// BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

The overall stock market finished the third quarter flat – the three most popular stock market indexes finished the quarter between negative 1.91% and positive 0.5%. The overall stock market was up during the first two months of the third quarter (4%+) making daily highs several times through August, but lost all of that gain during the month of September. Stocks began to pull back from all-time highs at the end of August and fell 5% during the month of September.

Both ***Value*** and ***Growth stocks*** were down slightly during the third quarter with small-company stocks posting the lowest performance (down 3-5%). While third quarter stock market performance was negative, all three major stock indexes are up approximately 15% year-to-date.

The technology stock index was up over 7.5% during July and August, but lost 6.5% during September and ended the quarter up only 1.1%. International stocks were also down a modest 1.1% during the third quarter, but the year-to-date return of only 7% is only one-half as much as the U.S. market.

Emerging markets (smaller-country international stock indexes) had the worst equity (stock) performance during the third quarter - falling 8.65% and down 2.5% year-to-date. Emerging markets were the only primary stock index category with negative 2021 performance. China is included in this category and the *Chinese stock market is down 30%* since Mid-February 2021.

Energy stocks ended the third quarter with flat performance, even after a 14% jump in price during the last 10 days of September. Natural gas prices are up over 50% this year. Investment real estate prices were flat – up less than 1% during the third quarter, but up over 22% year-to-date through September while home prices continued soaring another 15% from the same time last year. Real estate was one of the top performing categories in 2021.

Water utility stocks rallied and were up 5-6% during the third quarter. The price of gold ended the third quarter down less than 1% and down nearly 8% in 2021 through September. This category will be very interesting to watch over the next 6-12 months.

Fixed income or bond prices for short-term maturities were flat during the third quarter and slightly negative year-to-date. Short-term Treasuries were up 0.03% while intermediate-term Treasuries posted a negative 0.85% return during the third quarter as interest rates started climbing. Intermediate-term Treasuries are down 3.44% year-to-date. As interest rates rise, bond values fall. We are reminding conservative investors again: Interest rates will continue to rise as the recovery advances. Expect negative returns for fixed income/bonds the foreseeable future.

The following chart displays sample returns of various asset categories during the third quarter of 2021 and calendar year-to-date:

Year-To-Date 2021	3rd Qtr. 2021	Index Return (*includes dividends reinvested*)
+ 10.58%	- 1.91%	**Dow Jones Industrial Average (^DJI)**
+ 15.90%	+0.57%	**Standard & Poor's 500 Index (^GSPC)**
+ 15.18%	- 0.03%	**DJ U.S. Total Stock Market (VTI)**
+ 14.13%	+1.10%	**Large-company stock-Growth (IWF)**
+ 15.95%	- 0.83%	**Large-company stock-Value (IWD)**
+ 9.41%	- 0.88%	**Mid-Size Stocks – Growth (IWP)**
+ 18.04%	- 1.07%	**Mid-Size Stocks – Value (IWS)**
+ 2.63%	- 5.71%	**Small-company stock- Growth (IWO)**
+ 22.79%	- 2.88%	**Small-company stock- Value (IWN)**
+ 6.92%	- 1.10%	**International (EFA)**
- 2.50%	- 8.65%	**Emerging Markets (EEM)**
+ 22.16%	+0.61%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income (includes appreciation
- 0.12%	+0.03%	**Short-term U.S. Treasury (SHY)**
- 3.44%	- 0.03%	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
- 7.93%	- 0.85%	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

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FINANCIAL MARKET OUTLOOK

Timing is one of the most difficult and uncertain aspects of the investment management process and most advisors would advise against relying on timing when suggesting when a particular scenario may unfold. Having said that, we think within the next three to six months, a better picture of the direction of the financial markets will unfold and investors will decide whether our stock and real estate markets will continue to advance, pause or adjust downward.

Although there are many variables to consider in any forecast, there are four specific and timely topics that we will discuss below that will certainly influence the outcome.

Vaccine: The impact of COVID and variants along with the vaccine battle have been center-stage for the past year and one-half. The financial markets will definitely react to the future progress in this battle ….. or lack thereof. We have a vaccine, and without it, the U.S. stock market would not be up where it is today.

The worst fear was the possibility that this pandemic would damage our livelihood as we know it today – but it did not come to pass. After suddenly falling 35% in six weeks (ending in mid-March 2020), the stock market began advancing by summer and has powered forward to new successive highs in 2019, 2020 and year-to-date 2021. By Summer 2020, the lockdown rules were relaxed. By November 2020, Pfizer announced it had a vaccine and Moderna and J&J followed with their vaccines. Optimism shot up like a cork coming out of a champagne bottle. Now, we now have hope and some level of confidence.

