% of the S&P 500's constituents have had at least a 10% correction from their highs, with just under 90% for the NASDAQ (tech-laden index) and an incredible 98% for the Russell 2000 (small-cap index).

The valuation stock distribution, most expensive to cheapest, is historical high.



We are constantly evaluating our holdings to navigate risks while looking for opportunities in sectors/stocks that may be temporarily out of favor. It is impossible to predict the short or intermediate term market moves, so we focus on applying a disciplined investment approach to your accounts, adding to out of favor areas/stocks and paring holdings that get ahead of themselves—while trying to avoid the more speculative areas of the market. We try to use common sense and patience relying on our collective experience, and hopefully wisdom, gathered over several decades.

ARE WE HEADED FOR A RECESSION?

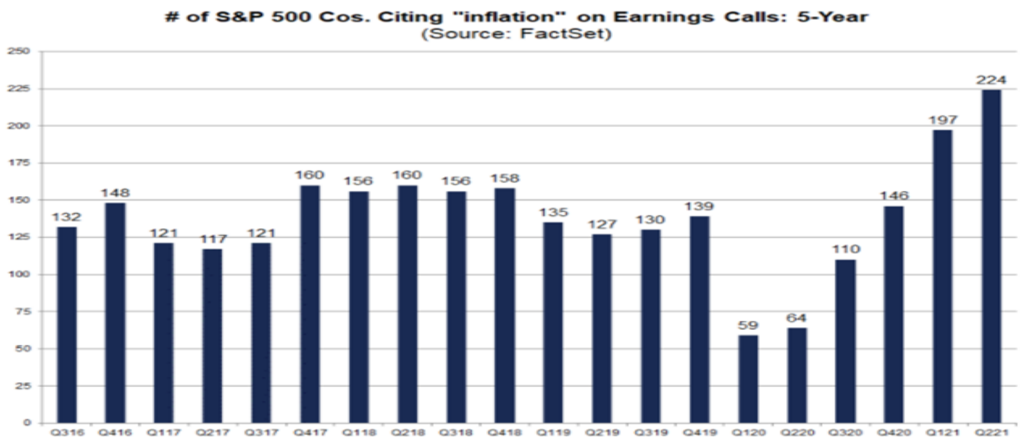
Recessions are just as impossible to predict as the direction of the stock market. Shocks to our financial system occur that can't be anticipated on a dependable basis. Historically those periods have been times to buy stocks and to get more aggressive utilizing the cash reserves in your accounts.

WHAT ARE WE DOING TO PROTECT & GROW ASSETS?

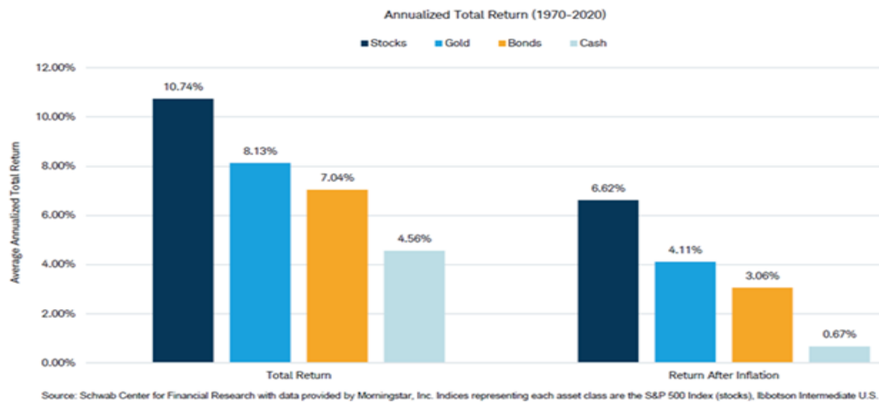
Shorepoint has positioned client accounts more defensively of late partly by increasing cash to our highest level in 12 years. The market has continued higher, making our defensive posture less than perfect. However, having some dry powder to invest seems prudent considering the level of uncertainty in the economy and financial markets. We have learned that the pain of loss is greater than the euphoria of gains. The preservation of capital is a key objective for us. As Warren Buffett says, when hamburgers go on sale, the Buffett family buys hamburgers. We stand ready to take advantage of market opportunities.

WHAT ABOUT INFLATION'S IMPACT?

