MARKET
INSIGHT
MONTHLY

OUR THOUGHTS

UNITED BANK
Wealth Management

Though the economy slowed considerably in the third quarter, it was not altogether unexpected. The torrid pace of expansion was unlikely to be maintained indefinitely. As COVID concerns escalated, consumers retrenched. As inflation fears increased, investors grew wary that the Federal Reserve might potentially increase interest rates much sooner than they otherwise would prefer. This modest slowdown, however, may turn out to be beneficial in the long run. In fact, this short lived "breather" may extend this recovery by reducing some of the current inflationary strains.

There is also evidence to suggest that growth will pick up again over the next several quarters. While consumer spending remains solid overall, large purchases have likely been delayed a few months, which in turn may help the growth outlook for the fourth quarter and beyond. Additionally, consumer balance sheets remain very healthy, with trillions of dollars in savings and money market accounts. The consumer, which makes up two-thirds of the economy, is in very good shape heading into 2022.

Supply chain disruptions have developed across the U.S. and around the world. Goods, for the time being, continue to take longer to arrive at their final destination and typically cost more today than they did in the past. But over the past few weeks, we have seen some signs that the worst of the supply constraints may be ending. Although these have lasted longer than expected, the bottlenecks will continue to work their way out of the system and provide relief—something all consumers are sure to appreciate.

As we have referenced in the past, corporate earnings drive long-term stock prices. Record-setting, year-over-year earnings continue to justify stocks at current, if not higher, levels. Third quarter S&P 500 Index earnings have been extremely strong, with nearly 80% of companies beating estimates (FactSet) and earnings up nearly 40% from 2020 levels. American ingenuity and innovation paved the way towards major productivity gains and the capacity to deliver goods and services despite health and logistical obstacles. Corporate wisdom, combined with employer and employee partnerships, ignited true collaboration. We are very optimistic and excited about this transformational alliance.

It is important to note that November has historically been among the best months of the year for stocks, which is usually followed by a strong December. Although some of the late seasonal gains could have been pulled forward by the 6% market gain in October, the long-term bull market is clearly alive and well.

These last two months will go by quickly as they always seem to do. We have all come a long way since early 2020 when COVID-19 first arrived on U.S. shores. While we want to acknowledge the change, disruptions, and harm caused by the pandemic, we also want to provide our sincere thanks to all our clients and friends who have made the last several years all the more important. We value your relationship, and it is our pleasure to serve you and to partner with you.

Our most sincere wishes for a wonderful and healthy Thanksgiving to each of you.

Sincerely,
Your United Wealth Management Team

MARKET INSIGHT MONTHLY

November Update

MONTHLY COMMENTARY

UNITED BANK Wealth Management

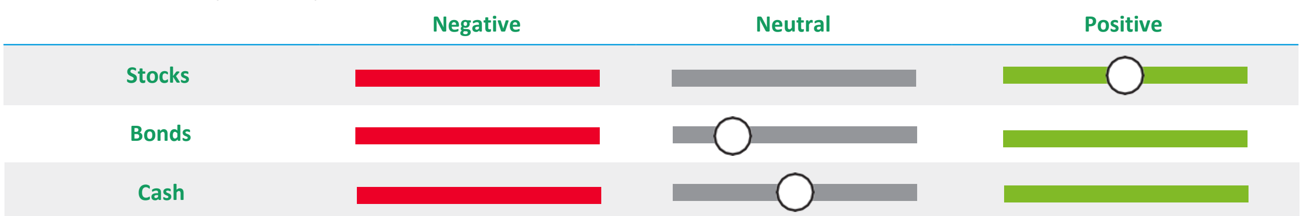
Stocks finished a very strong October with the S&P 500 Index gaining an impressive 7% including dividends. Though the domestic markets set new highs in late summer, several factors were weighing on the market leading to the September pullback. But by early October, COVID cases began to decline, booster vaccine shots became more readily available and potential tax increases seemed much less likely. With those obstacles less ominous, investors quickly turned to Q3 earnings reports. Much like the first two quarters in 2021, earnings have been outstanding. With over 90% of the S&P 500 companies reported, nearly 80% have beaten their consensus estimates. Year over year earnings are nearly 40% higher and the last four sequential quarters represent the highest earnings ever reported on an annualized basis. Though several economic and market risks remain – such as the continual impact from the pandemic, less monetary support from the Federal Reserve, inflation, debt ceiling limits and potential tax increases in 2022 – no current risk appears to alter economic progress. We believe that the momentum will propel further gains into 2022.

