

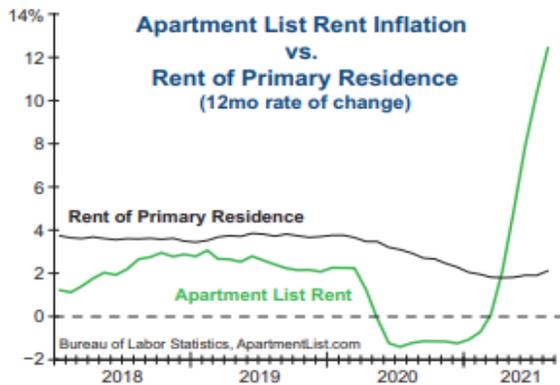
SEPTEMBER 2021

Markets Struggle During 3rd Quarter

Markets never like uncertainty and the 3rd Q provided plenty of uncertainty.

- When will the Fed start to taper their stimulus and how will markets react?
- Is inflation really just transitory?
- Have corporate earnings/margins peaked?
- How will the labor shortage get resolved?
- What will happen with tax rates and other fiscal policies from Congress?
- Is China's bear market in real estate a canary in the coal mine?

Asset markets have enjoyed the fruits of an aggressive monetary policy and now they must now deal with a rotation in the other direction. The phrase "Don't Fight the Fed" cuts both ways and we are about to face a change in direction head on. When the cost of money increases, asset prices tend to deflate. Bulls will point out that the Fed is about to taper their stimulus because the economy is growing faster than expected. We agree up to a certain point. What makes us uncomfortable is that inflation is ramping up much faster than we have seen in decades, while bond, stock and real estate prices have inflated to extreme levels. The Fed may have no choice but to fight inflation aggressively. This is no time to join the greater fool theory ie. there will always be someone willing to pay a higher price. Many of our portfolios have above average cash and we implemented new downside hedges for the first time.

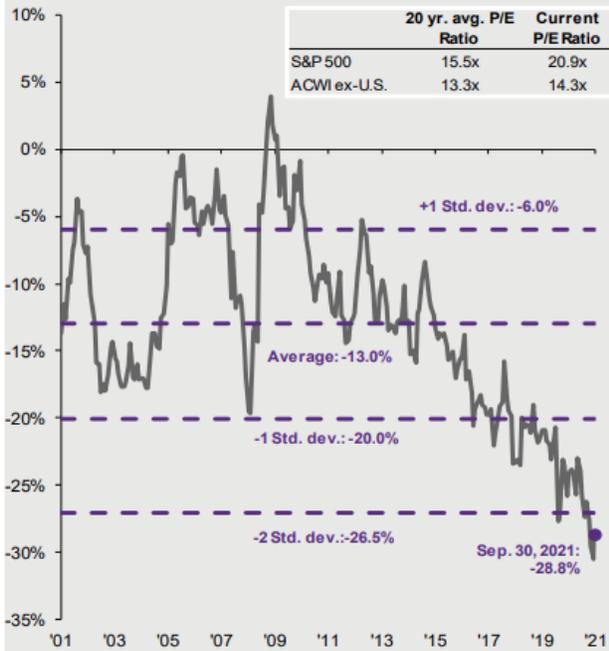


Foreign Stocks Have Relative Value

As we scan the globe for investment opportunities we see relative value in International Stocks. International Stocks trade at almost a 30% Price-to-Earnings (P/E) discount compared to the U.S. S&P 500 Index. In addition, International Stocks have an average dividend yield of 3% which is double the average yield of the U.S. S&P 500 Index of 1.5%. Yes, there is plenty of chaos overseas, but at least you are not paying super inflated prices.

International: Price-to-earnings discount vs. U.S.

MSCI AC World ex-U.S. vs. S&P 500 Indices, next 12 months



International: Difference in dividend yields vs. U.S.

MSCI AC World ex-U.S. minus S&P 500 Indices, next 12 months

