WINFIELD
ASSOCIATES

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Customized Investment Portfolios and Private Wealth Advisory Services

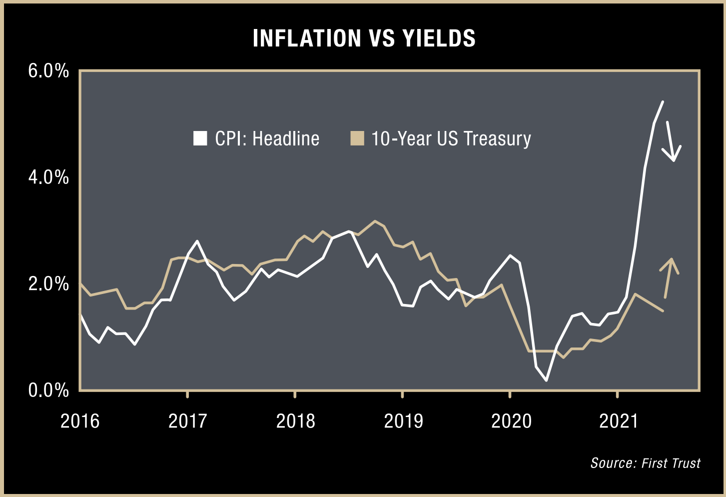
MARKET COMMENTARY

Optimism surrounding US equity markets stalled in September after seven straight months of positive returns in the S&P 500. Through August, the bellwether US equity large cap index was up a remarkable 21%. Lingering concerns about inflation and political discourse in Washington turned investor sentiment negative as the S&P 500 dropped -4.7% in September alone, marking the worst month for US stocks since March 2020. Despite the turmoil, US equities rose impressively through the end of the third quarter; 15.9% for the S&P 500, 12.1% for the Dow Jones Industrial Average (DJIA), 12.4% for the Russell 2000, and 12.7% for the tech heavy NASDAQ. On the other hand, fixed income continued to lag as rising interest rates further depressed bond returns. Through the end of September, the Barclays Aggregate Bond Index dropped -1.6% as the yield of the 10-year Treasury bond climbed to 1.61% from .93% on December 31.

GDP growth expectations for the US drifted lower over the third quarter, with 2021 consensus estimates at 6.1% by the end of September, below the peak forecast of 6.6% in May. Yet, as 2021 expectations moderated, 2022 economic growth forecasts inched higher under the assumption that the most recent wave of COVID-19 might subside, and households would continue to spend some of the over $2 trillion in excess savings they accumulated during the pandemic. Nonetheless, real consumer spending has been roughly flat since the spring, and investors are seeking confirmation that lower GDP growth rates will not materially lower future earnings estimates.

In the third quarter, Federal Reserve Chairman Jerome Powell signaled that tapering of asset purchases would begin by the end of 2021. As it stands, the Federal Reserve is purchasing a staggering $120 billion of assets every month, and according to JP Morgan, since the beginning of the pandemic, the Fed, the European Central Bank, the Bank of Japan, and the Bank of England combined have been buying approximately $800 million of assets per hour, 365 days per year. Now that monetary stimulus has successfully generated global economic growth, the biggest challenge for the Fed and other central banks is how and when to taper in order to slow the pace of inflation.

Yet, even as inflation expectations have risen, US Treasury yields have remained below 2%. As mentioned in prior newsletters, US Treasuries are the most liquid, globally accessible insurance available to investors. With long rates for other developed market governments below or near zero, only longer-dated Treasuries may offer price appreciation protection (albeit very limited) against a systemic event.



From 2016 until the pandemic in early 2020, moderate inflation and global demand for US Treasuries tempered bond investors' expectations, keeping fixed income yields low. The recent divergence between low US Treasury bond yields and high inflation indicates that central bank stimulus is indeed working. However, the divergence also indicates that the trend is unsustainable, and investors should expect Treasury yields to rise and/or inflation expectations to ease (as illustrated by the two arrows in the graph). In September, the Federal Reserve indicated its belief that inflation would run hotter than previously expected this year, but price hikes would moderate in 2022 as supply-chain bottlenecks and pandemic pressures fade. The Fed also predicted an annual inflation rate of 4.2% by year's end, which is up from the 3.4% forecasted in June. However, the Fed expects inflation to cool to about 2.2% next year which is more in line with its stated long-term target of 2%.

The outcome of the global rise in interest rates has broad implications for financial markets. For equity investors, the most important drivers of valuations are earnings growth and the multiple applied to those earnings. Through 2022, we expect a strong macroeconomic backdrop to power significant earnings growth. However, over the same period we also expect higher inflation to depress multiples applied to stock valuations. The anticipated transitory nature of inflation will need to materialize to justify current equity prices. For bond investors, higher interest rates present a structural problem. As interest rates rise, bond prices fall, and longer duration fixed income instruments incur more risk. To offset allocations to risky assets, we continue to favor short term fixed income and cash despite meager yields.

ESTATE PLANNING ALERT

Changes in tax law may be coming which could impact your estate planning. Several pieces of legislation have been introduced in Congress recently which would result in significant changes to the current federal estate and gift tax law. Some of these proposals, if enacted, could be effective as early as January 1, 2022. According to Joe Kampman, partner at Ziegler, Metzger LLC in Cleveland, some of the more aggressive proposals could include:

- *Reduction in the federal estate tax exemption from $11.7 million to $3.5 million*
- *Reduction in the federal gift tax exemption to $1 million*
- *Increase in the federal estate tax rate from 40% to 45% and higher on taxable estates*
- *Loss or limitation on the step-up in cost basis for income tax purposes for assets that pass at death*
- *Limitation on valuation discounts*

If you have a current estate in excess of $3.5 million, or if your estate is expected to exceed $3.5 million by the time of your death, you may wish to take immediate steps or be ready to act quickly if any of the proposed changes to the law are enacted in order to avoid or minimize estate, gift and/or income taxes. Some strategies to consider include creating spousal limited access trusts (SLATS), grantor retained annuity trusts (GRATS), intentionally defective grantor trusts (IDGTS), irrevocable insurance trusts and direct gifting.

In addition, there have also been recent changes to the law regarding retirement accounts that may necessitate a review of the beneficiaries of your IRA and similar accounts, especially if a trust is the designated beneficiary. The SECURE Act changed the distribution rules for retirement accounts and if a trust is named beneficiary, certain revisions to the trust may be required. We encourage you to review your existing estate plan with your attorney to prepare for potential changes to tax law.

REQUIRED MINIMUM DISTRIBUTION

Individuals are generally required to withdraw a minimum amount of money from tax–advantaged retirement accounts each year beginning the year you turn age 72. This amount is called a Required Minimum Distribution (RMD). Individuals must take RMDs from any retirement account that included tax–deferred assets or had tax–deferred earnings.

These accounts include:

- Traditional IRAs
- SIMPLE IRAs
- Most Keogh accounts
- Rollover IRAs
- SEP–IRAs
- Most 401(k) and 403(b) plans

Annual RMDs may be taken in one distribution or periodic withdrawals throughout the year, but the total annual minimum amount must be withdrawn by the deadline of December 31. Of note, individuals can always take more than the RMD amount. Please contact us if you have questions.

MARKET PERFORMANCE

	3Q 2021	2021 YTD
Dow Jones	-1.5%	12.1%
S&P 500	0.6%	15.9%
Nasdaq	-0.2%	12.7%
Russell 2000	-4.4%	12.4%
MSCI EAFE	-0.4%	8.3%
Barclays Agg	0.1%	-1.6%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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