MARKET
INSIGHT
MONTHLY

OUR THOUGHTS

UNITED BANK
Wealth Management

Each month, United Wealth Management provides our valued clients a current review and analysis of important factors contributing to financial market behavior. The August issue of our Monthly Market Insights accompanies this letter.

Following a stellar economic first half of the year, the U.S. economy has shown few signs over the summer that future growth will be curtailed any time soon. As discussed in prior letters, the massive financial support provided by Congress and the Federal Reserve, in essence, bought time. It allowed several simultaneous activities to develop:

- The financial support allowed many paycheck-to-paycheck Americans, who found themselves quickly and unexpectedly unemployed, a lifeline to replacement income.
- Government sponsored loan programs (such as the Paycheck Protection Program) allowed businesses to obtain working capital to stay solvent and remain viable entities.
- Vaccine development became the immediate and primary global health focus.
- The hope for and eventual implementation of vaccine manufacturing, distribution, and inoculation efforts has been the major driver of economic prosperity and positive investor sentiment.

In fact, our recent examination of global stock market performance indicates there is a direct correlation between higher vaccination rates and investor confidence. Though the U.S. has not yet reached a herd immunity level, vaccination rates in the U.S. are among the highest in the world. We believe this is one of the reasons why the U.S. equity markets have generally outperformed almost all international markets. Our decision to increase U.S equity exposure in the fall of 2020 has proven to be a positive addition to our clients' portfolios.

More Americans are back to work. The unemployment rate now stands at a post-COVID low of 5.4%. On average, during the last 5 months, over 700,000 Americans have accepted jobs each month and are now receiving regular paychecks. Fewer Americans are receiving assistance and fewer are being removed from the workforce.

Corporate earnings for the S&P 500 have broken records and have been nothing short of spectacular. Earnings are so good that estimates for future growth have increased impressively as the economic momentum is unlikely to be curtailed, all things being held equal.

As always, we remain vigilant. We understand that variables such as inflation, taxes, and geopolitical events may alter the environment and have an impact on future prosperity. We continue to evaluate both the risks and opportunities each and every day. We are focused on protecting our clients from the strain of uncertainty. Please contact us at any time to discuss any topics in greater detail.

Sincerely,
Your United Wealth Management Team

MARKET INSIGHT MONTHLY

August Update

MONTHLY COMMENTARY

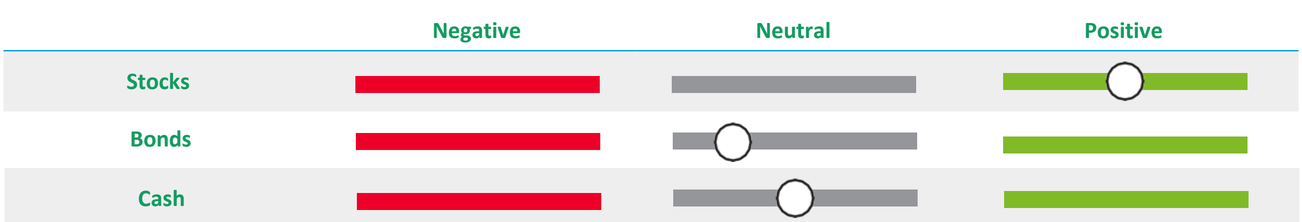
Though Labor Day is only weeks away, the summer of 2021 has been fairly calm and sedate for the financial markets. The domestic stock market has generally continued to move upward with a bit more bias to large-cap companies. The COVID-19 delta variant threat has made investors more conscious of economic and market risk. Investors have marginally de-risked equity positions in the near term and embraced the safety of fixed income securities driving rates down. This moderate and likely temporary adjustment in portfolio risk comes at a time when corporate earnings are setting records and will continue to build to even higher levels well into 2022. We still believe in the potential for further gains for stocks over the rest of the year, powered by a strengthening employment picture, low and unobstructive interest rates, and higher vaccination rates.

INVESTMENT TAKEAWAYS

- Our total equity allocation remains overweight. We continue to favor stocks over bonds based on our expectation for the strong economic and earnings recovery this year into next.
- As the recovery progresses, we expect economically sensitive cyclical stocks will perform quite well. We also favor growth companies with both strong current earnings delivery and strong future earnings growth potential.
- Our positive view of small caps is supported by evidence from prior recoveries. Historically, this segment performs very well during early and mid-stage bull markets. Valuations appear very reasonable.
- Our international views are aligned with our domestic assessment. Cyclical stocks have established market leadership in Europe and Japan. Western Europe and other developed nations may emerge from the pandemic more quickly due to higher vaccination rates. Thus, developed nations may see their equities markets outperform emerging markets (EM) in the near term for the same reason.
- We continue to underweight our allocation to fixed income. Although we've seen higher rates this year in general, the Fed's very accommodative monetary policy may limit the risk of further large moves in the future. Higher rates will eventually put some pressure on total bond returns though future economic improvement will result.
- We favor a blend of short to intermediate bonds with an emphasis on high credit quality.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

