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THOUGHTS FROM HOME

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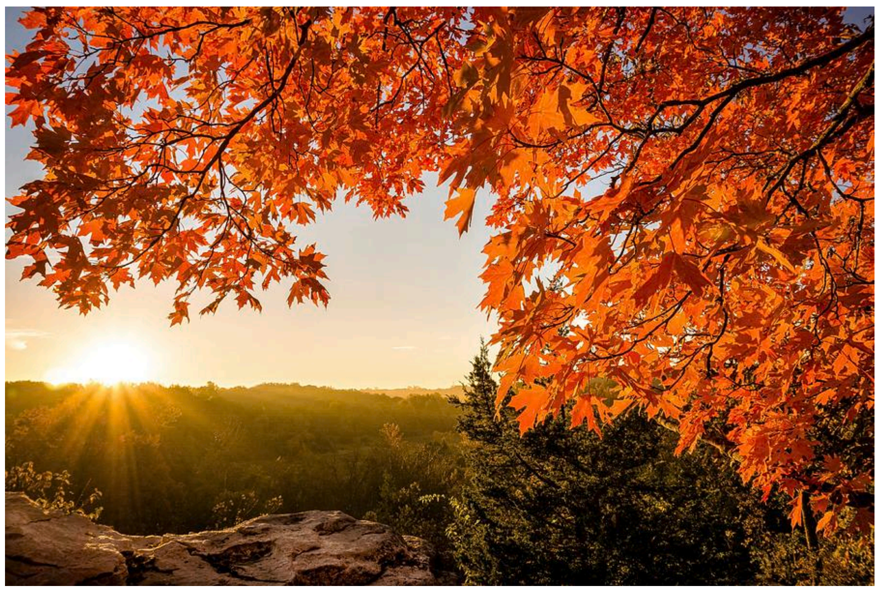

Doubts of Today and a Brighter Tomorrow

"The only limit to our realization of tomorrow will be our doubts of today." - Franklin D. Roosevelt

September brought us our first negative month of the year with the S&P 500 down 4.8%, amid a long list of concerns growing in the market. How much and how long the market will correct are the key issues at hand. This month, we will explore these concerns to try to determine how soon we can expect a brighter tomorrow.

In reality, the trigger point to this month's sell off seems to be the U.S. debt ceiling debate. Basically, the U.S. government has a legislated debt limit and if they fail to raise it, the U.S. would go into technical default and the government would be forced to close federal services. Over the last few years, both the Republicans and Democrats have used this opportunity to try to force the other party to pass legislation they otherwise could not get through. In all recent cases, the reaction has been the same with bond yields rising and the market selling off until the situation is resolved. Historically, these events have had little net impact on the market but they do cause media buzz.

However, this did trigger an upward move in the yield of the 10 year U.S. Treasury bond to 1.52%, which has led to a drop in growth related investments such as U.S. technology. Growth investments do tend to perform worse in a rising interest rate environment but a quarter percent rise in the 10 year yield will in no way impact the growth of self-funded technology giants such as Apple, Microsoft and Salesforce.

Another concern is the supply chain bottlenecks that are slowing economic growth globally. By way of example, let's consider the Port of Los Angeles. Currently, they can offload 10 container ships per day. The problem is that 18 new ships are arriving daily and there are already 62 others waiting in the harbour. Some market watchers are concerned that the U.S. economy has reached peak growth but as long as there is unmet demand, growth will continue. However, you may want to consider doing your Christmas shopping a little earlier this year, as supplies may be limited.

China continues to be a worry for a number of reasons such as the potential collapse of their largest real estate developer Evergrande, an ongoing electricity shortage, as well as, declaring all crypto currency transactions to be illegal. The Evergrande story caused concern there would be another "Lehman moment" resulting in another 2008 like financial crisis but that has largely passed as most of the debt burden is held in China. They also shocked the crypto market, sending it down approximately 20% before it recovered. A similar move by the U.S. or the European Union would have an even more profound and lasting effect, so we continue to pass on that market. Combined with the global supply chain problem, China has raised the concerns of the global market but they have managed to see their way through previous crises as well as decades of rapid growth and we see no reason why they will not be able to navigate these troubled waters.

Finally, we come to the ongoing Covid crisis. Unfortunately there is little material change to report. Total global recoveries are slowly reducing the number of cases but the U.S. remains a trouble spot. There is growing evidence that vaccinated people are getting far fewer and more mild cases of Covid, so perhaps this will eventually help to convince skeptics. Fortunately, out of the over 19 million cases globally, just over 90,000 are considered serious or approximately 0.45%. This is much lower than the overall 2% death rate that has occurred to date. Hopefully the tide will turn in a meaningful way soon and it looks like it is beginning to with the recent announcement from Merck regarding an oral treatment to combat the effects of Covid.

It is easy to get lost in the pessimism of the moment but we see many reasons for a brighter tomorrow. We begin with the Brendan Wood Index of Shareholder Confidence which measures the outlook of investors globally. In their latest survey, 67% of investors expect to be net buyers of stock this quarter. This is down from 83% at the start of the month but still a very positive indicator of investor attitudes.

We believe a key reason so many investors intend to put money to work this quarter is the over $10 trillion of global liquidity sitting on the sidelines. Shareholders in hedge funds, mutual funds and pension plans do not like to see large cash balances in their portfolios at year end so we expect considerable buying pressure to see us into December.

The ongoing supply/delivery problems simply mean this growth cycle is going to last longer than expected, until demand can be fully met. With global travel still restricted due to Covid, we expect the demand for goods to continue, with the service sector slowly coming back on line as well. This overall elongated growth cycle should continue to move markets eventually higher.

As global economics improve, so do corporate earnings. While analyst expectations have risen above the previously lower numbers expected during Covid, we believe that most major companies have navigated the crisis well and a growing economy should lead to higher earnings and stock prices.

Another key factor remains interest rates. Even with the heavy domination of growth stocks, the average yield of the S&P 500 is 1.3% versus 0.99% for the 5 year U.S. Treasury bond. The overall market is not as relatively cheap as it once was but is still better positioned to deliver positive results than the bond market.

The stock market will likely continue to remain choppy until the U.S. debt ceiling is resolved and we have a clearer picture of how China is going to handle the Evergrande situation but once these are settled, investors will have even greater certainty to push forward.

Overall, there is always something to worry about and a correction was probably overdue. However, our conviction remains strong that the underlying fundamentals of growth continues to outweigh short term concerns. Our belief in a brighter investment tomorrow remains firmly in place. Until next month, we wish you all continued health and happiness.

As always, questions, comments, thoughts and concerns are always welcome.

Yours truly,

Trevor, Walter and the Cooper Wealth Management team