MORAN
WEALTH MANAGEMENT

SEPTEMBER 2021

MORAN MONTHLY DIGEST

Insights From Our Founder

While the rise in COVID cases in the US is worrisome, the markets continued to inch higher in August. In terms of inflation, the July CPI numbers, released mid-August, showed a 0.5% increase since June and a 5.4% increase from last year. Core inflation, which excludes energy and food prices, still rose by 0.4% in July and 4.3% over last year. We continue to believe the rise in prices is transitory, due to pent up demand from the pandemic. However, we continue to be vigilant as we look for signs that inflation may become a longer-term issue.

Thomas M. Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager

Stock market valuations remain relatively high and the 10-year yield remains below 1.5% in the bond market. This is a strong indicator against long-term inflation. Similarly, economic earnings this season have come out stronger than anticipated. It is fair to say that valuations are not cheap, but multiples actually retreated as earnings growth outpaced price appreciation over the past several quarters. Beyond the new all-time highs in most equity indexes being set almost daily, the real story of 2021 has been the intense style rotation beneath the surface. The shift toward cyclicals, then to growth, then to bond proxies and then back again to cyclicals has left many managers scrambling to keep up. We believe positioning should remain tilted toward cyclicals as early-cycle dynamics continue to reign supreme into the back half of 2021. Given this environment we do not expect any significant near-term drawbacks in the equity markets and, consistent with our prior recommendations, we suggest remaining overweight risk assets.

As the summer months come to a close, we are looking ahead to the start of season in Naples. We have been busy planning upcoming events, so stay tuned for additional updates. We continue to actively monitor all guidelines for large events and will make accommodations to ensure safe gatherings for everyone. We look forward to seeing you soon.

Cheers,
Tom

WHAT'S INSIDE

Our practice is encouraging the public to follow all state, local, federal and CDC ordinances and restrictions in relation to Covid-19.

MONTHLY MARKET COMMENTARY

With the market consistently hitting new all-time highs—the S&P 500 has almost doubled since bottoming on March 23 last year—even the most steadfast investors can find themselves wondering if we're headed for a market correction. After all, multiples are significantly elevated from their historical averages, the specter of inflation is rearing its head for the first time in decades, the Delta variant is rapidly spreading across the globe and China just embarked on a stinging regulatory crackdown. It almost seems inevitable that the good times cannot last. However, despite the barrage of negative headlines over the past couple of weeks, the equity markets have largely continued their steady climb upwards. Have they simply become complacent to the risks all around us or is there more to the story? We remain resolutely optimistic about the near-term of the capital markets, and we'll explore some of the factors supporting that optimism.

Inflation, an afterthought in recent years, has once again become a potential source of worry. Underlying rates of core inflation remain near multi-decade highs driven by two main components: supply chain disruption and continued upward price pressures in services and wages. Bottlenecks in global supply chains have raised the cost of goods and shipping worldwide. We expect that supply chains, and thus the elevated prices caused by them, will normalize in time although impacts to specific industries could certainly persist for longer than usual. Inflationary pressures from vigorous spending on services and wages is likely to be more durable. We believe inflation is an issue that investors should monitor closely.

The good news is that the Fed is watching closely for signs that they should step off the accelerator of easy monetary policy. It is widely expected that the Fed will begin tapering their bond-buying program sometime in the second half of this year; we do not believe that a "taper tantrum" will result. The market expects it to happen, agrees that it is necessary given the concern about inflation and the Fed has indicated many times that it will be transparent on the timing of said tapering. This tightening of monetary policy may produce brief, small corrections, but we see little evidence that it will spark a sustained sell-off.

The risk perhaps most likely to produce a significant correction in the US equity markets would be the risk of higher taxes. The current administration has proposed a veritable buffet of tax hikes. If they got everything on their Christmas list, it would be the largest increase since 1968. It is exceedingly likely that the administration's proposal will get negotiated down in Congress and the tax increase itself has likely already been priced in. Unfortunately, there is considerable uncertainty as to what the final product of those legislative negotiations will be. A larger than expected increase is possible and could easily spark a correction. In a similar vein, the brewing political drama around the debt ceiling could spell trouble for the market. Although Congress has historically resolved the issue—and without a moment to spare—the impact of a default would be severe. Fortunately, Congress is aware of the consequences and we consider that scenario far less likely than that of higher taxes.