Surely the future will be better than how life was before a vaccine was developed. Without it, the outlook under lockdown requirements for both families and businesses would be dire. The vaccine was encouraging news and the financial markets rose quickly with the expectation that increased economic activity will follow.

The conundrum now is that about two-thirds of adult Americans (excludes children) have had at least one or both vaccine shots and the remaining third is not budging easily. Increasing the “herd immunity” beyond two-thirds of adults is going to be a challenge.

Their reasons for not getting vaccinated vary from religious beliefs, fear/uncertainty, concern over physical reactions to a vaccine, rejecting the idea that government can control your healthcare decisions, and the confusion/misinformation we have been receiving over the past 10 months about the vaccine.

We were told by the federal government that the vaccine would never be required or mandated, but now, a requirement for certain people and jobs will be in place. Healthcare workers, businesses with over 100 employees, federal government jobs, teachers, professional athletes, etc. will be required to be vaccinated. This policy mandate, if implemented is confusing to many and could further erode the confidence that is certainly needed to support our financial markets. How do we explain to the reluctant one-third of citizens who refuse to take the vaccine why employees working in companies of 100 or more employees must be vaccinated or why thousands of people are allowed in through our southern border awaiting their court date with no vaccination requirement or mandate, but working citizens are required to get the vaccine?

At the end of September, Merck – in partnership with Ridgeback Biotherapeutics, announced they have what they believe is a vaccine treatment in the form of a pill (prescription). At first glance, that seems to be very positive. At the very least, it will be more convenient for those who have already decided and chosen to be vaccinated, to continue with future treatments via a convenient prescription rather than crowded appointments. But, for the one-third of the population who have chosen not be vaccinated, a more convenient prescription or pill form of treatment will not likely have any impact.

Further, even citizens who have been vaccinated have subsequently been infected with the new strain of COVID. A growing number of citizens are becoming more confused and angrier. Their confidence is falling and *confidence is a significant factor in supporting the financial markets*.

Bottom line, if a workable solution regarding vaccine requirements or choice is not forthcoming soon, it is more likely than not that the financial markets will react negatively and adjust downward until confidence is restored. Personal and business confidence is crucial.

Lastly, a big mistake was made last year during the Presidential election and only the politicians who created it can reverse the damage they caused. In the fight to distinguish themselves and highlight perceived differences, the vaccine became a political topic between the two parties. One side would not support taking the vaccine under the other administration, but now vaccinations are deemed necessary and may be mandatory. When our politicians play this type of game – making vaccination political, it is nearly impossible for a country to reach a 98% vaccination rate like Portugal has.

Inflation, Supply Chain Disruption, and Jobs:
This topic is center stage. Our economy was scaled back and nearly shut down in 2020 and most businesses had to cut costs, jobs, and inventory levels to stay alive. The combination of the lockdown being lifted and a vaccine being developed to fight the battle, businesses and consumers are now experiencing massive shortages of both materials and workers.

The supply chain of materials to produce products and consumer goods is severely interrupted. Shortages and long delays to receive both materials and finished products are

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clogging our economic growth. The largest U.S ports (LA and Long beach) are closed for several hours each day and completely closed on Sundays while ports in Asia and Europe operate round-the-clock. Stacks of empty containers are inside our ports while over 60 fully-loaded cargo ships are anchored off the California coast waiting their turn to dock and unload.

The problem that is clogging our ports is similar to the problems in other areas. Workers and materials are scarce. How can there be a worker shortage? Government pandemic financial assistance payments have recently stopped – why do we have a worker shortage? Some are concerned about their health and potential exposure to the virus. Some refuse to work alongside others who have not or refuse to be vaccinated. Police officers, teachers, and healthcare workers are exhausted, demoralized and many are simply quitting employment altogether. Truckers have scheduled deliveries and pick-ups elsewhere – they can't just wait until the port allows them to come on in. Empty containers are clogging the system and companies are reluctant to pay overtime to run operations 24 hours a day. Warehouse workers are already working very long hours.

Rising costs combined with scarce resources (both materials and workers) could hurt corporate profits going forward. Do you think corporations will simply absorb the higher costs and lower profits? Short supplies and rising producer costs means either lower corporate profits or this increased cost ends up being passed onto consumers. Surely you have recently noticed price increases for gasoline, food, rental cars, etc. and this leads to ….. inflation.

