



# OUR VIEW



## Third Quarter Review

Global equities declined slightly in the third quarter, with September losses a consequence of fears about slowing economic momentum, rising inflation and policy uncertainty. Global equities, as represented by the MSCI All Country World Index, fell by 1.05% for the quarter. Despite the September slump, global equities returned 11.1% year-to-date through September 30. The S&P 500 Index was slightly up for the quarter; the index has gained nearly 16% year-to-date. U.S. small company stocks struggled during the quarter, losing more than 4%. U.S. small company stocks have gained more than 12% year-to-date. Emerging markets also struggled, with a variety of concerns about China dominating sentiment during a quarter in which the MSCI Emerging Markets Index fell by 8%.

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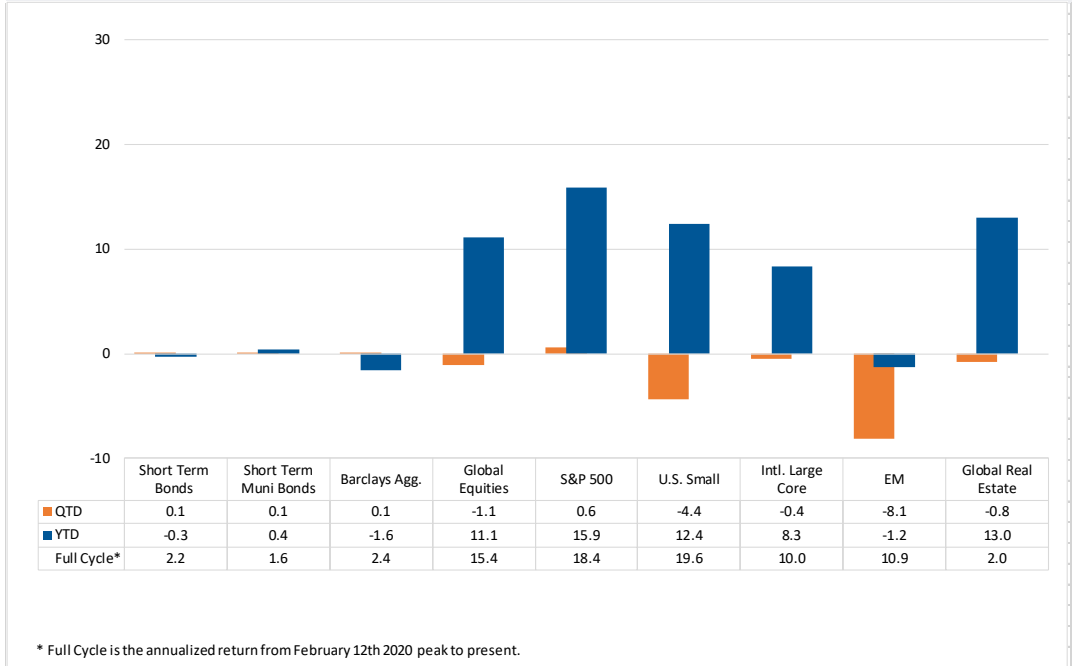
Financial services was the top performing S&P 500 sector, helped by rising bond yields. Utilities also performed relatively well. Industrials and materials were the weakest sectors. The energy sector is the best year-to-date performer, gaining more than 40% in response to rising demand and constrained supply. Financial services and real estate have also been strong year-to-date performers. Utilities and consumer staples trailed in relative terms year-to-date. Although value stocks have outperformed growth stocks year-to-date, growth stocks gained relative ground during the quarter.

The bond market was volatile during the quarter. 10-year Treasury yields rose from 1.2% in August to more than 1.5% near quarter-end amidst inflation fears and changing expectations about the timing of Federal Reserve rate hikes. The Bloomberg Barclays Aggregate Bond Index has declined approximately 1.6% year-to-date. Municipal bonds held up during the quarter and continue to have slightly positive returns year-to-date.



