PATHSTONE
THE MODERN FAMILY OFFICE™

MARKET FLASH REPORT

September 2021

KEY TAKEAWAYS

- The global economic recovery hit some bumps in the third quarter as covid concerns picked up, supply chain issues deepened, China flexed its regulatory muscle and central banks indicated a reduction in bond purchases will start before year-end.
- Global equities lost about 1% during the quarter, with a range of outcomes depending on the market. Japanese equities gained more than 4% while Chinese equity markets fell more than 18%. U.S. Large Caps meanwhile squeaked out a positive return for the quarter.
- Although the year-over-year increase in inflation (CPI) came down a hair in August (5.3%) compared to July (5.4%), that didn't stop commodities from notching a gain of 6.6% during Q3.
- Despite the heightened inflation rates of the past year, fixed income markets appear relatively sanguine about the prospects for continuing inflation as interest rates retreated most of the quarter, only recovering their starting levels on news of the Fed's plans to begin tapering bond purchases.
- A pick up in the Volatility Index to end the quarter indicates investor anxieties picking up slightly when it comes to the direction of the economic recovery from here and perhaps concerns about valuations in the face of the recent pick-up in interest rates.

ALASKA
ARIZONA
CALIFORNIA
COLORADO
FLORIDA
GEORGIA
MASSACHUSETTS
NEW JERSEY
NEW YORK
TEXAS
BELLEVUE, WA
SEATTLE, WA
WASHINGTON D.C.

888-750-PATH (7284)

WWW.PATHSTONE.COM

INDEX PERFORMANCE (as of 9/30/2021)

Equity	**Q3 2021**	**One-Year**	**Three-Year**
U.S. Large Cap	0.6%	30.0%	16.0%
U.S. Small Cap	-4.4%	47.7%	10.5%
Developed Non-U.S.	-0.4%	26.3%	8.1%
Emerging Market	-8.0%	18.6%	9.0%
Real Assets			
Real Estate	-0.8%	27.1%	7.0%
Commodities	6.6%	42.3%	6.9%
Natural Resource Equities	-2.5%	53.9%	-1.9%
Fixed Income			
Core Plus			
U.S. High Yield Debt	0.9%	11.3%	6.9%
Emerging Market Debt	-3.1%	2.6%	3.7%
Core Bonds			
U.S. Aggregate Bonds	0.1%	-0.9%	5.4%
U.S. Treasuries	0.1%	-3.3%	4.9%
U.S. Municipal Bonds	0.0%	1.3%	3.9%

Month-End Values/Yield	**Current**	**Prior Month**	**One-Year Ago**
CBOE Volatility Index	23.2	16.5	26.4
10-Year Treasury Yield	1.5%	1.3%	0.7%

