

Economic and Market Overview

October 2021



BCT
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WILBANKS SMITH & THOMAS
Asset Management, LLC

Worries Mount As Third Quarter Ends

- Global growth stalls as COVID surges, supply chains snarl, and labor takes a day off
- Inflation remains the key variable - Stubbornly high prices may not be “transitory”
- Threat of stagflation, not seen since the 70’s, raises concerns

Washington Takes The Spotlight

- Fed policy path in light of higher inflation is central question
- Fiscal policy outlook in turmoil as Congress debates huge tax and spending increases
- Confidence is key to market stability!

Equities: Market Stalls In 3Q With Economically Sensitive Sectors Declining

- Large cap growth stocks eke out positive return; value, small-cap and non-U.S. sink
- Valuations suggest lower returns ahead
- Looking for leadership shift to international and small stocks

Bonds: Yields Spike In Late September As Inflation Rises

- Inflation maybe not so transitory
- No compensation for additional duration risk
- Continue to overweight credit exposure if economy is healthy

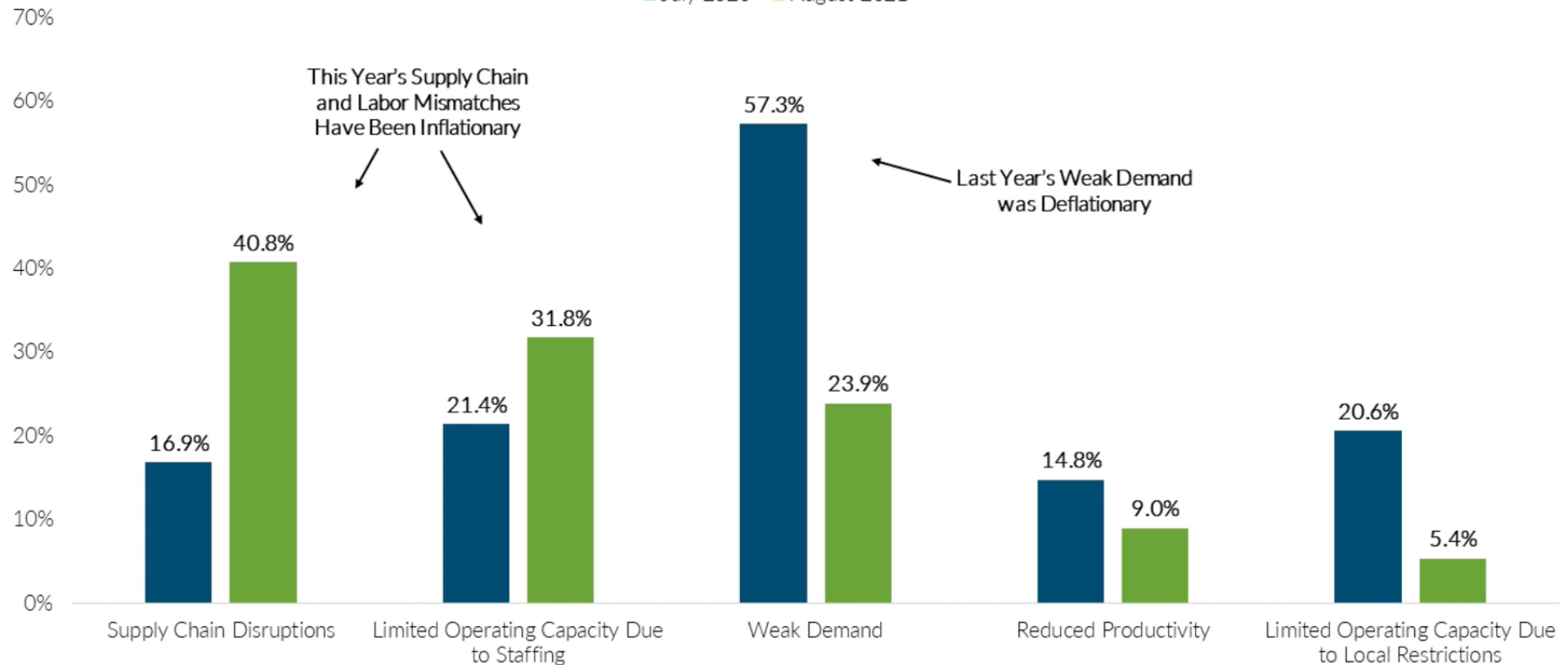
Market Returns Summary – September 30, 2021