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**Quarter To Date Returns** 9/30/2021



TFC client portfolios declined slightly in absolute terms and trailed slightly relative to client benchmarks during the third quarter. TFC client portfolios are strongly positive in absolute returns and slightly positive relative to client benchmarks year-to-date. Rising interest rates and China fears were headwinds for TFC’s innovation and growth-oriented holdings during the third quarter, while value-oriented holdings held up well. TFC’s emphasis on high quality, short duration bond holdings helped preserve capital during the quarter, while investments in diversifying bond holdings such as mortgages helped returns.

**Market Outlook**

September’s decline was a reaction to abundant threats to the Goldilocks scenario of above-trend economic growth, moderate inflation and expansionary fiscal and monetary policy. We remain optimistic about the outlook for equities but are closely monitoring risks that could derail the bull market in stocks. We are less enthusiastic about bonds, but disagree with those that expect a return to the out-of-control inflation seen during the 1970s.

**Covid-19** continues to be a threat to the economic recovery. Economic reopening progress has slowed in response to the impact of the highly transmissible Delta variant. However, the world is making considerable progress containing the pandemic. Covid cases and hospitalizations continue to fall rapidly—cases have dropped by more than 40% since the sustained national peak in the U.S. and are down 85% in Florida. A significant percentage of the developed world adult population has been vaccinated; emerging markets countries such as China, Brazil and South Korea have made significant progress after a disappointingly slow



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rollout of vaccines. With an increasing percentage of the global population vaccinated and some degree of natural immunity provided by prior Covid infection, it is likely that economic reopening will be delayed but not derailed by the Delta variant.

China's regulatory actions, tensions with the U.S. and slowing economic growth also weigh heavily on investor sentiment. Although China's unpredictable regulatory actions dominate the headlines, we are more concerned about slowing Chinese economic growth. Despite the opaque and seemingly arbitrary nature of the government's actions, many of the issues addressed by Chinese regulators mirror concerns that Western governments have about systemic risk in the financial sector, anti-monopoly enforcement, data security, income inequality, and protection of small and medium enterprises. More damaging to global growth is China's stop/start approach to fiscal and monetary policy and the government's necessary but disruptive deleveraging of the property sector. Cooling Chinese demand will echo through the world, jeopardizing the growth prospects for major exporters and foreign companies with a significant presence in China.

Energy prices are surging, which creates financial stress for many households and businesses. The rise in oil, coal and natural gas prices highlights the fragility of the energy supply chain at a time when the world is trying to transition towards renewable resources. Beijing's push for a reduction of carbon emissions led producers to reduce output, causing rolling blackouts across numerous Chinese provinces. The British government enlisted army drivers to operate gas tanker trucks to help address the country's fuel delivery crisis. The recent energy crunch may be a preview of a bumpy transition to renewables that may take decades to complete with demand for fossil fuels remaining strong while supply will remain variable until intermittent sources of power such as wind and solar become more cost-effective and reliable to store and distribute. We would normally expect energy supply/demand imbalances to correct themselves over time, but geopolitical and U.S. domestic policy implications may lengthen the adjustment process.

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The monetary policy outlook is no longer unequivocally bullish for stocks. The Federal Reserve is close to starting to "taper" by reducing their purchases of government and mortgage securities. Tapering in our view is the right thing to do, as Fed intervention in the bond market may now be causing distortions that do more harm than good. In our opinion, the market reaction to the Fed's recent meeting -- with the 10-year Treasury reaching 1.5% before quarter-end -- was more about the path for raising rates than about the taper. Although the odds of a 2022 rate hike have increased, slowing employment growth may delay the Fed's path to normalizing interest rates. Inflation is proving to be stickier than the Fed projected over the summer, but we agree with the Fed's assessment that supply chain and labor bottlenecks will fade over time. We are monitoring trends in wages and rents as potential threats to our expectation that inflation pressures will ease next year. In contrast to our relative positive near-term outlook for inflation, we think that investors will need to adjust to moderately higher long-term levels of inflation as a consequence of de-globalization, aging demographics and a move to just-in-case supply chains replacing just-in-time supply chains.

