UNITED
Asset Strategies, Inc.

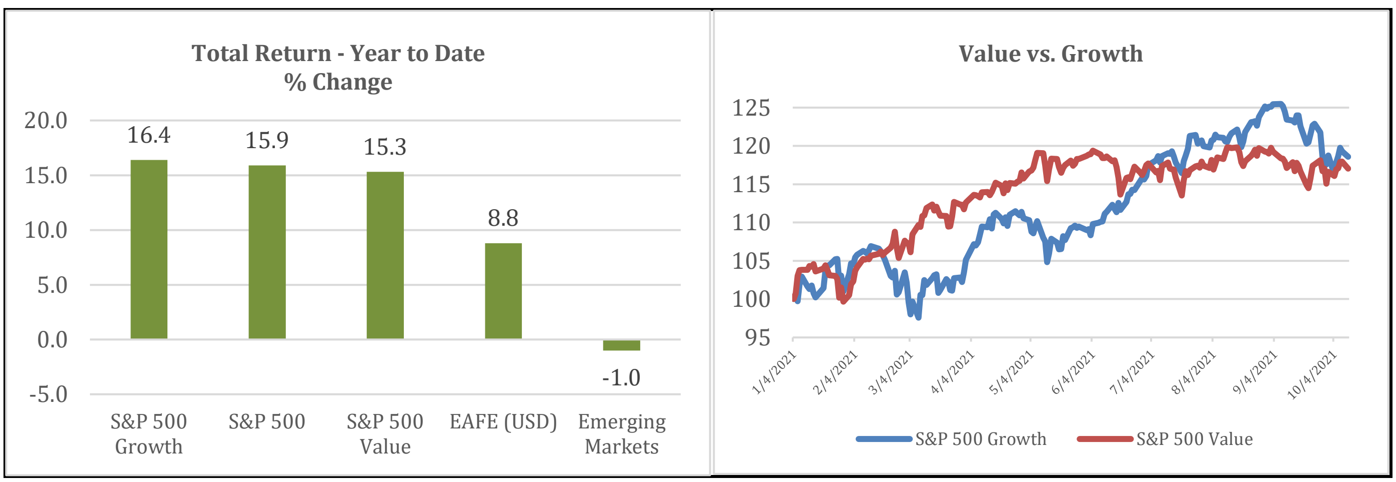
Dear clients and friends,

October 2021

The news flow in the third quarter was chaotic to say the least. Markets had to contend with the Delta variant, the withdrawal from Afghanistan, the debt ceiling debate, a potential government shutdown, inflation, supply chain disruptions (no toys for Christmas?), government vaccine mandates and concerns about Federal Reserve policy shifts. Through all of that, which weighed on stocks especially hard in September, the S&P 500 Index finished the quarter 0.6% *HIGHER* (on a total return basis). Most sectors experienced positive returns for the quarter, led by Financials (+2.7%), Utilities (+1.8%) and Communication Services (+1.6%). After strong results for the first half of 2021, value-oriented sectors such as Industrials (-4.2%), Materials (-3.5%) and Energy (-1.7%) were down for the quarter.

Combining the strong first half for stocks with the modest increase in the third quarter, the S&P 500 Index (on a total return basis) is up 15.9% year to date. This compares favorably with an 8.8% increase in European stocks and a 1% decline in Emerging Market equities. Through three quarters, the S&P 500 Index has hit a new high 54 times, the most since 2017 where it reached a new high 62 times and double the 10-year average of 27.5 new highs annually. All eleven sectors have achieved positive returns in 2021, led by Energy (+43%), Financials (+29%) and REITs (+24%). Risk-off sectors, such as Staples (+4.7%) and Utilities (+4.2%), have lagged. Fixed income markets were mixed, with the Muni Bond Index +0.79% and the broader iShares Core US Aggregate Bond Index (AGG) down 1.55% through September 30.

