Dreher Investment Services, Inc.
Economic Outlook: 3rd Quarter 2021 — October 15, 2021

Market Review: 3Q-21

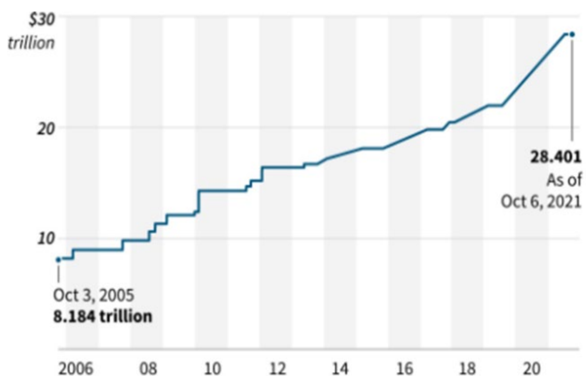
Equity markets ran into turbulence in the 3rd quarter. After climbing 5% to start the quarter, the S&P 500 sold off by over 5% in the month of September. The index was slightly negative for the quarter at **-0.29%**, but remains very positive year-to-date at **+14.68%**. Debt ceiling arguments, potential corporate tax hikes and immense supply chain issues, coupled with uncertainty about future monetary policy were the main catalysts that thrust markets into turmoil to end the quarter.

The 10-Year US Treasury Note also fluctuated during the quarter. After starting at **1.48%** and initially decreasing **-0.29%**, the 10-Year increased **0.33%** in September, closing the period at **1.52%**.

Washington D.C.

Gridlocks in Washington D.C. upset markets in recent weeks. A long-term debt ceiling increase isn't expected in the immediate future. Congress once again kicked the can down the road until an 11th hour agreement must be made. A short-term debt ceiling increase of $480 billion, providing funding through early December was approved by Congress and is anticipated to be signed by the President.

As we commonly see, the debt ceiling is being used as a political tool with both parties calling the other irresponsible. Investors will continue to keep a close eye on any progress made out of Washington on a potential long-term funding agreement.



Source: US Treasury

Market Indices

Index	3Q-21	2Q-21	1-Year
S&P 500	-0.29%	8.64%	27.41%
Dow Jones Industrial	-2.28%	4.61%	21.67%
Nasdaq Composite	-0.51%	9.49%	27.56%

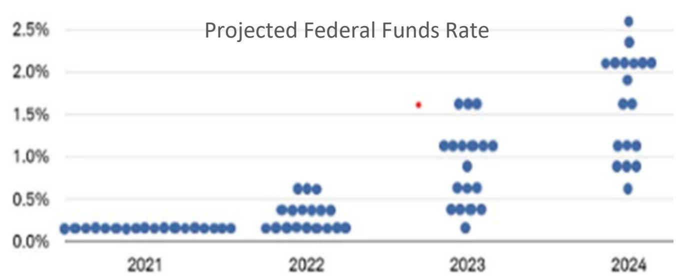
Economic Indicators

Indicator	3Q-21	2Q-21	1-Year
U.S. GDP	~1.3%	6.7%	~7.3%
Non-Farm Payrolls	1.65M	1.70M	5.69M
Unemployment Rate	4.8%	5.9%	6.9%
Headline Inflation	1.2%	2.3%	4.0%
Core Inflation	0.6%	2.5%	5.3%
Corporate Earnings Y/Y	~29.6%	96.3%	-
Corporate Revenues Y/Y	~14.0%	25.2%	-
Federal Funds Upper Limit	0.25%	0.25%	0.25%

~ Denotes Future Estimate

The Federal Reserve

The Fed left the target federal funds rate **(0.25%)** unchanged during the quarter and current dot plot projections don't show major rate hikes until 2023. The Fed has been brought to the forefront of discussions lately with analysts wondering how committed they are to their easing measures with current inflation levels rising. The Fed has acknowledged the concept of tapering its bond buying efforts but has not actually begun the process. Tapering will limit the amount of cash available for banks to lend and is in essence a tightening measure.



Source: Bloomberg, FOMC dot plot as of 9/22/2021

Strategic Market Outlook

The U.S. equity markets set an all-time high to start September. Markets then sold off over 5% to close the quarter. Analysts have positive long-term projections for equity markets but investors risk appetite has been tested due to short-term variables, causing significant market fluctuations. ***Any short-term volatility will continue to be used as buying opportunities to establish long-term positions.***

U.S. fixed income levels sold off to begin the quarter, then increased slightly with the 10-Year U.S. T-Note closing at the quarter at **1.52%**. Interest rates continue to be volatile with inevitable future tightening in monetary policy inciting discontent with fixed income investors. ***At current levels, any fixed income purchases will be limited in duration.***

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INVESTMENT SERVICES, INC.