Equity Index	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrial Average	-1.2	-4.2	-4.2	-1.5	12.1	24.1	10.9	15.6
S&P 500 Index	-2.0	-4.7	-4.7	0.6	15.9	29.9	15.9	16.8
Large Cap Stocks (Russell 1000)	-2.1	-4.6	-4.6	0.2	15.2	30.8	16.3	17.1
Growth	-3.4	-5.6	-5.6	1.2	14.3	27.2	21.9	22.8
Value	-0.6	-3.5	-3.5	-0.8	16.1	34.9	10.0	10.9
Small Cap Stocks (Russell 2000)	-0.6	-2.9	-2.9	-4.4	12.4	47.5	10.5	13.4
Growth	-2.3	-3.8	-3.8	-5.7	2.8	33.1	11.6	15.3
Value	1.2	-2.0	-2.0	-3.0	22.9	63.6	8.5	11.0
MSCI All Country World Index	-1.9	-4.1	-4.1	-1.0	11.5	27.9	13.1	13.7
International Stocks (MSCI EAFE)	-2.1	-2.8	-2.8	-0.4	8.8	26.2	8.1	9.3
Growth	-4.0	-3.9	-3.9	0.1	7.2	21.2	12.2	11.8
Value	-0.1	-1.7	-1.7	-0.8	10.2	31.3	3.6	6.6
Emerging Markets Stocks (MSCI EM)	-0.6	-3.9	-3.9	-8.0	-1.0	18.5	8.9	9.6
Fixed Income Index/ETF	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Barclays U.S. Aggregate Bond Index	-1.1	-0.9	-0.9	0.1	-1.6	-0.9	5.3	2.9
iShares 1-3 Year Treasury Bond ETF	0.0	-0.1	-0.1	0.0	-0.1	-0.1	2.5	1.5
iShares 3-7 Year Treasury Bond ETF	-0.6	-0.8	-0.8	-0.1	-1.6	-1.8	4.5	2.1
iShares 20+ Year Treasury Bond ETF	-4.9	-2.9	-2.9	0.4	-7.5	-10.3	9.2	3.2
iShares TIPS Bond ETF	-0.7	-0.8	-0.8	1.7	3.2	4.9	7.2	4.1
iShares National AMT-Free Municipal Bond ETF	-0.7	-0.7	-0.7	-0.4	0.3	2.1	4.8	2.9
SPDR Barclays Intermediate Term Corporate Bond ETF	-0.7	-0.7	-0.7	-0.1	-0.7	1.0	5.7	3.6
SPDR Barclays High Yield Bond ETF	-0.5	-0.2	-0.2	0.5	3.3	9.7	5.7	5.4
PowerShares Senior Loan ETF	-0.2	0.1	0.1	0.6	1.6	5.0	2.6	3.0
SPDR Barclays International Treasury Bond ETF	-1.7	-2.4	-2.4	-1.9	-7.5	-2.3	2.7	0.8
iShares JPM USD Emerging Market Bond ETF	-2.0	-2.6	-2.6	-1.2	-2.6	3.2	5.4	3.3

Supply Chain Disruptions and Labor Shortages Continue To Distort Data

Federal Reserve Bank of Dallas Business Survey
What are the primary factors restraining your firm's revenues?

