Geoffrey Lenk 508-428-1645

LENK LADNER
Investment Solutions

John Ladner 508-420-1684

MARKET COMMENTARY August 31, 2021

Dow Jones Industrial Avg.	34502.51	Standard and Poor's 500	4297.50
2021 (YTD) +12.7%	2nd Qtr. +4.9%	2021 (YTD) +5.8%	2nd Qtr. +8.6%

Finding Common Ground – "Politics ought to be the part-time profession of every citizen who would protect the rights and privileges of free people and who would preserve what is good and fruitful in our national heritage." Dwight D. Eisenhower (34th U.S. President)

Entering the Home Stretch - August presented investors with the usual summer doldrums. A mass exodus of residents from the largest metropolitan areas occurred as they escape the heat of their cities and head to their favorite vacation spots at the seashore or the mountains as they briefly assume a more leisurely lifestyle. As a result, trading desks in financial centers become the responsibility of less experienced traders who take a more cautious approach as they seek to avoid making any mistakes while the boss is away. Often this results in significantly less trading activity. This lull sets the stage for two of the most hazardous and volatile months of the year – September and October. Economic growth may have already peaked for this cycle and inflation has risen to a level that has not been experienced in several decades. Consumers are experiencing the pain inflicted by inflation on their regular visits to the supermarket and gas station. Some prominent individuals, Federal Reserve Chairman Powell and Secretary of the Treasury Yellen, argue the recent rise in the level of inflation is transitory, yet other observers believe inflation will continue to rise.

Cracking the Code – Many voters and taxpayers are ambivalent about the two separate multi-TRILLION-dollar legislative bills being negotiated by the Biden administration and the Democrat Congress. Others question the need for a spending package of this magnitude considering the surprising economic resilience after last year's brief COVID-induced recession. The public has only been provided with a vague description of the two bills with a small number of bullet points intended to convince American voters to "buy" the package. The lack of publicity of the provisions of these bills is clearly by design and likely at the behest of the Speaker of the House Pelosi and the author of the bill Representative Bernie Sanders. The smaller $1.4 trillion package is limited in scope and is aimed at addressing our country's genuine infrastructure needs (rumored size – 7,000 pages). It is intended to provide significant funding to improve roads and bridges, airports and ports, water quality and sewers, as well as broadband access for all. Infrastructure bills are always popular in Washington because they enable legislators to prove to their constituents that they can "bring home the bacon".

However, that reasoning is so alluring to politicians they find themselves using it to justify any spending bill presented to them, especially if it contains programs they can argue will benefit some of their constituents. A sterling example of this approach is the huge $3.5 trillion dollar bill (rumored size – 10,000 pages) the Democrats are determined to pass through the reconciliation process, which means they intend to pass it even if they are unable to attract <u>one</u> Republican vote in the Senate. However, it will require Vice-President Harris's vote to break the tie. This tactic flies in the face of President Biden's campaign promise to achieve bipartisan solutions, unlike his predecessor.

Out of the Frying Pan into the Fire- The U.S military and allied forces hasty retreat from Afghanistan bring to mind another similar dark day nearly 50 years age when helicopters were lifting Americans off the roof of the U.S. embassy in Saigon. In this case, the dominoes began to fall as soon as President Biden gave instructions to pull all of our military out of the country by September 1. Until that day, the President confidently insisted the Afghan military forces would prevail against the Taliban. The President's bravado was quickly dispelled as the Taliban in the face of token resistance quickly gained control of the countryside, and they capped off their eleven day blitzkrieg with the capture of Kabul, the capitol of Afghanistan. The decision to rapidly withdraw from all our military bases, including the impressive Bagram Air Base, meant none of our American citizens nor our allies could any longer be protected. The United States and the other allied forces had no choice, but to negotiate with the Taliban leadership, who insisted upon a complete withdrawal of foreign forces country by September 1. It resulted in utter chaos at the Kabul airport as Americans, Afghan supporters, and citizens of other countries mobbed the gates of the airport to assure themselves a seat of one on the evacuation flights. One tragic incident marred this extensive evacuation effort, it was a massive explosion triggered by a suicide bomber that killed thirteen U.S. service personnel and more than 120 other victims. Enough said.

Impact on the Financial World – To the surprise of many, neither the President Biden's two hugely expensive "Building Back Better" legislative packages, which Senator Bernie Sanders wrote for him, nor the poorly scripted withdrawal of our military forces from Afghanistan barely raised an eyebrow among investors. Their attention has been focused more on the Federal Reserve and its thoughts about the future direction of interest rates. A major concern is if the economy continues to strengthen and the recent upward trend in inflation persists, the FED will be forced to reconsider its loose money policy and begin to tighten. Some investors believe the change is long overdue. If the FED can deftly manage the change, interest rates will remain manageable for the FED. This means investors will be re-introduced to a "Goldilocks" economy - not too hot, not too gold, but just right, and economic growth can continue uninterrupted. Conversely, if the FED concludes the economy is in danger of overheating, it may feel compelled to allow rates to rise at a more rapid rate, which might slow the economy and ultimately induce a recession.

Market Outlook - In spite of the many distractions, the economy and the stock market have risen steadily this year. Although the incidence of the Delta variant of COVID-19 has raised anxiety levels, businesses have continued to grow profits and expand employment. Increased profits have helped lift stock market averages to all-time highs. Corporate profitability is expected to decelerate this quarter, so growth is expected to slow from the impressive pace in the first half of the year. Nevertheless, corporate balance sheets are very strong as is evident from the number of dividend increases and the growing number of planned stock repurchases. Given this positive backdrop, it is reasonable to expect the stock market to continue to advance through year-end, especially when coupled with the ever-expanding liquid reserves.

Timely Tactics – As the final quarter of the year approaches, now is a good time to reassess a portfolio's asset allocation and consider whether to make any changes. Although it is common to consider rebalancing a portfolio at the end of the year, it may be worth accelerating the exercise in light of the strong nine-month results. Another move to consider is if earned income is being supplemented with capital gains now is a good time to realize some gains. If there are any losers lurking in the basement of the portfolio, this is an opportunity to use those losses to offset some of the realized gains, which may result in a tax savings

Investors with tax-sheltered accounts (e.g., rollover IRSs, 401Ks or 403Bs) will again be required to take their distribution this year after last year's "free pass". The age to begin taking these distributions has been increased to 72 this year, and the distribution (i.e., Required Minimum Distribution RMD) must be taken by December 31 or a steep 50% penalty will be assessed by the IRS. If sizable charitable contributions are being considered, there are potential tax benefits to be gained if they are made as part of the RMD. In both instances, it is wise to try and accomplish these moves early in December. Be sure to consult with your tax adviser to determine the impact of any changes will have on your 2021 taxes. Please call us if you have any questions about these or any other financial and/or investment matters.

Enjoy our wonderful fall Cape Cod weather. JML