



STRATEGIC CLIENT NEWSLETTER

THIRD QUARTER 2021

Third Quarter Growth Limited by Concerns Over U.S. Government Funding and Chinese Real Estate

The U.S. stock markets surged in the beginning of the third quarter, before shedding much of its gains near the end of the quarter. A potential bankruptcy of the largest real estate firm in China, coupled with an already over-priced stock market and government funding issues in Congress, set the stage for a pullback as major market indices remained relatively flat in the third quarter. The S&P 500 (+14.66% YTD) and Dow Jones Industrial Average (+10.55% YTD) remained in positive territory for the year.

THIRD QUARTER 2021

Market Performance *www.bloomberg.com*

Dow Jones Industrial Average

This Quarter	-1.90%
Year-to-Date	+10.55%

S&P 500

This Quarter	+0.16%
Year-to-Date	+14.66%

Nasdaq Composite

This Quarter	-0.31%
Year-to-Date	+12.07%

*Indices are unmanaged and you
cannot invest directly in an
index*

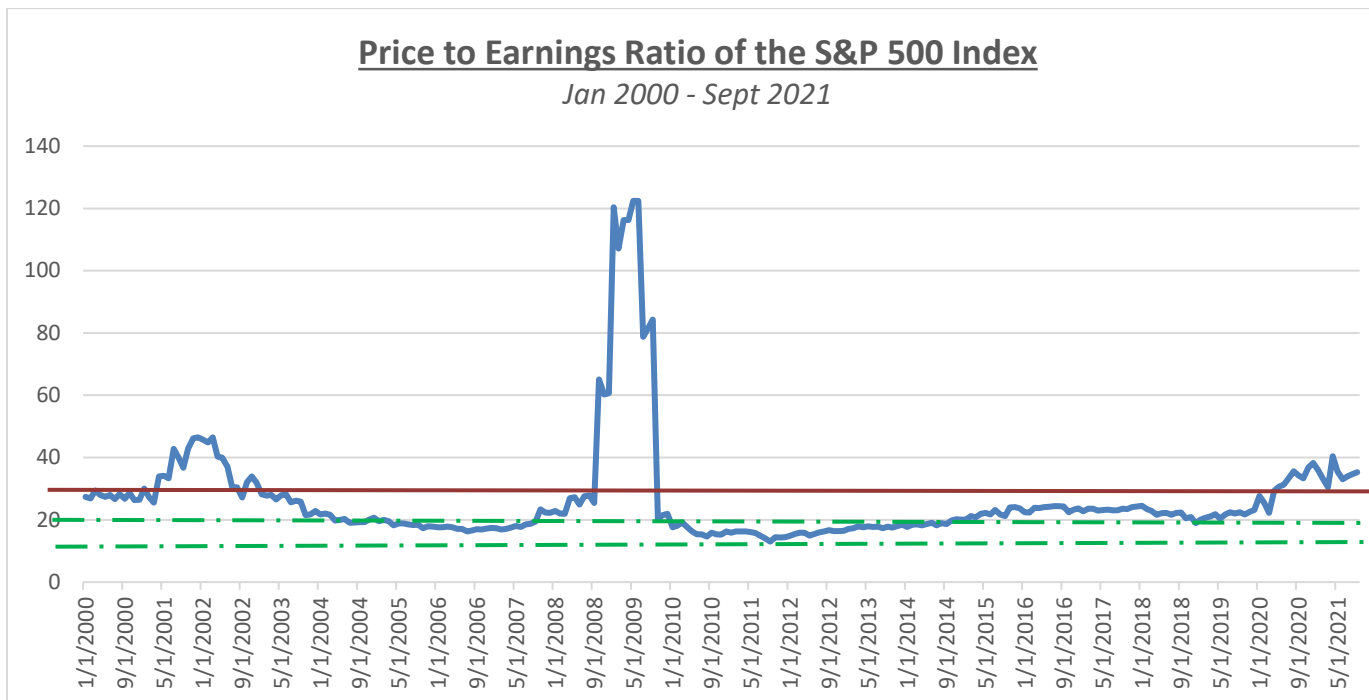
- Gross Domestic Product (GDP) increased at a rate of 6.6% in the second quarter of 2021, following an increase of 6.3% in the first quarter of 2021. The increase in GDP in the first quarter is largely due to increases in personal expenditure, nonresidential fixed investment and state/local government spending *(Source: www.bea.gov)*
- The National unemployment rate levels showed a downward trend, with the following rates for June (5.9%), July (5.4%) and August (5.2%) of 2021. We believe the unemployment rate will decrease slightly over the next 12 months. *(Source: www.bls.gov)*
- Nonfarm productivity increased at rate of 2.1% in the second quarter of 2021, with increases in output (8.1%) and increases in hours worked (6.0%) for the second quarter of 2021. From the second quarter of 2020 to the second quarter of 2021, nonfarm productivity increased 1.8%. *(Source: www.bls.gov)*
- Changes in the Consumer Price Index (CPI) remained nominal as it increased 0.9% in June 2021, 0.5% in July 2021 and 0.3% in August of 2021. We expect inflation to remain low for the next 12-18 months. *(Source: www.bls.gov)*
- Personal Income increased by \$225.9 billion (+1.1%) in July of 2021, following by an increase in June (+.2% or \$37.2 billion) of 2021. *(Source: www.bea.gov)*
- Corporate profits (profits from current production) increased in the second quarter of 2021 by \$234.5 billion, following an adjusted increase in the first quarter of 2021 of \$123.9 billion. *(Source: www.bea.gov)*