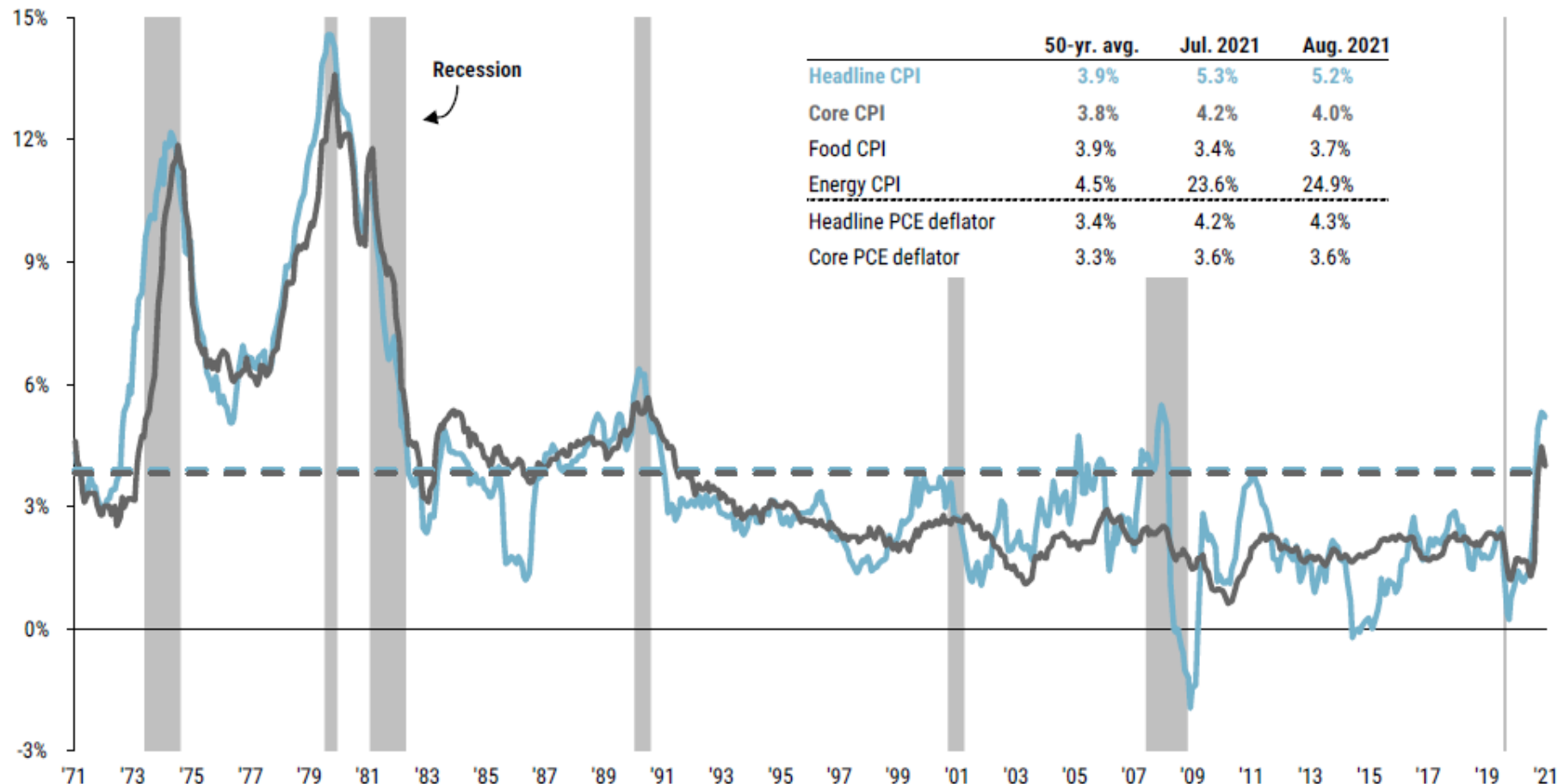
■ July 2020 ■ August 2021



