MARKET INSIGHT MONTHLY

OUR THOUGHTS

UNITED BANK
Wealth Management

One constant in life is change. During the past year and a half, we have experienced more change than any of us ever imagined. While change may be disruptive, it also presents opportunities. As active stewards of your portfolio, we are always critically examining the potential and actual impacts. We believe that some of these changes, when settled and digested, may, in fact, set the stage for a higher next leg of this powerful and still relatively young bull market.

The trajectory of the U.S. economy has only modestly changed recently due to the Delta variant of COVID-19 and related disruptions to global supply chains. Contrary to the thought of a potential new economic downtrend, we expect growth to pick up through year-end as further progress is made towards eradicating COVID-19 as an economic threat.

The stock market altered its positive path last month (consistent with historical seasonal patterns) as the S&P 500 Index experienced its first 5% pullback since October 2020. The good news is that the fourth quarter has historically been the best for stocks with an average gain of 4%. As we look to next year, if the U.S. economy produces above-average growth as we expect, double-digit gains for stocks would be a reasonable expectation.

Federal Reserve (Fed) Chair Jerome Powell's term is up in February and his reappointment by President Biden is not assured. This is somewhat dependent upon the influence of the progressive wing of President Biden's own party despite the rather dovish (i.e., supportive of lower interest rates) reputation Mr. Powell maintains. The Fed should also start its tapering activities (i.e., slowly scaling back pandemic related stimulus) over the next several months. Though this would certainly represent a policy change, the Fed has been very transparent, and the markets are anticipating this action.

Some progressive policymakers are attempting to effect massive change with $5 trillion in proposed new spending on infrastructure and social programs funded by several tax changes. In some cases, these proposals would alter over 100 years of tax law precedent. The two combined proposals will likely be scaled back closer to a combined $3 trillion to secure support from moderates in both parties. While the ultimate outcome remains unknown, a centrist version has been accepted as the eventual outcome by most investors.

Clearly, change is a constant. There are always unknown variables and factors. While change does create uncertainty, we are constantly evaluating the possible scenarios and impacts to proactively plan and manage risk. The outlook for the U.S. economy still looks bright. Corporate earnings are growing strongly. Low interest rates are and will be supportive. Though inflation is elevated, the worst of it is likely behind us. We remain committed to evaluating economic and market conditions to better serve you, our valued clients.

Sincerely,
Your United Wealth Management Team

October Update

MONTHLY COMMENTARY

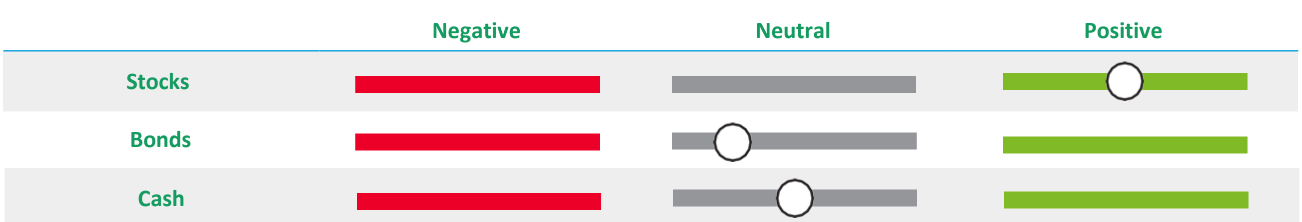
The U.S. Congress struck a deal in early October to temporarily raise the debt ceiling, prompting a relief rally in the equity markets. While failing to raise the debt ceiling was extremely unlikely, if it had happened, considerable damage could have been inflicted on the markets and economy. Even as we approached the deadline when the government would no longer meet its financial obligations, investor confidence was suffering. This uncertainty heavily contributed to the market pullback in September. With that behind us and Q3 earnings season underway, the S&P 500 sits less than 1% off of its all time high. Early Q3 earnings reports are strong with 80% of the companies beating their consensus estimates. In fact, should this trend continue, the last three and six of the last seven quarters will have generated the largest number of companies beating consensus estimates in over a decade. We believe that the economic momentum will propel further gains into 2022 and therefore a recession is unlikely anytime soon.

