

"Cup of Joe"

September is the most volatile month of the year, and it is now behind us. So, we felt now would be a good time for a market update to discuss the current market conditions, the pandemic, inflation, the debt ceiling, the Federal Reserve's next moves and projections for the last 3 months of the year.

First, we feel the current state of the economy is just "ok". Not great…but getting better. A lot of this is due to the resurgence of the Delta Variant and its effect on the consumer. While we do feel the delta variant will get worse in the northeast as the weather gets colder, many of the experts feel the numbers will start to decrease rapidly by Thanksgiving, following a similar playbook in the UK and Europe. Employment numbers should continue to improve as well now that the unemployment benefits implemented last year have ended, forcing Americans to go find jobs that desperately need to be filled. With a big miss in the recent jobs report as well, this will allow the FED to kick the can down the road a little longer in it's timeline for reducing their bond purchases, which the stock market tends to like.

Remember, the stock market is "vastly different from the economy" and has been chugging along nicely. As many of you know, the stock market does **NOT** go up in a straight line, and a market correction (a 10% drop or more) should not catch anyone off guard. These corrections happen, on average, annually and are very healthy for markets. When markets decline, these events give investors, sitting on the sidelines with cash, a reason to put new money to work. And with the Federal Reserve announcing their intentions to start tapering their bond purchases this fall, this could cause what has been labeled, a "taper tantrum" of sorts. We feel this tapering would be a healthy step towards normalizing policy and could be viewed using the analogy of a child learning to ride a bike and removing the "training wheels". Yes, there may be some falls along the way that equate to volatility. But, in the long run, the market again learns to ride its bike with less and less assistance along the way.

The other news is that inflation is looking more and more likely to be a temporary spike, or "transitory" as economists like to call it. One example would be lumber prices, which have come way down, with the price of a 2x4 dropping from $9 to $3 today. And a lot of these recent price increases are due to supply shortages caused by the lack of workers in the labor market. This should begin to improve as well now that workers have been incentivized to go back to work with the unemployment benefits ending. Should the spike in inflation last longer than expected, this could force the FED to move quicker in its policy decisions to raise interest rates causing increased volatility as well. Our view is that inflation should stay elevated into the first 2 quarters of next year. The other side of inflation is that with the extremely low

interest rate environment hurting savers, this could force more investors to enter the equity markets for fear of real returns in interest-baring assets having a negative real return. (Simply put…any money in the bank is losing money at the rate of inflation!) So, if inflation is running at 5%/year, the bank savings account is losing 5% just by sitting there.

Another risk, the raising of the debt ceiling, is a continuous political football that will be with us for a very long time. Yes, they must raise it to pay for money we already spent. And no, you can't time or predict an outcome on this type of event. Thankfully, they decided to temporarily raise the debt ceiling for a few more months, punting the football until December where we will be talking about this issue once again.

Overall, we look at the economy as a work in progress while continuing to improve as the stock market remains resilient. In the short-term, we do see volatility with the Federal Reserve tapering set to begin. Mid to long-term, we are very optimistic that this bull market can go on for many years due in part to a low interest rate environment, and an immense amount of monetary stimulus (trillions!) still in the system, an improving labor market, infrastructure on the table, and what's being predicted as the end of COVID in a year's time.

In terms of our portfolio moves…

- We look to minimize our exposure to China over the coming months. (It has become obvious that tigers don't really change their stripes and that the communist regime is not about to let capitalism win!) While Chinese stocks do look cheap, we are choosing to find value elsewhere.
- We remain upbeat on Apple, even though the stock may hit some shorter-term turbulence with inflationary concerns. The ongoing iPhone super cycle remains strong along with possible new product categories coming soon. (An Apple Car, Augmented Reality Glasses, and a new phone design etc.) We are also very bullish on the future of Apple TV, with its content already winning awards for shows such as Ted Lasso and The Morning Show.
- We believe Disney will continue to do well moving forward once COVID cases start to wane, giving more people the OK to go a visit their theme parks. Good news on the COVID front would also help upcoming movies being released in the theatres. Disney looks to benefit from both the "re-opening trade" AND the "stay-at-home" trade, making it a long-term holding in our portfolios.

In conclusion, we feel any near-term volatility should provide a nice entry-point for cash sitting on the sidelines (since any money in the bank is just losing its buying power) and we feel the market will ultimately end the year higher. We have had the same comment from client's time and again…" let me know when you think it's a good time to invest and I will add more money to my account." And our response is that we can only invest the cash that is in your account at the time we feel it is appropriate. We do not have the time to call everyone and say now is the time to put your money in your investment account. And by the time you send in a check or initiate a transfer, you most likely missed the opportunity. Having said that, please put any money you want to be invested into your accounts so that you do not miss this upcoming investment opportunity.

We hope everyone has a great fall and stays safe!

-Joe, Ryan, and the Chapel Hill Investment Team

CONTACT US

jsc@chapelhillinvestment.com

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Chapel Hill Investment Analysts, Inc.
126 Mathews Street, Suite 1600 | Greensburg, PA 15601
P: 724.830.2600 | F: 724.830.2795
www.chapelhillinvestment.com

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