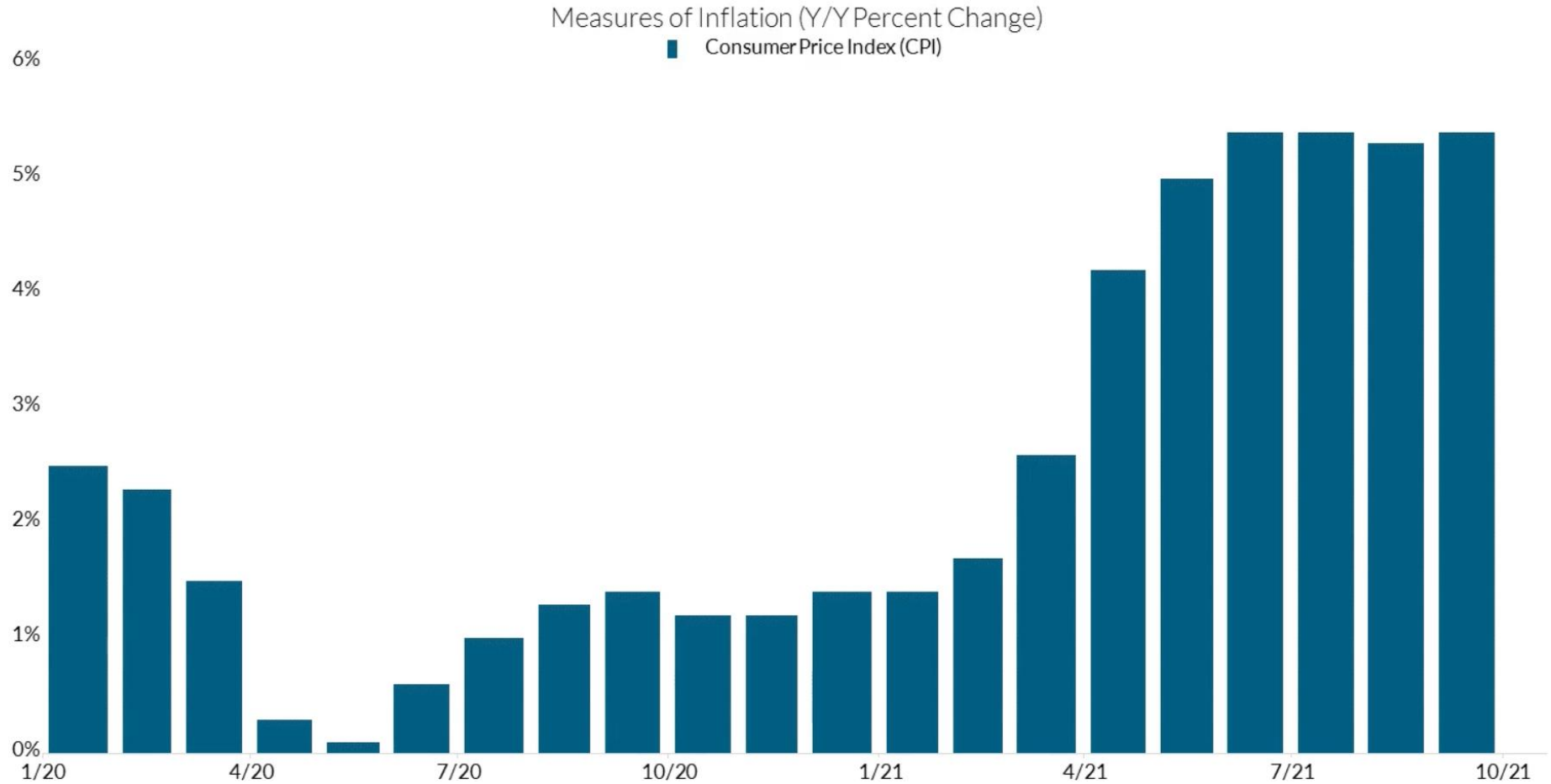
Inflation Spikes To Highest Level Since The 1970's