**Figure 1: Returns by Segment: YTD**



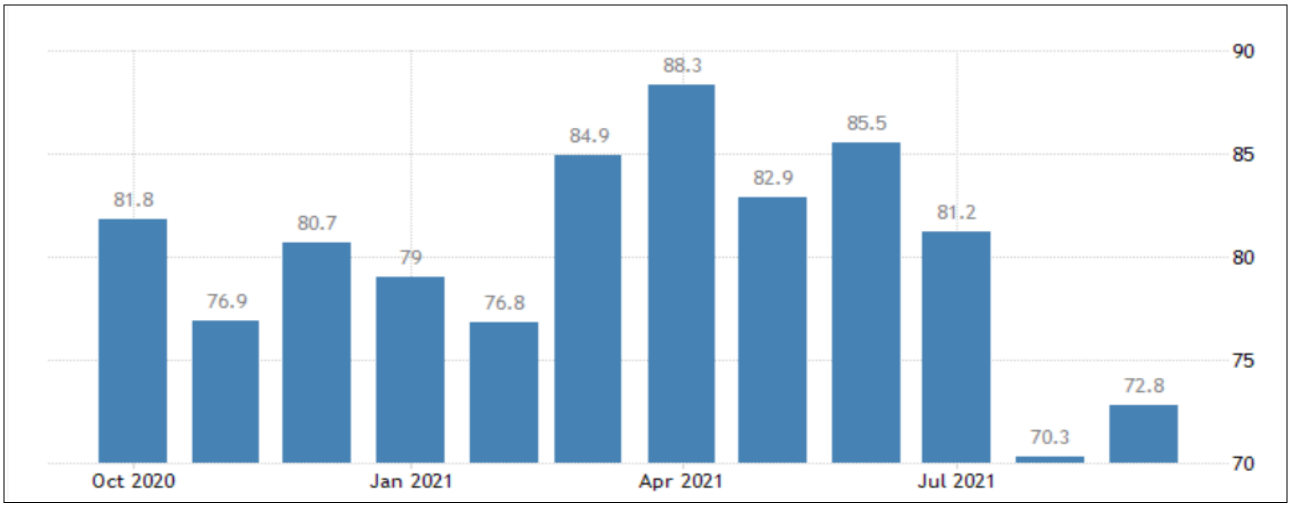

Source: Standard & Poor's

While equity markets continue to march higher, leadership rotation remains a prominent theme. This is illustrated in Figure 1, which shows the YTD returns of both value and growth segments. After growth significantly outpaced value in 2020, value stocks regained leadership through mid-2021 only to see growth reassert itself in the third quarter. In this rotating market, active managers such as United Asset are well suited to capitalize on relative value opportunities that present themselves. In this regard, clients in UASI's growth and value mandates have experienced especially strong returns thus far in 2021.

## *Looking Ahead: Making Sense of the Mixed Signals*

**Economic Update:** One area that is providing investors with mixed signals is the economic data. Most data have been signaling a slowdown in the economy. For example, while the Composite PMI Index remains in expansionary territory at 55 (above 50 is considered expansionary), this is down from the May high of 69. The Citi Economic Surprise Index, which measures reported versus expected economic results, moved from record high territory in 2020 to negative territory in recent months. During this time, analysts have reduced their US GDP forecasts against a backdrop of supply chain disruptions, labor shortages and higher energy prices. These issues, along with the ongoing pandemic, have weighed on consumer confidence, which is also off the last twelve-month highs. While the trends have been down from peak levels, there are some very recent encouraging trends emerging. As shown in the consumer confidence chart below, there has been a bounce off the recent low. There has also been a bounce off the recent lows for job openings and the Citi Economic Surprise Index, as COVID trends have started to improve. Bottom line – economic trends have moderated in recent months after big spikes in 2H20. That being said, as COVID trends improve, this should support consumer confidence, which is a key underpinning to the stability of the US economy. The main question that our team of analysts and portfolio managers will be trying to determine in the next few months is whether this economic backdrop is strong enough to support corporate profit growth going forward, particularly in the face of higher corporate taxes in 2022.

**Figure 2: University of Michigan Consumer Confidence**




Source: Trading Economics

**Fiscal Policy:** As we previewed in our previous quarterly summary, lawmakers would be grappling with several fiscal items in 2H21 with great implications for markets and the economy. Two such items are the government budget (which requires renewing each October 1 to avoid a government shutdown) and the debt ceiling, increases to which need to be authorized by Congress to avoid a default. In a rancorous environment in Washington, both items were extended to December, but the process created meaningful market volatility in September. This classic kick-the-can approach by lawmakers means that investors will have to deal with both items again in the coming weeks. At this same time, Democratic lawmakers are seeking to pass President Biden's signature policy agenda item, the Build Back Better legislation, along with a significant infrastructure package. The most likely outcome, in our view, is a scaled back version of the $3.5 trillion package (perhaps more like $2 trillion) of spending and tax increases, along with the infrastructure package.

**Monetary Policy:** During the third quarter, generally persistent inflation data, combined with weaker than expected economic growth data, put the Fed in a challenging position. Strong inflation supported the case for less accommodative policy, while weaker than expected economic growth supported the case for the status quo. Considering this, investors waited eagerly for clues as to what the Fed would do, particularly with regards to its monthly asset purchases. At the September press conference, Fed Chair Powell all but promised that the Fed will begin to taper (gradually remove extreme accommodation) this year and aim to complete the taper by mid-2022.

**Summary:** While there are a number of uncertainties facing investors in the coming months, the experienced team of equity and fixed income analysts at United is working diligently to parse through the noise and identify attractive investment opportunities, while remaining laser focused on managing risk. In addition, our financial planning team is anticipating and preparing for the coming tax law changes. Reach out to your United advisor, who can walk you through the potential impacts on your portfolios and financial plans to determine what proactive actions, if any, are needed. We are available to you.

