Investment Update

Third Quarter 2021

With the S&P 500 down 4.7%, September was a disappointing month for stocks, but the index has still appreciated a very respectable 15.9% so far in 2021. September is frequently weak, although that is probably not truly attributable to the apocryphal story about traders returning from summer vacation and selling stocks. Since 1928, September is the only month with more down instances than up, and the only month with more than a very small negative average return (Datatrek).

Equity Markets (Total Return)	3Q'21	1-Year
Dow Jones Industrials	-1.5%	24.2%
S&P 500	0.6%	30.0%
S&P Mid-Cap	-1.8%	43.7%
S&P Small-Cap	-2.8%	57.6%
MSCI All-Country World	-1.0%	28.0%
MSCI Foreign Developed Markets	-0.4%	26.3%
MSCI Foreign Emerging Markets	-8.0%	18.6%
US Bond Markets (Total Return)	**3Q'21**	**1-Year**
Barclays US Treasury	0.1%	-3.3%
Barclays US Municipal	-0.3%	2.6%
Barclays US Corporate Investment Grade	0.0%	1.7%

At the beginning of the year, we said that companies would have to come through with strong earnings in 2021 to justify their shares' elevated valuations. So far, they have more than done their part. Reported second quarter earnings continued to exceed expectations for year-over-year and quarter-over-quarter growth. There have been some disappointing reports from companies which had benefited from unusual pandemic spending patterns last year that have since normalized. Examples range from household disinfectant producers, to a certain online retailer of some size. Shares in these companies had generally been market leaders for much of the last 18 months, but when those stocks retreated the rest of the market showed resilience through the summer. It seems that investors viewed their relative earnings weakness as a part of an overall positive narrative about the economy re-opening and improving.

The yield on the 10-year Treasury increased sharply in the closing days of September, hurting the share prices of the most growth-oriented companies whose future cash flows are worth less today in a higher rate environment. This relationship has been frequently at play in the post-pandemic cycle and is an unfavorable one for the S&P 500 as a whole because of its heavy weighting in these growthy companies. Rising rates can be viewed as more acceptable by equity investors when it happens for the "right" reasons, namely when there are expectations for higher economic growth to come. The recent increase is likely a rebound from low levels over the summer that were entirely inconsistent with the inflation levels in the economy.

Just-in-time manufacturing has been a feature of global manufacturing for decades. Throughout supply chains, producers of input materials or components deliver just enough of what is needed to the producer of the next component, and so on until everything comes together in the finished product. There have been wide-ranging disruptions to this sort of tightly choreographed process of late, some of which are one-off, but others have been brewing

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for a long time. Hurricanes or Covid-19 outbreaks have made for localized production shutdowns at factories (a major problem if there is concentration of production in a region, like plastics plants along the Gulf Coast), and constrained shipping capacity or shortages of truck drivers are just a few. In many cases the supply chain issues are curtailing companies' ability to meet generally healthy consumer demand and hurting sales and earnings. This supply-demand imbalance along with rising commodity prices are causing consumer prices in general to stay elevated longer than initially expected.

Rising interest rates and several other items have dampened investor enthusiasm of late. The strength in earnings over the last few quarters notwithstanding, analysts' estimates for the fourth quarter have been coming down steadily. The Delta variant is partially to blame as it caused some back-tracking in re-opening the economy in much of the country, at least flattening the trajectory of the overall recovery. The Fed has telegraphed its intention to taper its bond purchases soon, and interest rate increase will likely follow if the recovery continues. The timing of the latter is unknown, and neither are a positive for asset prices. Fiscal stimulus may be coming in the form of an infrastructure plan, but the scope and components of it are still unknown. There still needs to be significant discussion (even within the Democratic party) to finalize a deal, and any such new spending will be spread out over many years. Inflation, while expected to decelerate, still has not done so. Recent uncertainty around government shutdowns, and the more dangerous possibility of a technical default on government debt, all have weighed on stocks. While as always, there are reasons for concern about where the stock market is headed, the economy is generally doing well and most companies are prospering. Volatility in the months to come should not come as a surprise, but we maintain a positive outlook for the longer-term value proposition of stocks.

The Boston Family Office opened its doors on October 1, 1996, a few buildings down and across Broad Street from where we are now. Due to the pandemic, there was no anniversary party, just reflection on how much has transpired in that time and how thankful we are for the support of our clients and friends of the firm. There is too much to cover here about the last 25 years, but we will update you on some recent personnel changes. Megan Siegal retired from the partnership and her position of Chief Compliance Office over the summer to spend more time with her two young daughters. She has been with us since graduating from college in 2009 and we wish her and her family all the best. We are pleased to welcome Darren Beals to fill her shoes as well as take on more business-related responsibilities, and Melissa Onorato who just joined the administrative team. Both have over 15 years' experience in the financial services industry, Darren most recently with New Generation Advisors, and Melissa with several firms including BNY-Mellon.

The information contained in this investment update has been taken from sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.

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