CPI and core CPI

% change vs. prior year, seasonally adjusted

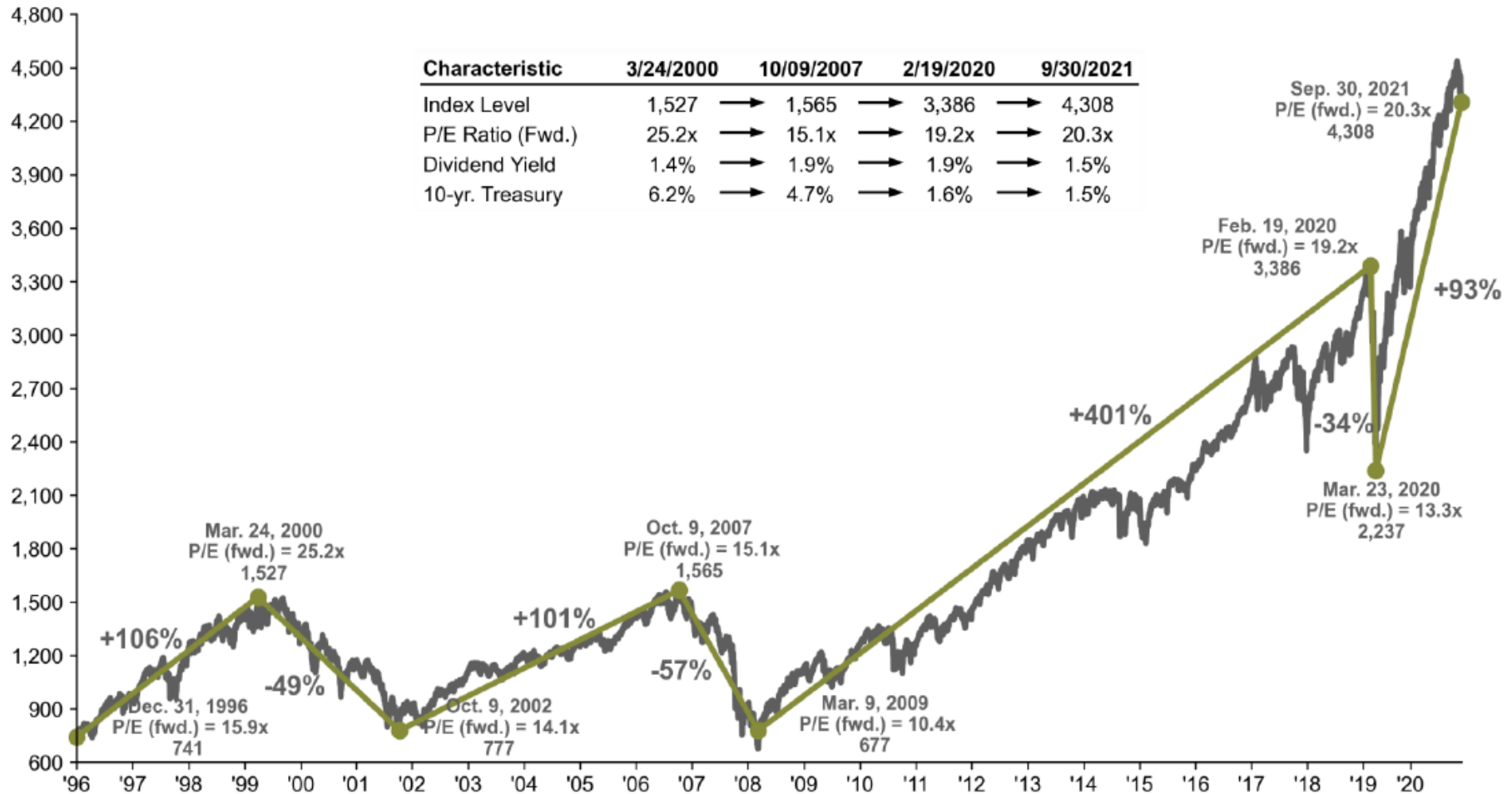


Inflation – Maybe Not So Transitory?

