

A View FROM THE TOWER

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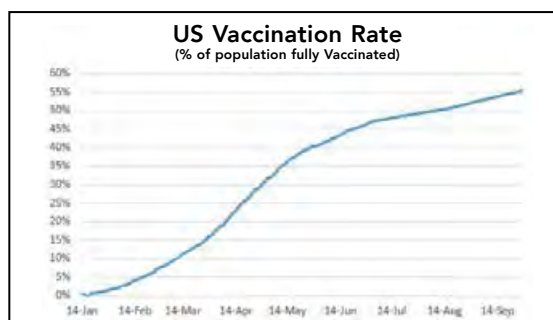
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In 1849, French writer Alphonse Karr wrote: “The more things change, the more they stay the same.” For most of the third quarter, this quote seemed appropriate as stocks in general continued their seven-month march forward while bond prices continued to manifest some relative volatility from day-to-day. However, as tends to happen on occasion during the month of September, the equity market experienced some headwinds, putting a material dent in the returns for the quarter, while those on bonds were relatively flat overall.

The primary storyline remained focused on COVID-19, the Delta variant in particular, on both the health and financial fronts. That being said, during the quarter, the following were some key coronavirus specific related items:

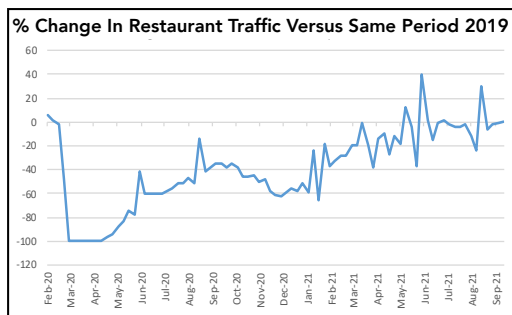
- Access to vaccines remained robust as the U.S. vaccination rate increased to 55% of the total population and significant progress was made toward the potential use by children from ages five to eleven; possibly in November. Recent talk focused on the debate of whether or not booster shots are needed, or even appropriate by some. This being said, a significant segment of the population still does not intend to avail itself of a vaccine, at least for the time being, for a variety of reasons, while pressure seemed to be building as case and hospitalization levels remained elevated.



Source: Our World in Data



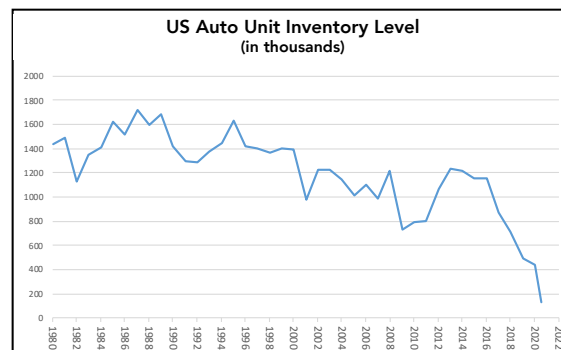
- “Re-openings” across the country continued with many facets of our lives, like outdoor sporting events, returning in full force. Additionally, most schools opened to full accessibility this school year, although not without some hiccups, including bus driver shortages in some districts.
- In addition to the health-related aspects of COVID-19, the economic ones continued to be front and center as the Delta variant put a bit of a crimp in the monetary and fiscal policy fueled recovery. After shifting more to services than goods, which had been the focus during most of the pandemic, consumers somewhat pulled in the reins in regard to services, including leisure activities, i.e., travel and restaurants. Also, the ongoing inability of businesses across a host of industries to attract workers, for multiple reasons including wages competing with unemployment benefits, put a bit of a lid on the level of the rebound. Surging demand for goods, coupled with a decline in workers needed to maintain and operate various supply chains, has led to significant bottlenecks. The automobile industry specifically felt these headwinds as dealer lots in many cases had sparse inventory levels.



Source: Bloomberg



Source: STR. September 18, 2021



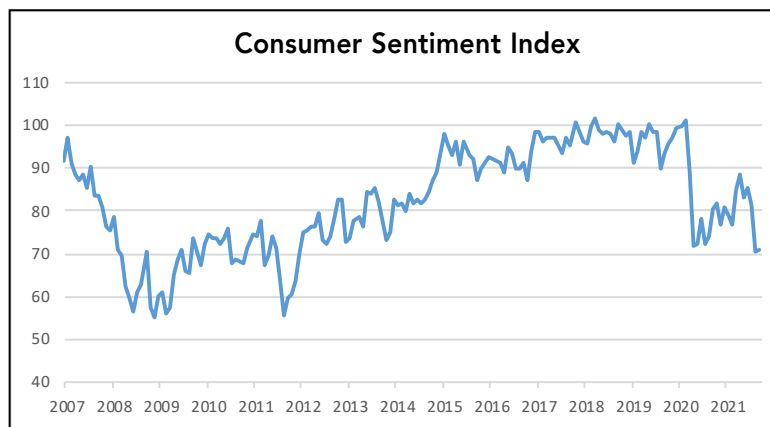
Source: Bloomberg, Bureau of Economics

As seems typical, there are several areas of concern in addition to those related to COVID. At this point, they are well publicized and include the following:

