September 30, 2021

We hope everyone has enjoyed the beginning of Fall and all the changes that come with it. The market has also been churning through a transition phase, one which looks quite different than the first half of the year and makes year-to-date performance a bit deceiving. Through September 30th, the MSCI All Country World Index (ACWI) and S&P 500 are up approximately 11% and 16%, respectively; however, equity markets have been mostly flat for the third quarter and down around 5% in the month of September.

Despite the recent volatility and until the end of September, the U.S. markets had not endured a 5% drawdown since last November, which represents the 8th longest stretch in history without such a decline. Historically, the S&P 500 has experienced an average intra-year drawdown of approximately 13%, even within extended bull markets (See Figure 1).

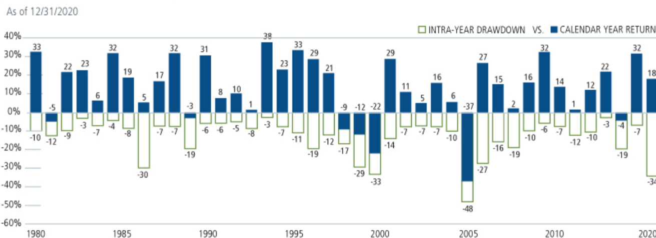

Figure 1 Source: Calamos Investments (https://www.calamos.com/insights/volatility-opportunity-guide/significant-intra-year-drawdowns-are-common/)

Despite the recurring headline risks, the returns investors have enjoyed in 2021 is a direct result of the *acceleration* in the rate of change of GDP growth and inflation. In such a reflationary environment, we would expect asset classes and sectors such as commodities, financials, and energy to outperform, which is precisely what transpired, with each up at least 30% year-to-date.

This reacceleration stalled during Q3, and while we may experience a milder positive change over the coming weeks due to a smaller and secondary reopening (particularly in Europe), we expect volatility to reemerge towards the end of the year and potentially into Q1 2022 as the growth rate *decelerates*. While we are not expecting a recession by any stretch, both GDP and corporate earnings estimates are likely to be revised downward as economic data continues to surprise to the downside (See Figure 2), leading to further volatility as expectations adjust on a lag and flow through to corporate earnings.

Additionally, net liquidity dynamics are likely to deteriorate as the Fed may be forced to fight supply-side inflation via tapering just as the rate of change in growth is slowing. This is particularly critical given the challenging year-over-year comparisons of net liquidity as we continue to roll off periods where we witnessed unprecedented fiscal and monetary stimulus.

Figure 2: Citi Economic Surprise Index – United States

Rest assured, we continue to monitor portfolios to manage risks over the coming months and to invest assets consistent with each of our client's unique risk tolerance and return objectives.

Tax Planning & Update

As we enter the fourth quarter, we remain cognizant of our clients' unique tax circumstances, which includes (but not limited to):

- Income Tax Planning
  - Tax loss harvesting within portfolios
  - Retirement plan and HSA funding
  - Tax-exempt vs. taxable bonds
  - Roth conversions
  - Required minimum distributions
- Charitable Giving
  - Low basis stock
  - Qualified charitable contributions ("QCD")
  - Donor Advised Funds
- Stock Compensation Planning
- Real Estate Deductions
- Small Business Planning
  - Timing for income and deductions
- Estate Planning
  - Annual gifting strategies
  - Reviewing documents & minimizing future potential estate taxes

As you may be aware, the Ways and Means Committee released a new tax reform proposal in mid-September to help fund the proposed $3.5 trillion spending bill. It remains to be seen if this will be revised further or pass at all, but the included reforms represent sweeping changes for corporations and high net worth individuals. We will continue to monitor the progress and maintain our proactive approach as it pertains to year-end planning.

We look forward to connecting with each of you in the coming weeks and months.