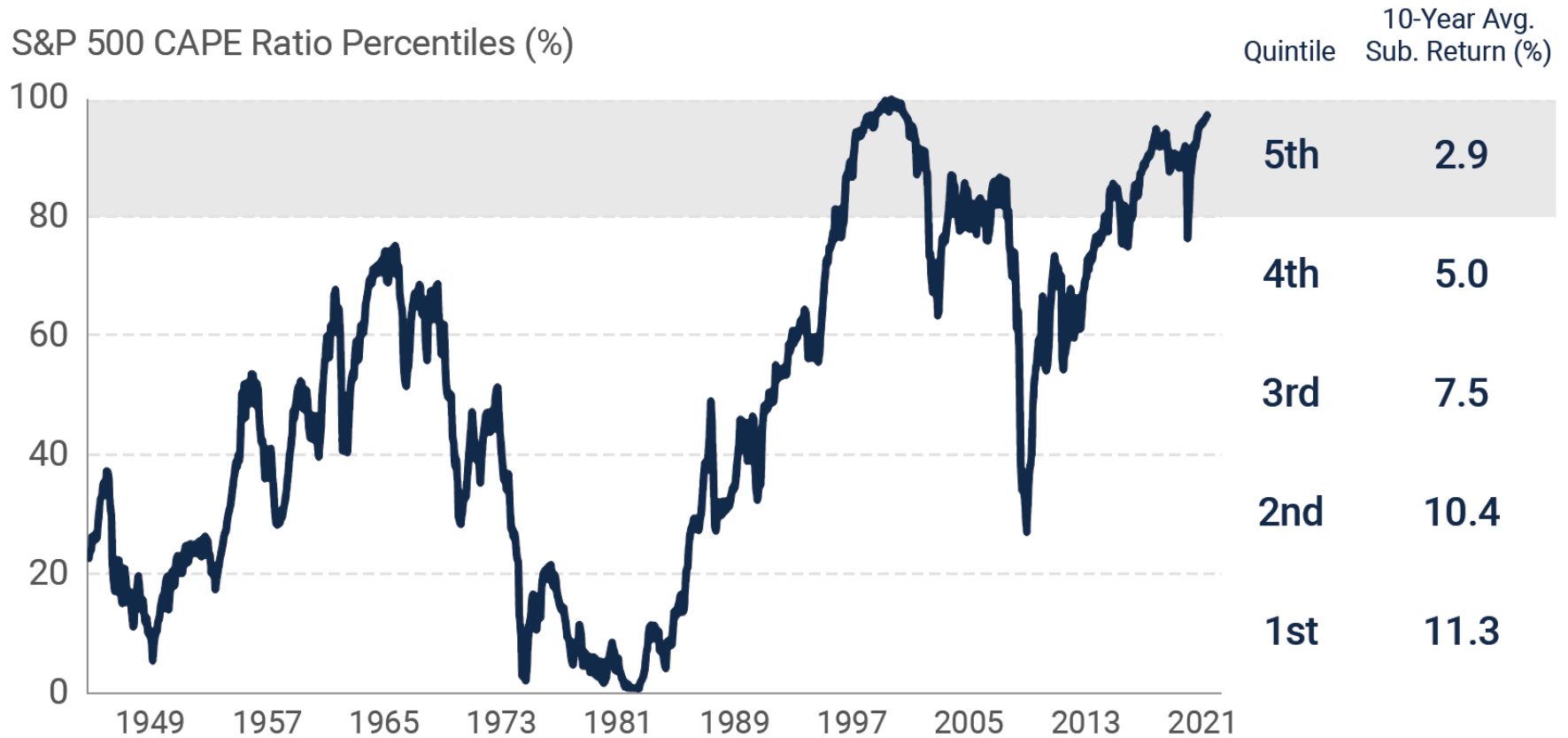


S&P 500 – Rally Stalls In September

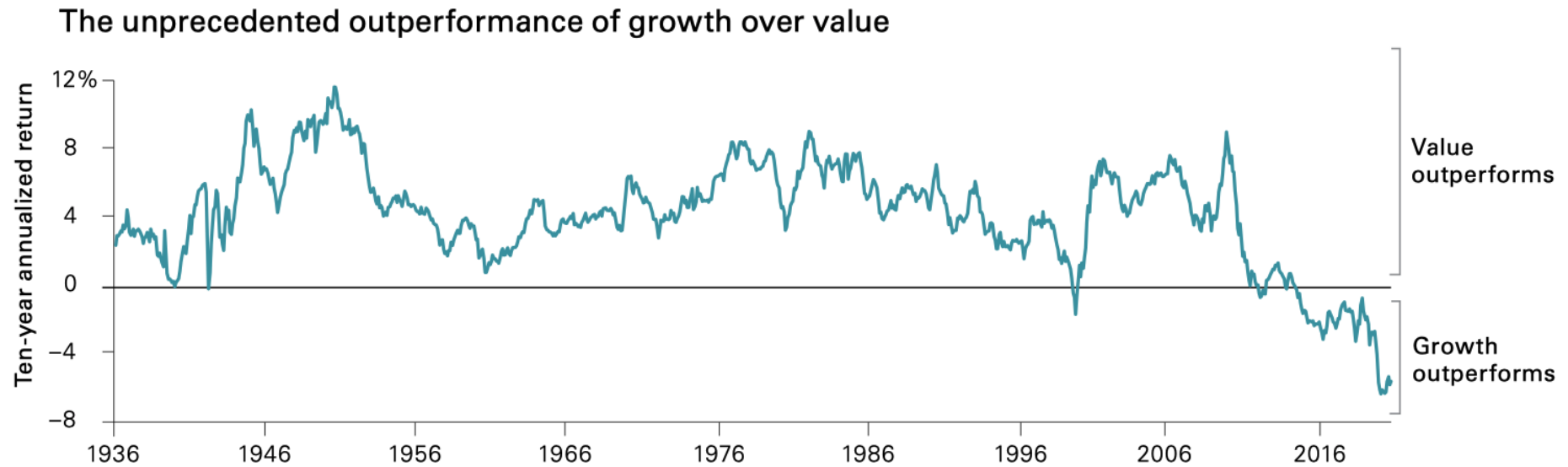
S&P 500 Price Index



U.S. Equity Valuations and Subsequent Returns



Style: Value Versus Growth Stocks – Reversal Ahead?



Note: The chart displays annualized 10-year trailing