

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW THIRD QUARTER 2021

What Happened:

Nobody knows why, but the third quarter is historically the worst quarter for the market and this year was no exception. After hitting a new high on September 2nd, the market lost ground and ended up about even for the quarter overall. We are faring well for the year-to-date period, however, with the S&P 500 Index up nearly 16%. This most recent pullback is not unusual or unexpected. Declines of 5%-10% occur about once per year on average and we had not seen one since the fall of 2020.

Investors are prone to worry, and you need look no further than the volatile markets for proof of high anxiety. The chief worry at present is inflation. After holding below 2% for many years, inflation has recently spiked to about 5% on an annualized basis. This rise can be attributed primarily to the economic effects of supply disruptions, labor shortages and governmental stimulus measures. As investors, we are concerned about excess inflation because it makes the value of future profits and cash flows worth less, which can dampen investment performance. If inflation becomes elevated for a lengthy period of time, it can stifle economic growth and lead to lower GDP growth. We are watching the situation closely. At this point, we do not expect inflation to rise to such detrimental levels. Also, the best barometer of inflation, the bond market, is not signaling an imminent threat as interest rates remain historically low.

Covid lurks, but as a society, we are becoming more accustomed to living in a Covid world. Anyone who has traveled by air lately can attest that airports are busier than ever. Sporting events are packed with fans. Restaurants are at capacity (assuming they have adequate staffing). All in all, things are returning to normal, usually with masks in tow or on our faces.

Year-to-date Performance Through September 30, 2021:

S&P 500 Index (large stocks)	15.9%
Russell 2000 Index (small stocks)	12.4%
MSCI EAFE Index (international stocks)	8.4%
Bloomberg U.S. Aggregate Bond Index (bonds)	-1.6%

Prognosis:

Corporate profits remain strong and should stay that way well into 2022. Inflation notwithstanding, most financial analysts are projecting corporate earnings growth in excess of 20% for the remainder of 2021 and about 9% for 2022. What's more, the economy is doing well with GDP growth projections of 3.6% for the third quarter of 2021, 6.0% for the fourth quarter and 4.7% for the year 2022. This all bodes well for the markets going forward.

Other News:

Marty Knous obtained his CERTIFIED FINANCIAL PLANNER™ certification on September 28, 2021, by meeting the CFP Board's educational, experience, examination, and ethical requirements. Becoming a CFP® professional requires competence in many financial planning topics including investment planning, education planning, risk management and insurance planning, tax planning, retirement savings and income planning, estate planning, and regulation. This is a big step in Marty's career and shows his dedication to serving our clients' best interests for many years to come. This CFP® certification adds to Marty's professional designations. He is also a certified public accountant (CPA) and a registered investment advisor. Congratulations, Marty!

Wishing you all a wonderful fall and a happy holiday season!

SCK