FULLEN FINANCIAL
GROUP

Quarterly Market Summary – Q3 2021

Market Results as of the Third Quarter of 2021
Selected Index Results for Q3 – 2021

Index(1)	**%Growth For FY 2020**	**%Growth For YTD 2021**	**%Growth For Q3 2021**
DJIA	7.25%	10.58%	-1.19%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	5.18%	-2.84%	-0.43%
S&P 500 (large cap)	16.26%	14.68%	0.23%
S&P 400 (mid cap)	11.81%	14.48%	-2.06%
Russell 2000 (small cap)	18.36%	11.62%	-4.60%
MSCI EAFE Index (developed international)	5.07%	6.92%	-1.10%
iShares MSCI Emerging Market Index	15.15%	-2.50%	-8.65%
iShares Dow Jones US Home Construction	25.62%	18.60%	-4.39%
MSCI US REIT Index	-11.11%	20.18%	0.21%
Amex Oil Index	-37.63%	39.21%	-3.11%
Barclays Global Agg ex-US Corp Bond Index	10.95%	-6.83%	-2.73%

(1) These results do not include reinvestment of dividends.

Q3 Quick Summary

- The global economy is bouncing back but 2021 is shaping up to be a two-track recovery. Advanced economies have deployed aggressive mass vaccination schemes, while emerging and developing markets have struggled to obtain vaccines and control the virus.
- Job growth continued during the third quarter, and the U.S. has made solid progress on the employment front, with the unemployment rate falling to 4.8% in September; however, stagnation in the labor force participation rate has been a disappointment.
- Inflation has risen to a level not seen in years, with 5.3% year-over-year growth in the Consumer Price Index in August. Much of the increase is associated with supply chain issues or shortages due to reopening the economy, suggesting a transitory nature.
- The U.S. Federal Reserve maintains an optimistic outlook for economic growth and members of the Fed board have increased their openness to tighter monetary policy starting in 2022.

Global Expansion Amid Crosswinds

The broad trend of economic expansion continued in Q3 for many major economies, including the U.S. and Europe, supported by economic reopening. However, supply constraints and disruptions weighed on momentum, and many developing countries remained inhibited by their more limited vaccination and reopening progress. In addition, there were signs of decelerating economic activity in China, which could weigh heavily on manufacturing in emerging markets. A general slowdown in China amid tighter regulatory policies and concerns in the real estate market may hamper global economic growth into 2022.

Quarter-over-quarter GDP growth has been robust in 2021, although full-year growth forecasts have been revised downward due to renewed shutdowns and other restrictions in response to the Delta variant. Global GDP growth is now forecast to be just under 6% for 2021, with estimates of 5.6% growth for the U.S. and 5.0% for the Euro zone. However, the outlook for 2021 continues to be heavily virus dependent. Despite rising infections over the summer months, ongoing fiscal stimulus and vaccine abundance in advanced economies continue to support economic growth. While the virus is mutating, the current vaccines continue to have a very high rate of effectiveness at preventing infection and moderating the severity of the infections. If a mutation occurs that is vaccine resistant, it could change the pace of recovery substantially (even in developed markets) and so the virus remains an economic threat. At the same time, a shortage of vaccine supply and difficulties managing virus transmission add more downside risk to the recovery in emerging and developing markets.

Job Market Improves, But Gaps Will Persist

With the continued reopening of the economy, the U.S. has made solid progress on the job front, ending the quarter at a 4.8% unemployment rate. That headline figure may understate the extent of joblessness, however, as meager gains in the labor force participation rate are cause for concern. There is confusion among economists as to what is causing the stagnant labor participation rate. Some blame elevated levels of unemployment benefits that should ease as excess unemployment benefits expire. However, there is mounting evidence that other issues may be exacerbating the problem, most of these very difficult to correct:

1. Estimates are that three million workers have taken retirement earlier than they anticipated prior to Covid. If this is even partially correct it may be difficult to encourage them back into the workforce and it will likely have a lasting impact on labor participation rates.
2. For several years now, Baby Boomers have been retiring at an unprecedented rate (10,000 per day). We were experiencing labor stress prior to the pandemic and with the early retirements mentioned above, the problem may have just gotten worse.
3. A surprising result of Covid is that state departments of commerce are reporting a 57% increase in new business permits. The vast majority of these permits are expected to be for single person companies for individuals that were previously in many of the consumer facing industries (like hospitality). If these entrepreneurs stay in self-employment remains to be seen. Also, while these entrepreneurs try to start their businesses, they may be distorting labor participation statistics.
4. Employees are simply leaving many of the consumer facing occupations and going into other areas that are less exposed to Covid. This should not impact overall employment but may create some distortion as they retool their skills.