returns of a long-short value versus growth portfolio over the period of June 1936 to June 2021.

Size: Disparity Between Mega-Cap and All Others

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months



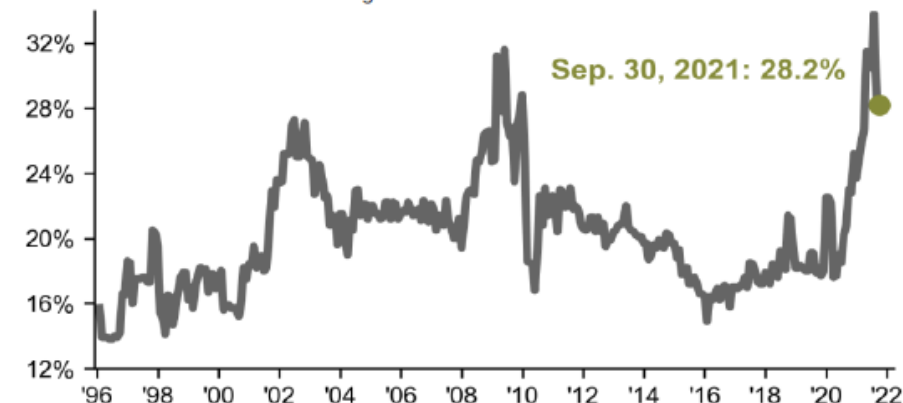
Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