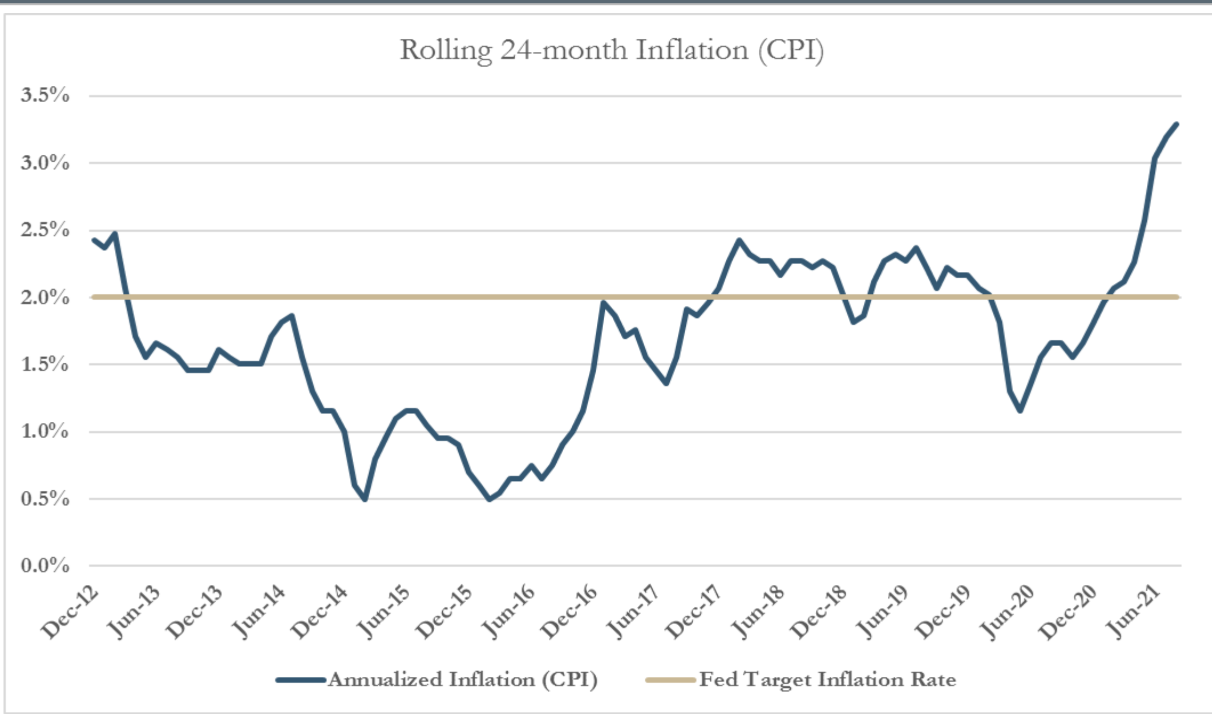
Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.

QUARTERLY COMMENTARY

- There has been much debate around inflation, particularly as we continue to live in a heavily administered economy, meaning one which has been heavily supported by unprecedented monetary and fiscal policy.
- Interest rates set the tone for decisions around money. When to spend it, when to save it or when to borrow it. The risk is that if the interest rate remains too low for too long it can lead to excessive risk-taking and increases in demand that can drive consumer goods and services prices to higher levels (aka inflation).
- Our central bank, the Federal Reserve is charged with setting monetary policy, effectively managing interest rates, to support economic growth, specifically employment, and maintaining a reasonable rate of inflation. The Fed responded in a significant way to the covid-19 pandemic after many millions of Americans lost their jobs and as the economy was forced into lockdown for a period of time.
- Today we are in a very different place. A large number of people have gone back to work and there are plenty of job openings for those looking for work. Now we are focused on when the Fed will stop its balance sheet expansion (bond purchases) and when it might begin to raise interest rates.
- We have seen year-over-year inflation rates peak in recent months at 5.4% against the Fed's long-term target rate of 2%. The Fed believes is that the current inflationary impact is more transitory in nature rather than structural. The Fed is willing to allow inflation to run above its 2% target for a while until they are satisfied that the employment picture has improved satisfactorily.
- We believe a look at inflation over a longer time horizon is helpful as well, to see how the Fed is comfortable with the current rates of inflation. The truth is that the 5+% year-over-year inflation readings we are seeing, are skewed in that they are showing the increase from the pandemic lows. That is why we are sharing the below rolling-2-year measure of inflation which highlights that we have spent much of the past decade below the Fed's target level.
- Our recent report titled: "Taking the Training Wheels Off" highlights that we are near an inflection point in monetary policy and believe market participants will begin to revisit their decision making with a different focus in the months ahead.

Transitory vs. Structural Inflation



Sources: U.S. Bureau of Labor Statistics

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

Past Performance Is No Guarantee Of Future Performance. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections or other forward looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. While we believe this information to be reliable, Pathstone bears no responsibility whatsoever for any errors or omissions. Index benchmarks contained in this report are provided so that performance can be compared with the performance of well-known and widely recognized indices. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Pathstone is client specific based on each clients' risk tolerance and investment objectives. This presentation is not meant as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.