Firms have posted the highest rate of job openings in two decades while the notional unemployment rate has remained higher than pre-pandemic. Unfortunately, this is a very complex problem caused by a number of variables that may actually get worse before they get better (the last Baby Boomer doesn’t turn 65 until 2029). Economists have already lowered GDP projections because of the inability to find workers and overcome the impacts of Covid. It is possible that this employment issue is going to be with us for several more years (this is possibly one of the “new normals” brought about by the pandemic).

This dynamic has contributed to rising wages, especially, but not exclusively, for workers at the low end of the skill and education spectrum. These pressures have been particularly acute for small businesses, with the National Federation of Independent Businesses (NFIB)'s small business survey hitting record highs on the number of members raising wages yet still unable to fill open positions.

How Transitory is Inflation?

Inflation has been a central theme of most economic outlooks in 2021, with expectations for a strong economic rebound in places with high vaccination rates creating some supply/demand imbalances, combined with prices returning to pre-COVID levels in those industries hit hardest by the pandemic. Although the run-up in inflation rates in 2021 has been higher than many economists expected, most continue to believe the current high rates will be transitory, with core inflation beginning to fall back toward 2% sometime in mid to late 2022.

Supporting the transitory argument is the fact that much of the acceleration in inflation in 2021 is associated with the reopening of the economy and related supply chain issues and shortages. In particular, travel-related prices have seen significant increases over the spring and summer, as demand for travel related goods and services outstripped the industry's ability to ramp up. Most notably, airfares, which fell nearly 30% from January to May 2020, are still below pre-pandemic levels, even though monthly price gains have been as high as 10%. This is even more interesting when you consider that airlines are still running at less than 50% of pre-pandemic levels. It is questionable whether or not many in the travel and entertainment business can even get back to pre-pandemic levels. Rental car prices also rose substantially due to rental car companies having sold off their fleets during the initial lockdown. Semiconductor shortages and shipping bottlenecks continue to be of concern, but the markets are working very hard to solve these problems and will likely address many of these issues.

The conundrum for the market, however, is the Fed's adoption of "flexible average inflation targeting" as part of its monetary policy in August of 2020. After a two-year review of its policies, the Fed determined that its pre-emptive approach to curbing inflation had prevented the economy from reaching its full potential and kept the unemployment rate elevated. To correct that perceived error, it signaled that going forward, it would allow inflation to overshoot its target for "some period of time" to make sure it didn't curtail growth too much. Now, with inflation well above its target range, the market is grappling with whether the Fed is going to tighten policy enough to pull inflation back to its 2% - 2.5% target range. We should not lose sight of the experimental nature of the Fed's position and the unpredictability of how it might impact investment markets.

The Fed Walks a Narrow Line

Inflation is becoming a common thread in outlooks for the economy and markets. To this point, and in the months ahead, the Fed will try to maintain a delicate balancing act between an improving but still high unemployment rate and the threat of longer-term inflation. The short-term federal funds rate target is the Fed's primary policy tool, and it is currently in a range between 0% and 0.25%. The Fed has announced it will likely begin tapering its bond purchases later this year, with an eye to ending the program in 2022.That shift in tone may reassure markets the Fed will keep inflation under control, but tapering is not tightening, it is just less easing. Tightening policy won't occur until the Fed actually begins to raise short-term interest rates, which is not expected until late 2022.

All of this comes in the context of unprecedented monetary and fiscal stimulus throughout the COVID-19 pandemic, which have supported liquidity and asset prices. Currently, congressional negotiations continue

on significant additional government spending and related tax increases. The long-term implications of these legislative efforts remain to be seen, but the likely outcome in the short term is increased volatility in the financial markets. Coupled with looming negotiations on raising the federal debt ceiling, the potential exists for significant short-term swings in stock values for the remainder of this year and into 2022.