- Potential initiation in 2021 of Federal Reserve Bank tapering of bond purchases.
- Waning fiscal stimulus and feared related economic growth slowdown.
- Possible federal “debt ceiling” issues, along with Washington gridlock pertaining to the proposed spending and infrastructure packages.

- The risk of higher taxes: corporate; individual; capital gains; estate, etc.
- Continued supply chain shortages.
- Rising Interest Rates.....Energy Prices.....Inflation.....Stagflation.
- In China, the potential Evergrande default/bankruptcy, plus the country's regulatory crackdown seemingly aimed at technology companies.

These concerns may be leading to waning consumer confidence, as exemplified below; something to keep tabs on.

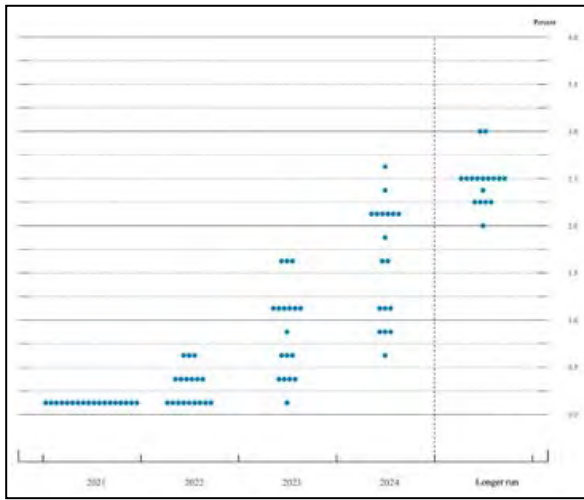


Source: University of Michigan

As referenced above, the Federal Reserve will likely play a central role as it deals with increased levels of inflation (transitory or not), along with the potential bond purchase tapering later this year. Regarding inflation specifically, the Federal Reserve has consistently maintained its position that it will be transitory, in essence a function of a relatively short-term imbalance between increased demand and lean inventories. As this dynamic subsides, the expectation is that inflation will drop back to a more typical, ongoing run rate. The latest statistics in this regard, for the month of August, actually came in below consensus expectations. However, Fed Chairman Powell shared his angst on this front while participating on a panel hosted by the European Central Bank, stating: "It's also frustrating to see bottlenecks and supply chain problems not getting better, in fact at the margin apparently getting a little bit worse. We see that continuing into next year probably and holding up inflation longer than we had thought." He also commented, "The current inflation spike is really a consequence of supply constraints meeting very strong demand, and that is all associated with the reopening of the economy, which is a process that will have a beginning, a middle and an end."

Regarding tapering, subsequent to the Federal Open Market Committee (FOMC) September meeting, the published statement included: "If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." The vote on this topic was unanimous. Therefore, one would assume that although monetary policy will likely remain accommodative, tapering later this year is to be expected. However, it seems like the Committee is currently evenly divided as to whether they anticipate any interest rate hikes in 2022.

**FOMC Participants' Assessments of Appropriate Monetary Policy:
Midpoint of Target Range or Target Level for the Federal Funds Rate:**



Source: Federal Reserve

As we look at the remainder of the year, despite the laundry list above, the consensus is that economic growth in the U.S. will continue to be stellar as the headwinds are cast aside by the significant, continuing level of liquidity. Over the short-term, there are many prognosticators that seem to convey that they have very clear crystal balls. While past performance is no guarantee of future results, history would tend to tell a different story, one where the race is usually won by the investor focused on the long-term versus those chasing the illusion of “timing”. Missing just a handful of market “best days” could result in a materially lower long-term, realized return. It is not unlike “The Tortoise and the Hare”, the Aesop fable initially passed down by word of mouth in ancient Greece. “The more things change, the more they stay the same.”

After over eighteen months, we are still on somewhat of a rollercoaster of “normalcy” in most, but not all, aspects of our lives. The progress has certainly been substantial, if not astounding in many regards. All of us at Country Club Trust Company, along with the entire Country Club organization, continue to hope that you and your families are well. Please be assured that we continue to work diligently on your behalf, remaining fully capable to provide the level of service you have come to expect and deserve. As always, we are ready and more than willing to be of assistance in any way we can. Should you have any questions, we are always here for you.

Thank you and take care!

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