We continue to favor stocks relative to bonds based on our expectation that a stronger economic environment will remain in place and record setting earnings will be reported this year into next. As the recovery progresses and interest rate increases are sustainable, we would expect cyclical stocks to outperform. Our international views are aligned with our domestic positioning. We expect companies from developed nations based in both Europe and Asia to continue their transition more quickly into a post-COVID environment. International developed equities may outperform emerging markets in the near term due to higher vaccination rates.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The relatively greater financial strength enjoyed by most large cap companies guided investors preferences last year during the pandemic and once again this summer when modest uncertainty surfaced. We expect large cap companies to perform very well on a relative basis, as long as the COVID variant threat exists.
	Mid Caps			Mid caps enjoy many of the cycle characteristics of small caps, and therefore, are performing well as this durable recovery continues. Mid cap stock valuations remain attractive.
	Small Caps			Our small cap view remains positive, supported by the continued economic expansion and strong earnings rebound. Valuations are attractive based on strong earnings growth prospects through 2022.
Style	Growth			We believe growth stocks will continue to garner investor support from strong current earnings and strong future expectations. Continued industrial innovation will motivate investors for years to come.
	Value			We expect cyclical value stocks to outperform defensive value stocks as the economy expands. Value stocks have lagged their growth counterparts for over a decade. We expect that over time, a reversion to the mean will eventually be positive for value stocks.
Region	United States			We see the potential for more gains in the U.S. stock market during the second half of 2021 despite the lingering COVID threat. The significant stimulative and supportive resources deployed within the U.S. have paid and will pay economic dividends in the future. Though the U.S. vaccination rate had slowed, it has begun to increase once again due to the variant severity. The percentage of people fully and partially vaccinated now stands at 50% and 58% respectively, according to the CDC. This remains 11% higher than the G7 and 12% higher than the European Union and more than double that of Japan. We continue to favor the U.S. for these reasons.
	Developed International			The developed international equity markets have been held at bay due to uneven vaccine availability and distribution. Investors have favored countries with stronger health protocols, such as the U.S., the U.K. and Canada. As the vaccine becomes more universally accepted, developed countries are likely to demonstrate more reliable forward economic momentum.
	Emerging Markets			Emerging market economies have lagged other global regions this year. After stellar 2020 performance, COVID vaccine availability in lesser developed countries combined with heavy handed Chinese political rhetoric against their own markets have made investors less secure in the near term. With vaccination rates even less than those in Japan, the Asian EM segment has lagged modestly behind their developed counterpart. We expect vaccinations to rise worldwide over the next year. This should eventually favor EM.

FIXED INCOME

Limit Rate Sensitivity With Intermediate Focus

We continue to suggest a blend of high-quality short-to-intermediate bonds in all portfolios with fixed income exposure. Though the 10-year Treasury yield has recently fallen to below 1.20%, we continue to believe it will rise to levels between 1.75%—2.00% over the next 6 to 12 months. As the economy continues to improve and as economic activity continues to impress to the upside with slightly higher inflation, the cost of money will undoubtedly also rise. In our view, compensation for longer-maturity and rate- sensitive bonds remains unattractive.

The continued economic expansion allows for high yield bonds issued by stable but growing companies to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. Further, the expanding economy has and will likely continue to produce modest inflationary pressures. Therefore, reasoned inflation protection in fixed income portfolios has been and continues to be warranted.

We favor municipal bonds for tax-sensitive accounts. Federal stimulus and prospects of higher personal tax rates provide support to muni markets.

		Low / Medium / High	Rationale
Positioning	Credit Quality		Credit spreads remain elevated, although not as pronounced. But the economic outlook may be supportive.
		Short / Int. / Long	
	Duration		Concerns over rising interest rates/inflation with the prospects of economic acceleration increase interest-rate risk.

COMMODITIES

Our precious metals view is neutral with gold declining to near 52 week lows. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and noticeable recent strength in the U.S. dollar.

The global demand outlook has improved recently as a post-pandemic environment comes into view. Though falling recently, higher oil prices over the past year have increased the amount of profitable available production in the near term. Our concerns remain on the supply side, as higher prices could lead to increased U.S. shale production, while more OPEC+ (including Russia) production is likely on the way.

CONCLUSION

As referenced in last month's insight, our confidence in a full economic recovery continues to grow despite the clear danger that COVID and its variants pose. The U.S. consumer and small business owners have contributed to this massive economic rebound and it does not appear they will resort to extreme measures moving forward. The previous funds received from the passing of the fiscal stimulus bill combined with a fully supportive Federal Reserve solidifies the economic picture and bull market case.

As we examine market risks, we continue to believe these risks are known, manageable and will not likely impact the continued expansion. The market will continue to look forward to a prosperous, post-pandemic environment.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

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Economic forecasts set forth may not develop as predicted.

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