Conclusions

While the COVID threat to the economy still lingers, the recent surge in cases related to the Delta variant, the moderating rate of vaccination and the possibility of additional variants are causes for concern – and make projection of future economic and stock market performance very difficult. Projecting stock market direction is always rife with problems, doing so in such an environment can quickly make even the most thoughtful projections irrelevant. In a rapidly growing economy with rising inflation, assets with exposure to high nominal growth rates, including value stocks and commodities, may hold up well, whereas bonds could struggle. As economic reopening progresses, relative performance patterns may be influenced by the trajectories of policy, inflation, and real interest rates. More accommodative monetary and fiscal policies could generate inflationary pressure, whereas a move toward policy normalization could negatively impact financial conditions.

Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more "normal" levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply

feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

[Continues on next page]

Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe				
	2020	2021F	2022F	2023F
Real GDP (annual per cent change)				
G7 (30.1%)*	-5.0	5.5	4.1	2.0
U.S.	-3.4	5.6	4.1	2.6
Japan	-4.7	2.4	2.5	0.7
Euro Area	-6.5	5.0	4.0	1.6
Germany	-4.9	3.0	4.2	1.3
France	-8.0	6.2	3.5	1.7
Italy	-8.9	5.8	3.9	1.3
United Kingdom	-9.8	6.7	5.9	2.1
Canada	-5.3	4.9	4.4	2.8
Consumer Price Index (annual per cent change)				
G7	0.8	1.9	2.0	1.6
U.S.	1.2	4.3	3.0	2.2
Japan	0.0	-0.2	0.5	0.5
Euro Area	0.3	2.2	1.6	1.4
Germany	0.4	2.8	1.7	1.5
France	0.5	1.7	1.4	1.4
Italy	-0.1	1.6	1.1	1.3
United Kingdom	0.9	2.2	2.6	1.8
Canada	0.7	3.1	2.9	2.2
Unemployment Rate (per cent annual averages)				
U.S.	8.1	5.6	4.0	3.4
Japan	2.8	2.9	2.9	2.5
Euro Area	7.9	7.9	7.7	7.5
Germany	5.9	5.7	5.5	5.1
France	8.0	8.0	8.2	8.1
Italy	9.3	9.7	9.6	9.1
United Kingdom	4.4	4.8	4.6	4.1
Canada	9.6	7.5	6.1	5.6

*Share of 2018 world gross domestic product (GDP) at PPP.
Forecast as at September 2021.
Source: National statistics agencies, TD Economics.

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2018 Share*	Forecast		
Real GDP	(%)	2021	2022	2023
World	100.0	5.9	4.7	3.7
North America	18.5	5.7	4.2	2.9
United States	15.2	5.6	4.1	2.6
Canada	1.4	4.9	4.4	2.8
Mexico	1.9	6.1	3.4	3.0
European Union (EU-28)	16.3	5.1	4.3	1.9
Euro Area (EU-19)	11.4	5.0	4.0	1.6
Germany	3.2	3.0	4.2	1.3
France	2.2	6.2	3.5	1.7
Italy	1.8	5.8	3.9	1.3
United Kingdom	2.2	6.7	5.9	2.1
EU accession members	2.6	4.6	4.3	2.2
Asia	45.0	6.8	5.2	4.9
Japan	4.1	2.4	2.5	0.7
Asian NIC's	3.4	5.1	3.4	2.6
Hong Kong	0.4	7.3	4.5	3.2
Korea	1.7	4.1	3.0	2.5
Singapore	0.4	6.5	4.7	2.7
Taiwan	0.9	5.9	3.4	2.7
Russia	3.1	3.5	2.7	1.8
Australia & New Zealand	1.1	4.7	3.1	2.9
Emerging Asia	33.2	7.9	6.0	6.0
ASEAN-5	5.5	3.9	5.8	5.5
China	18.7	8.5	5.5	5.7
India**	7.7	9.3	7.7	7.5
Central/South America	5.6	6.1	3.3	3.1
Brazil	2.5	5.3	3.1	2.9
Other Emerging Markets	13.6	4.2	5.1	3.3
Other Advanced	1.1	4.0	3.8	2.2

*Share of world GDP on a purchasing-power-parity (PPP) basis.
Forecast as at September 2021. **Forecast for India refers to fiscal year
Source: IMF, TD Economics.

Important Disclosures: This material is for informational purposes only. It is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction or investment strategy.

Judgement or recommendations found in this report may differ materially from what may be presented in a long-term investment plan and are subject to change at any time. This report's authors will not advise you as to any changes in figures or views found in this report.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.