Using the Consumer Price Index (CPI) as an inflation measure, the average inflation rate since 1926 was 2.9% and the inflation rate has averaged between 1.2% and 2.9% since 1990. Today, the CPI inflation rate is 5.4% and the pressure is boiling.

Usually, inflation comes about because of consumer demand – consumers want and have the financial ability to consume more. Prices increase as long as demand exceeds supply. This time, the inflation is starting at the producer level and it comes at a time when consumers are still spending far less than usual or normal due to lockdowns. Real consumer spending has been relatively flat since spring 2021. Consider for a moment what Christmas shopping will look like this year.

Our politicians and Federal Reserve officials are trying to sell an optimistic, but low probability scenario, by stating inflation – when it arrives - will be short-lived until ports, manufacturing jobs, and everything else returns to normal rather quickly. Inflation is a real risk to our economic recovery and the stability of our financial markets. The problems we face as a country to get our economy and lives back on track do not simply happen through the of passage of time. Clear and effective policies need to be in place first.

So, the bottom line is: Will a vaccine policy or mandate and (material and human) shortages at the producer level work themselves out in an orderly fashion or will our economy and financial markets start to drift downward until measurable progress is underway. Hint. The correct answer is the latter.

Biden Tax Policy Change and Government Debt:
On top of the vaccine policy challenges and material/human shortages in manufacturing putting pressure on higher inflation, we also have to tackle and absorb a pending higher income tax policy that has yet to be agreed upon in Congress. Additional tax revenue is necessary to pay for the many programs under the new "Human Infrastructure" Bill and the government needs to raise our country's debt ceiling. More debt and higher taxes will definitely be a headwind in an already weak economic environment. Higher income tax rates, capital gain tax rates, a lower estate tax threshold and many other tax increases are sure to go into effect next year. We believe both higher tax rates and a debt ceiling increase will go through in some form or another before year-end.

Very little time remains this year to consider or implement estate and income tax minimization strategies when we don't know what will be in the final package.

Confidence and a clear vision are necessary for economic and stock market support:
It all comes down to the level of confidence over the next 6 months to one year. Our financial markets are currently more than generously valued – especially the stock market and personal home values. Home prices have soared across the U.S over the past 18 months and the stock market is up over 75% since Jan. 1, 2019. Continued investor and business confidence is necessary to maintain current stock and real estate valuations.

In the past, any incoming administration would have loved to start under an environment characterized by very low interest rates and an economy that is begging for more workers. But the pandemic was an unexpected and rare black swan event. We can get through this transition just as easily as we can mess things up resulting in a financial market correction until a clear path restores confidence. People and businesses do not not like to make forward-looking capital commitments, expansion, or personal decisions when the future is unclear and confidence is waning.

In summary, a clear, fair and honest policy defining how we will proceed while battling COVID and especially a Vaccine policy for our citizens, employees and immigrants is needed to maintain confidence. Unclogging the material shortages for businesses and filling abundant job openings is critical in moving our economy back to and beyond where it was before the pandemic. A clear Vaccine Policy will either push us forward or flame the fire for a financial market correction.

Pending income tax policy changes that will increase income taxes are rarely viewed as good news. However, if the economy and personal income continues to grow, higher taxes

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can be absorbed. The real unknown is whether we can implement a reasonable Vaccine Policy, fill the jobs vacancies businesses have without firing groups of employees based on a Vaccine Policy, increase income taxes and still maintain personal and investor confidence ***simultaneously*** remains to be seen.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

Time is running out to effectively and confidently deal with all of the issues discussed in this newsletter. Without progress, the overall stock market - which has risen over 75% over the past 2.75 years in anticipation of a return to economic growth, is vulnerable and will not likely hold on to its gains.

We have already reduced or eliminated the most vulnerable stock category from client portfolios: small-company international stock holdings and emerging markets exchange-traded funds. Further reductions in stocks may follow.

Earlier this year, we added Treasury Inflation Protected Securities and gold to client portfolios and will likely add to these positions before year-end. During periods of inflation, these investment categories perform well: commodities, precious metals, energy stocks and Real Estate Investment Trusts or REITs.

Treasury Inflation Protected Securities or TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, TIPS adjust in price to maintain its real value the fixed income. Since we do not favor most fixed income investments at this time, TIPS are a welcome addition to the fixed income asset class. As stated in our previous newsletter, rising inflation and interest rates are nearly certain - the only unknown is when and how fast will these rates rise.

The other addition to client portfolios was metals – specifically the gold metal itself and gold mining stock companies for the same reasons.

More portfolio adjustments are likely as we move forward into this changing economic and political environment.

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