Fiscal policy is a divisive topic among investors, with some claiming we'll see the economy overheating as a result of big spending packages and others expecting fiscal contraction in 2022 given the expiration of pandemic spending programs. The fiscal contraction will likely be less severe than worst-case scenarios, given that much of last year's spending



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was income replacement rather than pure stimulus; Biden Administration spending plans are likely to be lower than initial projections and if passed will be spread over many years. We expect brinksmanship over the debt ceiling to contribute to market volatility in the coming weeks but are optimistic that a government shutdown will be avoided.

## Portfolio Positioning

Given elevated risks and the likelihood of a more protracted economic recovery from the pandemic, we anticipate making moderate changes to TFC portfolios. Although economic growth is slowing from the torrid levels of earlier in the year, we expect economic growth in 2022 to exceed pre-pandemic levels. From a positioning perspective we still favor equities over bonds; the easy gains from reopening have been made which has implications for positions in value and small cap stocks. On the positive side, valuations in many parts of the market look more reasonable after September's downturn.

TFC is positioned slightly above long-term strategic targets for stocks, expecting a continued recovery for the global economy and for corporate profits. Diversification within the equity portfolio continues to be important because the rotational shifts we have seen in recent years are happening so quickly. Diversification must be emphasized not just across sectors, but also across market cap, geographies, asset classes, and within asset classes. Just as important as diversifying is thoughtful rebalancing to trim back on areas that have outperformed and add to areas that underperformed.

Within bond portfolios, we continue to emphasize a core of short-term, high quality fixed income holdings that will provide safety and liquidity but unfortunately not a lot of coupon income in a low-rate environment. We expect incremental income relative to government bonds from our corporate and mortgage-backed bond holdings.

An invitation to our webinar on October 26<sup>th</sup> was sent out yesterday. Please feel free to join and share with friends and family who may be interested!

Additionally, we are excited to announce that TFC was named by CNBC as a Top 100 Financial Advisory Firm. Please see the last page of this letter for additional details or [click here](#) to view the CNBC article.

As always, we welcome your comments and questions.

Sincerely,

**Daniel S. Kern, CFA,**  
**CFP®**  
Chief Investment Officer

**Renée Kwok, CFP®**  
President & CEO



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## **TFC Financial Named by CNBC as a Top 100 Financial Advisory Firm**

October 07, 2021 11:48 AM Eastern Daylight Time

BOSTON--(BUSINESS WIRE)--TFC Financial, an independent, fee-only financial advisory firm, has been selected from among more than 38,000 U.S. firms to be named to the 2021 edition of CNBC's prestigious FA 100 list of top U.S. registered investment advisors (RIAs).

Developed in partnership with AccuPoint Solutions, CNBC's ranking is based on detailed analysis of core data points ranging from the firm's compliance record and years in business to total accounts and assets under management. CNBC ranks TFC at number 69 in the top-100 group, and this is the first year TFC has been named to the list.

TFC Financial President and CEO Renée Kwok said, "What makes this honor so deeply meaningful to me and to everyone at TFC is that, in CNBC's words, it 'recognizes those advisory firms that best help clients navigate their financial lives.' "

"Our commitment at TFC is to being an advisor clients can trust always to put their best interests first, through only the most objective wealth management advice and direct, personal attention," Ms. Kwok added. "That includes delivering help and support in areas beyond their investment portfolios, often at challenging times in their lives."

TFC Chief Investment Officer Daniel S. Kern said: "Renée and I recognize and appreciate that it's the work of every member of our staff, from our advisors and client-service staff to our investment officers and administrators, that has enabled TFC to achieve the profound honor of being named to the CNBC FA 100 list. We thank each of them, and we thank our valued clients who give us their trust and their business."

### **About TFC Financial**

Founded in 1980, based in Boston, and majority-owned by our employees, TFC Financial operates as a wholly independent, fee-only financial advisory and investment management firm with revenues derived solely from the fees we charge for the services we provide. With more than \$1.3B in client assets under management today, TFC, as a fiduciary, serves high-net-worth clients and multigenerational families, trustees, and non-profit organizations with a minimum of \$2M of liquid investable assets. The firm provides comprehensive and strategic financial planning in addition to asset management services.