An Overvalued Market?

In analyzing the overall stock market to determine whether it can be considered at fair value or over/under valued, one factor that we look at is the price to earnings ratio of the S&P 500 index. In general, a price to earnings ratio can be applied to individual stocks as well to determine whether the current stock price is supported by the company's current earnings.

Historically, a price to earnings ratio of 18-22 for the S&P 500 index has been considered fair value. This means that the underlying earnings being reported are in line with the current S&P 500 index value. Once this ratio climbs above 30, we consider the broad stock market to be overvalued, and we've been above 30 for all of 2021. At some points the S&P 500 P/E ratio has been above 40, which is very overvalued.

With this data, we do consider this to be an overvalued stock market, and we will continue to monitor this, along with other economic indicators such as GDP, unemployment, corporate earnings and consumer spending to determine the direction of the stock markets and the economy. For now, we don't recommend additional purchases into the overall stock market until we feel it's better valued. Though forward estimates show signs of the price/earnings ratio falling for the remainder of 2021 and 2022, we will review the actual price to earnings ratio as a measure of market valuations.



Source: www.macrotrends.net

2021 Required Minimum Distributions

IRA account holders are generally required to take annual distributions from their IRA accounts after they turn 72. The RMD rules apply to all employer sponsored retirement plans (i.e. 401(k), 403(b), profit sharing plan) and all IRA-based plans (i.e. traditional, SIMPLE, SEP).

Under the SECURE Act, if you reach the age of 70 ½ in 2020 or later, RMDs won't begin for you until age 72.

We will be reaching out to clients who haven't fulfilled their current year RMD to ensure any distributions that need to be made are completed by year end.

If you have any questions about how this may impact your retirement accounts with us, please call our office.

Annual Client Profile Review

On a yearly basis, we like to review any updates to clients' risk tolerance profiles. Please contact our office to review or to make any updates to the following:

Time Horizon – *This measures the expected years you plan to invest your financial goals*

Short Term (0-5 years) _____

Intermediate Term (5-10 years) _____

Long Term (10+ years) _____

Liquidity Needs – *This measures the ease with which you can meet financial obligations with available assets*

None _____

Moderate _____

Significant _____

Financial Priority – *Please choose one*

Less Volatility, even if that means there is little growth potential _____

Investment income, with some growth potential _____

Some investment income, but more growth potential over the long term _____

The highest growth potential over the long term _____

Risk Tolerance – *How would you rate your willingness to take risk?*

Very Low Low Moderate High Very High

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**PLEASE RETURN ANY CHANGES TO
YOUR CLIENT PROFILE IN THE
ENCLOSED ENVELOPE.**

CHB Investment Group Observations

- With the trend of stocks moving from overvalued to more fairly valued, we see modest potential for additional growth throughout 2021. We suggest a 5-10% reallocation to fixed income, depending on your risk tolerance and current portfolio goals.
- We have a **neutral bias** in residential and corporate real estate. We remain cautious as housing markets will be negatively impacted if inflation and market interest rates increase.
- We continue to favor corporate debt over Treasury bonds. We expect the Federal Funds target rate to remain at or near 0.00% for the rest of 2021.

This is provided for informational purposes only. We need to review your investment objectives, risk tolerance and liquidity needs before we introduce suitable managers/investment programs to you. All investing involves risk including the possible loss of principal. Mid-cap stocks are generally more volatile, subject to greater risks and are less liquid than large company stocks. There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

CHB Investment Group News

- We have completed our transition to Charles Schwab and Co. as the custodian of our clients' assets. We are available to assist with any questions concerning online access, statement bundling, electronic documentation selections or any other items that may arise.

For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to chris.lindenthal@chbinvestmentgroup.com

Past performance is no guarantee of future results. Indices are unmanaged and you cannot directly invest in an index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial stocks

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.

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