INVESTMENT TAKEAWAYS

- We are unchanged and remain overweight in our global equity allocation. We continue to favor stocks over bonds based on our expectation that strong economic fundamentals will drive earnings even higher than records set thus far in 2021. We expect this recovery will extend well into 2022.
- We continue to expect economically sensitive cyclical stocks will perform well. We also favor growth companies with strong current earnings and strong future earnings growth potential.
- Our positive view of small caps is supported by historical evidence from prior recoveries. This segment performs very well during early and mid-stage bull markets. Valuations remain reasonable.
- Cyclical stocks have also established market leadership within most global markets. Western Europe and other developed nations are emerging from the pandemic more quickly due to higher vaccination rates. Thus, developed nation equity markets have generally outperformed those of Emerging Markets (EM) to date.
- Stringent oversight by the Chinese government over the IT sector has contributed to pressure in the Emerging Markets segment.
- We continue to underweight our allocation to fixed income. We have seen rates move modestly higher this year. We expect rates will 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

We continue to favor stocks relative to bonds based on our expectation that a strong economic environment will remain in place entering 2022. Record setting domestic earnings have been reported so far in 2021. We see little evidence suggesting earnings growth will be curtailed. We generally expect companies from developed nations to continue their transition more quickly into a post-COVID environment. International developed equities have outperformed Emerging Markets in the near term due to higher vaccination rates and ease of trade. Chinese authorities continue to exert pressure on several of their domestic sectors (Real Estate, Communications and Technology) which is hampering investor enthusiasm for Emerging Markets in the near term.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	**Large Caps**			The greater financial strength enjoyed by most large cap companies have guided investor decision making over the last 18 months. Large cap companies remain a refuge when markets turn volatile and a favored asset class during most phases of an economic expansion. We remain positioned to take advantage of a growing economy.
	Mid Caps			Mid cap companies combine the attributes of both large cap and of small cap companies. As the economy expands, mid-caps are performing very well and have a sustainable investor base. Mid cap valuations remain attractive.
	Small Caps			The U.S. small cap sector remains a strong performer. Our view remains positive. 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.
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 vibrant Despite occasional uncertainty, the economy will maintain its forward momentum. For these reasons we continue to favor U.S. equities.
	Developed International			The developed international equity markets been able to achieve reasonable economic expansion once vaccination rates expanded. Investors have clearly favored countries with stronger health protocols. Developed countries are likely to demonstrate more reliable forward economic momentum and financial market growth than the Emerging Markets.
	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 their government's 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.

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. The 10-year Treasury yield now stands at 1.54%, but we continue to believe the rate will rise to levels between 1.75%—2.00% over the next 6 to 12 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.

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 have now returned to levels suggesting stable but not excessive economic growth.
		Short Int. Long	
	Duration		Concerns over rising interest rates/inflation with the prospects of normalized economic growth suggest interest-rate risk remains viable, but not as alarming as in previous quarters.

COMMODITIES

Our precious metals view is neutral with gold prices stable and holding in the mid $1700s. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and the stability, if not strength of the U.S. dollar.

The global demand for goods and services has clearly improved over the last year as a post-pandemic environment has been established. Energy prices over the past year have rapidly escalated as relatively low and controlled supply limited worldwide availability. With West Texas Intermediate oil priced at over $82 a barrel, the amount of profitable production should entice more supply. Our concerns remain on the timeliness of the supply and distribution across the country.

CONCLUSION

Our confidence in a full economic recovery remains high despite several obstacles. We know inflation, higher taxes and international tensions may contribute to boughts of uncertainty. However, the U.S. consumer and small business owners have contributed to this massive economic rebound and it does not appear they are willing to cede ground already won against Covid. 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 known, manageable and will not likely impact the continued expansion. The market will continue to look forward to a prosperous, post-pandemic environment.

Disclosures

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Economic forecasts set forth may not develop as predicted.

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