INVESTMENT TAKEAWAYS

- We are unchanged and remain overweight to our total global equity allocation. We continue to favor stocks relative to bonds based on our expectation that strong economic fundamentals will drive earnings even higher than the records set thus far in 2021. We expect this recovery will extend well into 2022.
- We favor a combination of growth and value large cap stocks. We continue to expect economically sensitive cyclical stocks will perform well. We also favor companies that currently generate strong earnings and possess strong future earnings growth potential.
- Our positive view of mid and small caps is supported by historical evidence from prior recoveries. These segments perform well during early and mid-stage bull markets. Valuations are in line with historical averages.
- Cyclical stocks have also established market leadership within most global markets. Western Europe and other developed nations are generally emerging from the pandemic, but the COVID pandemic remains a formidable obstacle. Though developed nations' equity markets have generally outperformed those of Emerging Markets (EM), the U.S. equity markets have been dominant.
- The Chinese government has been exerting political influence over several of their industrial sectors which has contributed to investor anxiety. This has led to pressure in emerging market equities.
- We continue to underweight our allocation to fixed income. Rates have moved modestly higher this year. We expect rates to continue on this path as the Fed initiates taper activities in Q4. Higher rates should eventually put modest pressure on total bond returns.
- 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

Though repetitive, the factors that influence our decision to overweight equities remain in effect. We continue to favor stocks relative to bonds. Economic strength will be maintained as we enter 2022. The record setting domestic earnings of 2021 will carry forward into next year. We see little evidence suggesting earnings growth will be curtailed. We expect companies from developed nations to continue their transition more quickly into a post-COVID environment, though pandemic conditions remain a concern. Our U.S. equity preference has proven to be both prudent and profitable. International developed stocks have outperformed emerging markets, but U.S. markets remain the global favorite. As Chinese authorities continue to exert pressure on several of their domestic sectors (Real Estate, Communications and Technology) investor enthusiasm has waned for emerging markets in the near term.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The predictability and consistency of large cap companies paved the way for a spectacular early rebound in 2020. The expanding economy and record setting earnings of 2021 influenced investors to continue holding and buying cyclical stocks throughout the entire recovery. We remain well positioned in this segment, our most dominant equity position.
	Mid Caps			Mid cap companies have dramatically grown in market cap as the economy and markets expand. Mid caps are performing very well and provide a hybrid alternative to only large or small cap stocks. Mid cap valuations remain attractive as strong earnings continue to be reported.
	Small Caps			The U.S. small cap sector remains among the strongest performers of 2021. Continued economic expansion, strong earnings growth and investor risk appetite have generated increased demand. Valuations are attractive based on strong earnings growth prospects through 2022. We are overweight small caps.
Style	Growth			We believe growth stocks will continue to garner investor support from strong current earnings and strong future expectations. Continued technological 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 cyclical value stocks.
Region	United States			We see the potential for more gains in the U.S. stock market during the final quarter of 2021 and well into 2022. The significant stimulative resources deployed within the U.S. have paid, and will pay, economic dividends in the future. The U.S. economy will remain strong and versatile. Despite occasional uncertainty, the economy will maintain its forward momentum. For these reasons we continue to favor U.S. equities.
	Developed International			Developed international equity markets have been able to achieve reasonable economic expansion despite intermittent health concerns. Investors have favored countries with stronger health protocols, but investors are growing weary by the lack of sustainable COVID progress. Though developed countries are likely to demonstrate more reliable forward economic momentum, they have not yet established permanent credibility with investors.
	Emerging Markets			Emerging market economies have lagged other global regions this year. China accounts for 40% of the emerging markets and Chinese equities have suffered due to government oversight regarding certain corporate activities. Vaccination rates, which have been comparatively low, should rise worldwide over the next year. Resolution in China combined with vaccinations should eventually favor emerging markets. We are slightly overweight EM.

FIXED INCOME

Limit Rate Sensitivity With Intermediate Focus

The 10-year Treasury yield now stands at 1.62%, its highest level since mid-October. It is competing with its 12-month high of 1.76% in late March. As we have suggested for some time, we believe interest rates will continue to rise and eventually find stability between 1.75%—2.00% over the coming months. As the economy continues to improve and as more economic sectors participate in the full recovery, the cost of money will undoubtedly also rise. In our view, compensation for longer-maturity and rate-sensitive bonds remains unattractive. We continue to suggest a blend of high-quality short-to-intermediate bonds in all portfolios with fixed income exposure.

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. Inflation has been rising as the expanding global economy has endured many supply chain shortages and logistical obstacles. We believe this will continue into 2022 and therefore will continue to promote inflation protection in fixed income portfolios.

We favor municipal bonds for tax-sensitive accounts. Federal stimulus, infrastructure spending and the potential for higher personal tax rates provide support to municipal markets.

		Low Medium High	Rationale
Positioning	Credit Quality		Credit spreads have now returned to levels suggesting stable but not excessive economic growth.
		Short Int. Long	
	Duration		Concerns over rising interest rates/inflation remain viable with the prospect of a return to non-stimulative, normalized economic growth. These concerns are not as alarming as rates have recently risen to levels seen in early 2021.

COMMODITIES

Our precious metals view remains neutral although gold prices have recently increased to the mid $1800's. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and the strength of the U.S. dollar.

The global demand for goods and services has clearly improved over the last year. Energy prices rapidly escalated in late 2020 and have continued moving higher as relatively low and controlled supply limit worldwide availability. West Texas Intermediate Oil is now priced under $80 per barrel having lost about 7% from its recent high. Oil may continue its journey higher, but it is likely to be closer to a peak than trough.

CONCLUSION

Our confidence in a full economic recovery remains high. We know inflation and tightening monetary policy may contribute to bouts of uncertainty and volatility. However, the U.S. consumer and the corporate world have contributed to this massive economic rebound. They all have been steadfast in their resolve to move forward. Rather than increase obstacles to growth, businesses are taking measures to increase revenue while still protecting their employees and customers.

As we examine market risks, we continue to believe these risks are generally 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.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

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