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By contrast, the spreading Delta variant and concerns about growth and stretched valuations are less likely to affect the market. While the Delta variant is deeply troubling from a public health perspective, the economic impact will likely be muted. Vaccination rates are relatively high across the developed world and continue to rise, and there is no eagerness among policy makers to return to the restrictions and lockdowns of last year. The spread of the variant is certainly more troubling in its implications for emerging markets.

In other good news, projections of economic growth remain strong albeit slightly diminished from the ebullient estimates published in recent months. Job openings remain extremely high, exceeding the number of unemployed Americans. Businesses are aggressively hiring and raising wages to satisfy current and expected demand; a good omen for economic growth. While multiples for the equity market are significantly higher than the historical average, reported earnings growth so far has been explosive. In hindsight, those eye-popping valuations may turn out to be justified and we have already seen them pull back. We believe investors should be relatively less concerned about these particular risks.

Now…about China. Chinese credit markets continue to be a source of concern and the regulatory onslaught unleashed by Beijing has pummeled many Chinese stocks, contributing to the recent decline in overall emerging markets. Additionally, China has displayed a renewed enthusiasm for geopolitical aggressiveness, particularly towards Taiwan and the US. Fortunately, the devastating impact on Chinese equities has not spilled over into global markets in general. We believe investors in Chinese markets should be prepared for a bumpy ride. At current prices, a resumption of the historical trend could be an excellent value opportunity. However, there remains significant potential for negative surprises courtesy of the Chinese government.

For these reasons, we remain optimistic about the near-term future of the market particularly in the US and the developed markets despite the myriad risks. Strong economic growth, surging corporate profits and a muted economic impact from the Delta variant bode well for capital markets.

Thomas Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager

Patrick Moran
Investment Analyst

WHAT'S NEW AT MORAN WEALTH MANAGEMENT

SHOULD YOU UPDATE YOUR BENEFICIARY DESIGNATION?

Your estate may not be distributed how you want if you don't stay on top of your beneficiary designations on employer sponsored plans and IRAs. These designations are vital because they supersede whatever you have in your will or trust or what you've promised people will happen.

So, for example, if your ex-spouse is still named as the beneficiary on your 401(k) account from three jobs ago, he or she will get that money even if your will says it should go to your children. By consolidating accounts, you can make managing your beneficiary designations
less complicated.

As we approach the fourth quarter, please take a moment to review your beneficiary designations.

Please contact your advisor to further discuss your accounts and beneficiary designations.

FEATURED STRATEGY

Click link below for Factsheet or visit our website under "Strategies"

Natural Resources (NATR):

Seeks long term capital appreciation and preservation against inflation and monetary instability, by investing in securities in the energy and natural resource sectors.

- Factsheet

RECENT MARKET RESEARCH

Click link above or visit our website under "Resources"

GET TO KNOW: OUR CLIENT RELATIONS TEAM

Pictured from L to R: Stefanie Drack, Client Account Specialist; Lauren Niebrugge, Client Account Specialist; Nick Gleason, Registered Support Specialist; Angel Nurse, Co-Director Client Relations; Wes Thompson, CRPC®, Client Relationship Manager; Ashley Buboltz, Co-Director Client Relations and Compliance Officer; Kim Crews, Client Account Specialist; Jeffrey LeBriton, Client Account Specialist; Kathy Herget, Operations Manager; Kim Koert, Support Specialist; Lucca Delcompare, Registered Support Specialist

Client Service Model

There are no 1-800 numbers; our clients have uninhibited access to the professionals managing their money. This team approach is designed to provide each and every one of our clients the highest standard of responsiveness and attention.

MORAN WEALTH MANAGEMENT
CENTER FOR FINANCIAL EDUCATION

Stay tuned for updates on our upcoming Private Client Events!

UPCOMING SEMINARS

As a reminder, you can always find our seminar schedule on our website, either by clicking here or by visiting www.moranwm.com and scrolling over "Resources."

We look forward to hosting many more educational events in the near future and welcoming you into our newly renovated space!

CONTACT INFORMATION

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