***Respectfully submitted by the Professional Staff at United Asset Strategies***

## Strategy Review and Positioning – Third Quarter 2021

**FIXED INCOME UPDATE**

As mentioned earlier, the Federal Reserve signaled its intent to begin tapering this year to reduce its balance sheet. Investor positioning around the Fed's messaging influenced rates, which moved higher to close out the quarter. Our actively managed fixed-income portfolios benefitted from intentional cash positions, as well as investments in floating-rate bonds. Looking ahead, we expect higher rates and widening credit spreads as the Fed shifts monetary policy.

**GROWTH & INCOME STRATEGY (GI)**

***Overview:*** Growth & Income (GI) is our most utilized strategy, primarily by clients seeking growth with income while minimizing risk. Individual stocks are used, with mutual funds strategies that mirror the GI strategy for smaller accounts.

***Update:*** During the quarter, the team took profits in Energy and gold, using the proceeds to increase the weight to Financials and small cap. Risk management consists of 3.0% cash.

**HIGH DIVIDEND EQUITY & HIGH DIVIDEND PLUS STRATEGY (HDIV & HDIVPL)**

***Overview:*** This strategy is recommended for clients seeking a steady stream of income with a modest amount of trading activity. By seeking positions that are dividend growers, HDIV aims to beat the average yield of stocks within a given sector and to provide a hedge against rising interest rates. HDIVPL includes a 20% allocation to growth.

***Update:*** In HDIV, the team removed the position in SH (SPY Short) in September as stocks declined. With some additional cash raised from the sale of preferred stocks, the 4% cash level serves as both risk management and as dry powder as the team seeks to identify opportunities to add to strong dividend names in the value space. In HDIVPL, the team rebalanced some of the stronger positions this quarter to maintain a balanced weight heading into a more uncertain period. Risk management consists of 4% cash.

**VALUE PLUS EQUITY STRATEGY (VAPL)**

***Overview:*** This strategy is recommended for clients seeking a value-based equity strategy with a beta below that of the overall market. This strategy seeks to invest in mispriced stocks with attractive fundamentals in a diversified portfolio.

***Update:*** The team remains overweight the more cyclical sectors. In fact, the team has overweight positions in Energy and Materials, while Financials remains the largest sector weight overall. Risk management: 4.5% cash & 3.5% gold.

**GROWTH PLUS EQUITY STRATEGY (GP)**

***Overview:*** This strategy is recommended for clients seeking a growth-based equity strategy with a beta above that of the overall market. Higher growth names across the various sectors are selected using a two-part screening process.

***Update:*** During the quarter, the team reduced exposure to Energy, Healthcare and small cap, using the proceeds to add to Technology, Financials and Materials. To maintain full market exposure, there are no hedges or cash at present.

**TACTICAL OPPORTUNITIES PLUS EQUITY STRATEGY (TOPS)**

***Overview:*** This strategy is recommended for clients seeking to take advantage of opportunities created by timely investing decisions from evolving trends and themes. The strategy seeks to combine growth with downside protection.

***Update:*** During the quarter, the team increased Technology and Financial exposure while decreasing the weight to Communication Services, Energy and International. To manage risk, there is currently an allocation of 3% to cash.

**ESG STRATEGY (ESG)**

***Overview:*** This strategy is recommended for clients seeking a values-based equity strategy that invests in companies that rank well on environmental, social and governance criteria, while being expected to generate attractive returns.

***Update:*** The team increased exposure to Technology on weakness, using proceeds from the trim in European stocks. Risk management is 2% cash, 2% hedge and 3% gold.

**EXCHANGE-TRADED FUNDS STRATEGIES (ETF)**

***United Robo:*** This strategy utilizes artificial intelligence (AI) to select one of the 16 risk-based allocations developed by UASI. In 3Q, the team increased US large cap and REITs, while reducing small, mid and International. Risk management: 2.5% Treasury, 2.5% gold.

***UDAA:*** This strategy utilizes AI designed at generating a risk-adjusted return exceeding a 60/40 equity/fixed-income portfolio. The latest 3Q rebalance resulted in an allocation of 20% to Equities, 80% to Fixed Income and no Cash.

***Momentum Plus®:*** This is a dynamic strategy that utilizes technical indicators, such as relative strength and momentum, to make sector selections. The team reduced Energy and added to Financials. There is no cash or gold at present.

***Risk-Based ETF*:** This strategy seeks to identify relative value opportunities for investment. For aggressive accounts, the team reduced small, mid and International while increasing exposure to domestic large cap and REITs. Positions were initiated in short-term treasuries and gold. Risk management consists of 2.5% Treasury and 2.5% gold.