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October 12, 2021

Investment Review and Outlook Third Quarter 2021

Investment results for the quarter looked very good until September, when concerns over economic growth and inflation caused the markets to take a break. Inflationary pressures reflected rising energy costs, which have jumped almost 25% in the past year, and supply-chain shortages of a broad array of materials necessary for production of goods. The result? Higher prices for cars, furniture, appliances, and many other products.

After the dust settled, the S&P 500 index of U.S. large-company stocks did manage to hold onto a gain of 0.6% for the quarter. U.S. small company stocks took more of a hit this quarter, declining 4.4% (Russell 2000 small-cap index). International stocks also gave back some gains, slipping 1.0% (EAFE index), while bonds were flat (Barclays Aggregate Bond index).

The main worries in the months ahead are corporate earnings and the Federal Reserve's plans to slow the pace of its bond buying. Third-quarter earnings season is now starting, and investment strategists may lower their earnings forecasts if manufacturing costs continue to rise. Also, the Fed recently released its projections for interest rates over the next few years, and currently expects U.S. interest rates to increase next year. Of course, the Fed view can be quickly altered if inflation slows or economic growth declines below the forecasted level.

So, what should we do now? The short-term downside risk for stocks appears daunting, yet this concern may already be reflected in stock prices. We believe that part of successful investing involves riding out nervous markets in which prices are driven by short-term economic news and investor emotions. Somehow, we need to stay focused on long-term fundamentals, and remain committed to a disciplined risk-management process.

The bottom line is that sleeping well at night is important. While we feel that stocks should perform well over the long run, if you sense that riding out the next inevitable (and usually short) market decline would impact your lifestyle and sleep, we should revisit your risk tolerance to make sure you are in an appropriate mix of investments.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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