

PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, October 2021

This is a summary of our views on the economy and markets based on data through Q3 2021.

Economy

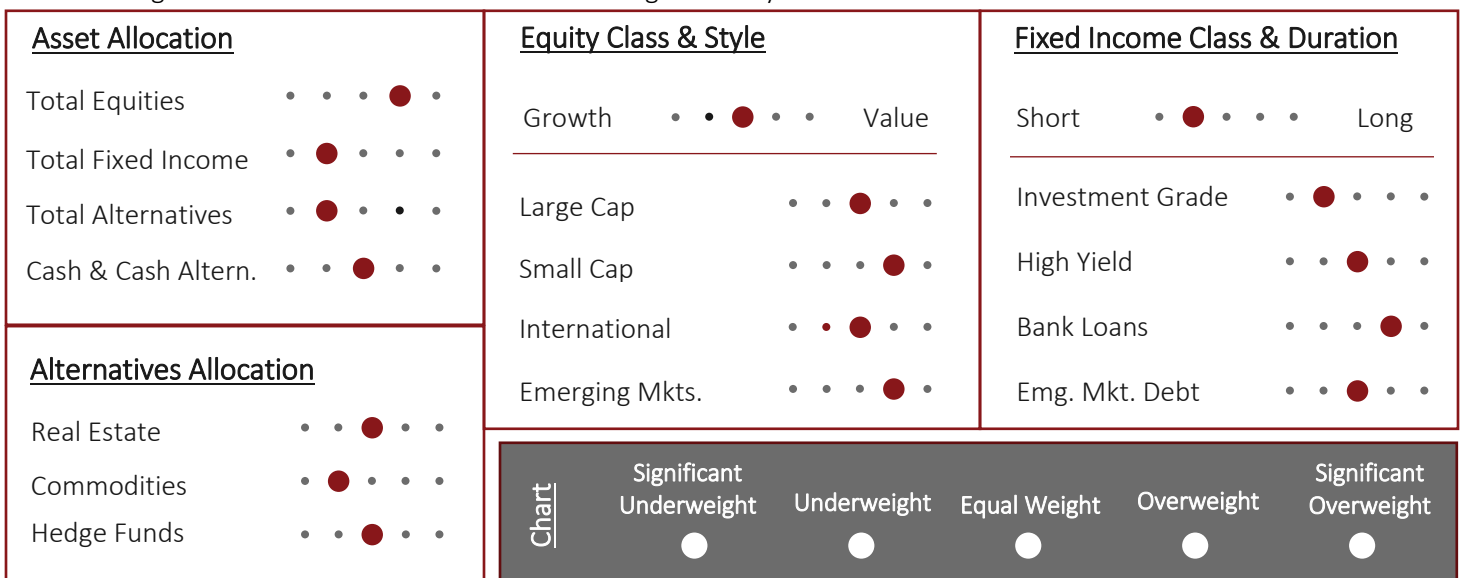
- U.S. GDP Growth – GDP grew at an annual rate of 4.9% through September. Outlook is optimistic given healthy corporate earnings announcements, likelihood of an infrastructure spending bill, and apparent slowing of the pandemic spread.
- Inflation – Headline inflation (including energy) increased to 5.4% in the third quarter. The reopening of the economy has created a mismatch of supply and demand. This phenomenon could accelerate through year-end as employment and consumer spending continue to improve.
- Employment/Wages – Wage growth has increased dramatically this year as supply chain disruptions have slowed reopening of the economy. Unemployment rate dropped to 4.8% in Q3.
- Consumer Spending/Confidence – U.S. personal savings rate increased to a record during pandemic and now is trending back to normal. This trend coupled with healthy consumer balance sheets is good for economic activity as the consumer is a large part of the growth of the economy.

Markets

- Fixed Income – We believe the Fed’s zero interest rate policy (ZIRP) has reached its zenith and the central bank will begin tapering asset purchases before 2021 comes to a close. This event should cause interest rates to trend slightly higher in the first half of 2022. The 10-year Treasury closed the quarter at 1.53% and credit spreads are tight.
- Equities – We expect earnings to continue to grow into 2022, but at a slowing pace. Equity markets should post gains but will exhibit higher volatility and sideways movement driven by sensitivity to headlines.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector. Hedge funds have kept pace with real estate in the past year and provide diversification benefits to equity/fixed income markets. Commodities have delivered strong results recently but face supply/demand imbalances and volatility.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC