Quarterly Economic Update
Third Quarter 2021

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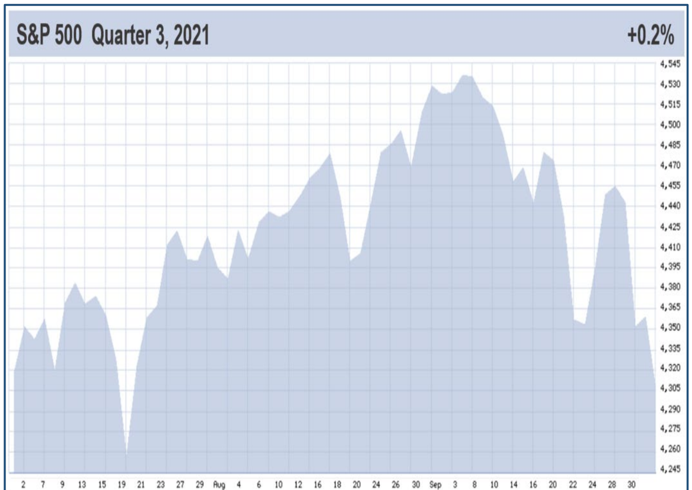
Equity markets ended the third quarter with mixed results. While the quarter started with strong earnings reports, lifting many large US stocks during the summer, it ended with the Federal Reserve (Fed) striking a dovish tone, confirming its hesitance to tighten policy too fast. Despite many positives, growth and inflation concerns late in the quarter caused many equities to retrace their steps in September. September has ranked as the weakest month for equities over the last 20 years. *(Sources :Barrons.com 9/30/2021;market.businessinsider.com 8/31/21)*

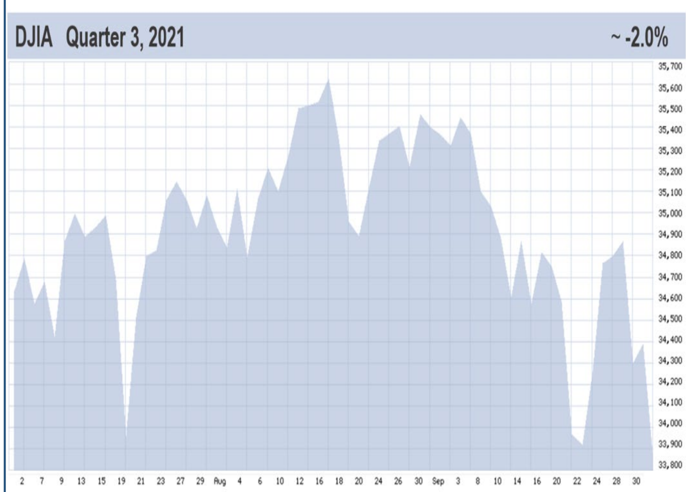
Although the S&P 500 experienced its worst monthly performance of the year in September, dropping 4.8%, it still experienced its sixth consecutive quarter gain, up 0.2%. The Dow Jones Industrial Average (DJIA) ended the quarter lower than it started, finishing at 33,843, after dropping 4.3% in September. For the third quarter, it ended down almost 2%, marking the first quarterly loss for the DJIA since the first quarter of 2020. *(Source: www.wsj.com, 9/30/21)*

A combination of factors continues to influence the direction of equity markets. Rising inflation expectations, impending interest rate changes, monetary policy changes (including tax law proposals), and continued COVID-19 concerns, have all been, and could continue to be, major factors in determining the direction of the economy. This could cause market volatility for investors in the near future.

COVID-19 still appears to be the major player in the economy. As the Fed stated during the FOMC meeting in September, "The path of the economy continues to depend on the course of the virus." Pending policy changes are also a major concern for equity market analysts who feel that significant policy measures may lead to a surge in inflation.(*Sources:forbes.com,9/22/21, federalreserve.gov, 9/22/21)*

All eyes are on when the Federal Reserve will commence their "tapering", which is the process of slowly pulling back the stimulus they have provided during the COVID-19 pandemic. Since June of 2020, the Federal Reserve has been purchasing $80 billion of Treasuries and $40 billion of mortgage-backed securities every month. The FOMC statement from September 22, 2021, reaffirmed the Fed's





Source: bigcharts.com

MONEY RATES

(as posted in Barron's 10/4/2021)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction)[c]	0.08%	0.09%
Bank Money Market[z]	0.07%	0.10%
12-month CD[z]	0.15%	0.27%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com) commitment to " using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals." *(Source: federalreserve.gov, 9/22/21)*

If you look back to March of 2020, investors have been on a rollercoaster ride. The remainder of this year and the start of 2022 could continue to keep us at the edge of our seats as it looks to be a period in which we could see a lot of changes. As your financial professional, it is our objective to stay apprised of key issues that we feel may directly impact you and your financial goals. As such, our objective is to continue to monitor the progress of the economic recovery and how the Fed will respond with monetary policy.

Inflation & Interest Rates

Interest rate and inflation concerns continue to be at the forefront of the economic news. Inflation is a concern for savers, as it directly affects purchasing power and lifestyle options. During the Federal Reserve's September meeting, it was announced that the federal funds rates will remain at 0 – 0.25%. They are expecting to maintain this range until, "labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to a sustainable 2 percent and is on track to moderately exceed 2 percent for some time." *(Source: federalreserve.gov, 9/22/21)*

Fed officials predict that in 2021 the U.S. economy will grow by approximately 6.5%. The Fed also indicated that, while still far away from "maximum employment", if the trend remains positive that tapering could soon commence. *(Source: reuters.com 9/28/21)*

Fed watchers are keeping a close eye on any indication of when the Fed will begin tampering down the purchase of bonds. Some are concerned that if the Fed waits too long to taper down bond buying and keeps rates near zero, that this could lead to inflation.

Greg McBride, CFA and Bankrate's Chief Financial Analyst cautioned, "The stock market has been a direct beneficiary of the Fed's stimulative actions and the prospect of reducing that is sure to spark heightened market volatility." *(Source: www.bankrate.com, 9/22/21)*

While we have seen and will probably continue to see short-term volatility, many analysts are still optimistic. "Despite short-term volatility, the long-term view of sustained economic growth, declining unemployment and improved household balance sheets is intact – and that is ultimately good for corporate profits and stock prices," McBride stated. "Investors should view any pullback through that lens and treat it as a buying opportunity." *(Source: www.bankrate.com, 9/22/21)*

Key Points

1. **The third quarter ended with volatility in September.**
2. **Interest rates still remain at near zero but interest rates may rise sooner than expected.**
3. **Inflation continues to be a concern and is closely being monitored by the Fed.**
4. **"Tapering" may commence as early as November.**
5. **Having a predetermined entry and exit strategy can help you save time, money and reduce risk and stress.**
6. **Call us with any questions or concerns about your personal investment strategy.**

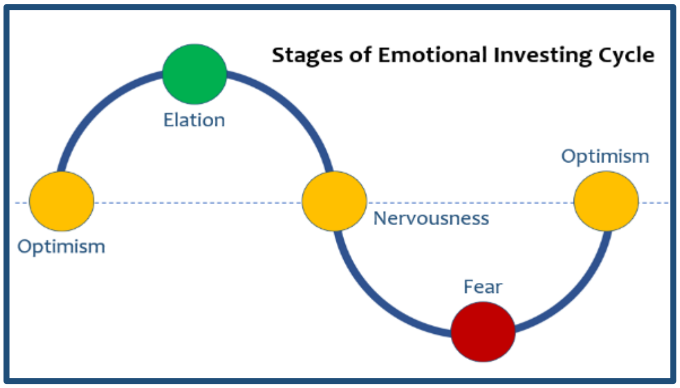
Treasury Yields

The 10-year Treasury yield finished the quarter at 1.52%. Since the Federal Reserve is discussing tapering soon, the demand for bonds would decrease, thus reducing their prices and raising their yields. Some Wall Street analysts are expecting the 10-year Treasury yield to rise to 1.7% or higher. With a 2% long-term inflation rate expected a resurgence of higher yields like investors saw in March of 2021 when it hit 1.75%, could be possible, according to St. Louis Fed data. *(Source: barrons.com, 9/28/21)*

Today's interest rates are still historically low; however, interest rates may be on the rise sooner than expected, and during periods of rising interest rates, bond prices fall. We are monitoring interest rates movements and investors need to remember bonds can be critical when creating a diversified and balanced portfolio.