Financial markets continue to be concerned about higher inflation. Consumer prices increased 5.3% in August, which was the second-largest annual increase since August 2008. So far, companies have posted strong profits despite rising raw material and labor costs. Going forward, it will be difficult for companies to maintain that momentum given lingering supply chain disruptions and labor shortages. According to FactSet, 224 companies mentioned inflation on their second quarter earnings calls, the highest number since 2010.



Is 5% inflation "transitory" or will it fall back below the pre-pandemic level towards the Federal Reserve's 2% target? We think it will fall somewhere in the middle, as higher productivity driven by technology adoption offsets current inflation pressures. We have added a short-term inflation protected security as appropriate to your accounts funded by reducing some of our traditional bond investments. One positive of higher inflation is that social security benefits will increase by 5.9% in 2022, the largest increase since the 1980's. Higher inflation and interest rates aren't necessarily a bad thing for the equity market. Equities have historically been an effective hedge against inflation, better than either gold or bonds.



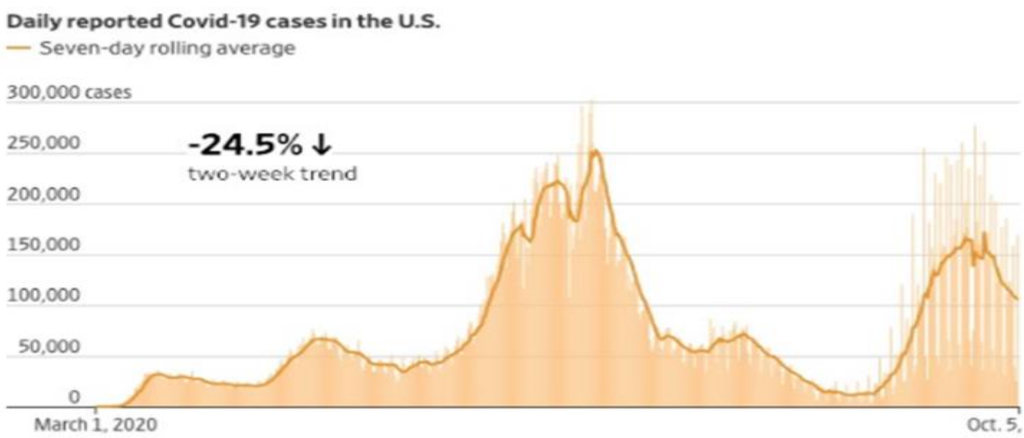
Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Indices representing each asset class are the S&P 500 Index (stocks), Ibbotson Intermediate U.S.

ARE CAPITAL GAINS GOING HIGHER?

The House Ways and Means Committee hasn't yet adopted the Biden administration's proposal to raise the top rate on long-term capital gains to 43.4% for those with incomes of $1M or more. However, the House did propose raising the rate to 25% and retaining a 3.8% surcharge for incomes above $400,000 (single filers) and $450,000 (married joint filers). Neither the full House nor the Senate has acted on the proposals, but the likelihood is the rate is going higher.

Overall, we expect to realize more capital gains than 2020. We have and will take profits by reducing outsized positions and rebalancing portfolios. We may take higher levels of capital gains before year-end if we get a better understanding of the government's tax plan.

HOW IS COVID-19 IMPACTING BUSINESS AND MY PORTFOLIO?



There is good news on the vaccination front. As of October 6th, 65% of the US population have had at least one vaccination dose and 56% of the population in the US are fully vaccinated. The two-week trend of reported cases is down -24%. No doubt that a high vaccination rate, vaccine requirements and aspects of herd immunity are helping to drive hospitalization rates down. We will continue to monitor the impact of vaccine requirements, booster rollouts and colder weather shifting activities indoors. A retreat on Covid-19 might ease pressure on manufacturing and increase spending to more services. In short, as COVID goes, the economy goes. And we are hopeful for continued diminishing of cases and more good health and prosperity for citizens in the near future.

CONCLUSION

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long term. There are always reasons not to invest, but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility.

We prefer stocks to bonds. We continue to have an allocation to bonds for diversification and to reduce overall volatility but have replaced some of the allocation with the Vanguard Short-Term Inflation Protected ETF. We believe the uneven recovery to date across economic sectors is good news for the 2022 growth outlook. It would not surprise us to see higher levels of volatility so we will continue to monitor the risk/rewards of both asset classes and sectors to rebalance appropriately.

Team Shorepoint