Emotional Investing Cycle

The last quarter of the year can be a rewarding one, but it also can be a challenging one. Being aware and concerned about your financial situation and investments is natural and healthy. Your savings represent your capital for future use and can be the result of someone's hard work. For those at or near retirement, you hope it will, in large part, allow you to maintain a comfortable lifestyle through your retirement. This is why you need to be highly cautious of emotional investing moves. Investors should seek to become aware of their behavior in times of volatility, as well as opportunity. Being too fearful or overly optimistic can many times lead to rash or poor decisions. Your emotions can make you a reactive, instead of a proactive, investor.



Knowing your investing behavior and how to effectively control it is an important tool to help navigate not only volatile times, but it can also allow you to avoid impulse investing on "too good to be true" opportunities.

Having a firm grasp of the three major things you can control can will help you maintain discipline and direction toward your goals. Those three things are:

1. **Your risk tolerance;**
2. **Your time horizon; and**
3. **Your behavior.**

Remaining focused on the plan that you have set for yourself can be difficult when markets rise and fall, but it can be a critical part of your investing success or failure.

As your financial professional, one of our goals is to help our clients be comfortable with their investing experience. Equity markets will always have the potential to move up and down. Making sure your investment plan is focused on your personal goals, your risk tolerance, and timelines can help you through all the stages of the investing cycle.

Having pre-determined entry and exit points is an important strategy to integrate into your overall investment approach. Optimizing your return while managing risk should be a priority when investing. Taking the time to evaluate both ends of your personal strategy can help save you a lot of time, mental frustration, and help avoid emotionally driven decisions.

As the saying goes, "We are our own worst enemy". This can hold true when an investor does not have a set plan and spends time and energy vacillating on their decisions. Emotions, media magnification and sensationalism, and loss aversion can be major roadblocks and interrupt even the best intended investor's sound investment judgment.

Four factors that investors should focus on are:

1. **Your risk tolerance.** How much risk are you willing to take, or better yet, how much can you afford to take?

2. **Your time horizon.** The amount of time you want to be invested in any particular situation can help you determine your entry and exit points. Where many investors tend to stray is when they try to outguess the market.

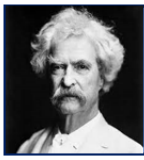
3. **Your behavior.** How well can you emotionally endure the potential ups and downs of your investments? Market volatility is part of the investment experience and can create panic and anxiety. Staying the course of a pre-determined strategy can help alleviate emotion-based decisions.

4. **Your overall strategy.** Are you looking at something that doesn't quite fit with your overall strategy? Investors should try to avoid emotions and stick with their predetermined strategies.

Saving time and money and reducing risk and stress can all be a byproduct of carefully creating and most importantly, adhering to, entry and exit points in your investments.

Investor's Outlook

If you look back at history, the fourth quarter is usually a positive one for investors. The fourth quarter of the year has empirically been the best for equity markets. According to Truist Securities data, even though October is typically a very volatile month, stocks have risen 79% of the time in the fourth quarter since 1950, with an average gain of 4%. *(Source: barrons.com 10/5/21)*



"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February." ***Mark Twain***

There are still many key factors that could affect what direction equity markets will move in the fourth quarter. As mentioned previously, rising inflation expectations, impending interest rate changes, monetary policy changes - including tax laws, and continued COVID-19 concerns, will continue to be major factors in the direction of the economy.

September and October have historically been difficult months for equity markets. Overall, 2021 has been a positive year for equity investors, and historically, a positive first half of the year has traditionally brought a positive second half. **Historical results are no indication of future results, and we still believe that caution should be the principal notion for investors.**

As your financial professional, we are here to help you pursue your goals. Prior to making any financial decisions, we always recommend you contact us so we can help determine the best strategy. Many times, there are other things to consider, including tax ramifications, increased risk, and time horizon fluctuations when changing anything in your financial plan.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office, or bring it up at our next scheduled meeting. If you ever have any concerns or questions, please contact us!

We are here for you!

A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address them.

Complimentary Financial Check Up

If you are currently not a client of Skeels & Fox Wealth Management, we would like to offer you a ***complimentary, one-hour, private consultation*** at absolutely no cost or obligation to you. **To schedule your financial check-up, please call Russ Fox @ (805) 485-5555.**

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There is no guarantee that a diversified portfolio will enhance overall returns out outperform a non-diversified portfolio. Diversification does not protect against market risk.

Sources: barrons.com; wsj.com; forbes.com; Nasdaq.com; treasury.gov; bankrate.com; federalreserve.gov; reutures.com; cnbc.com; Contents provided by the Academy of Preferred Financial Advisors, 2021©