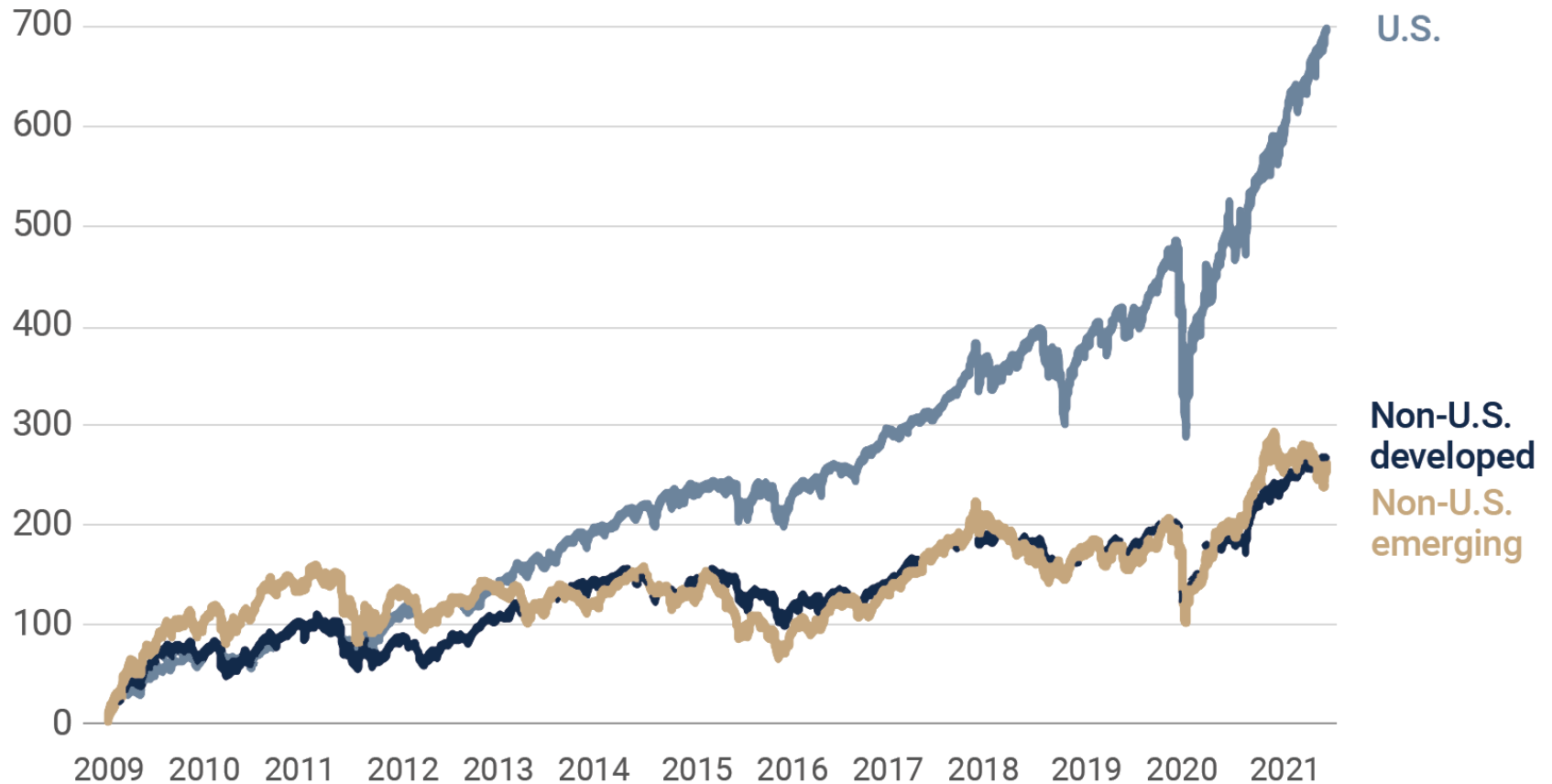
Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



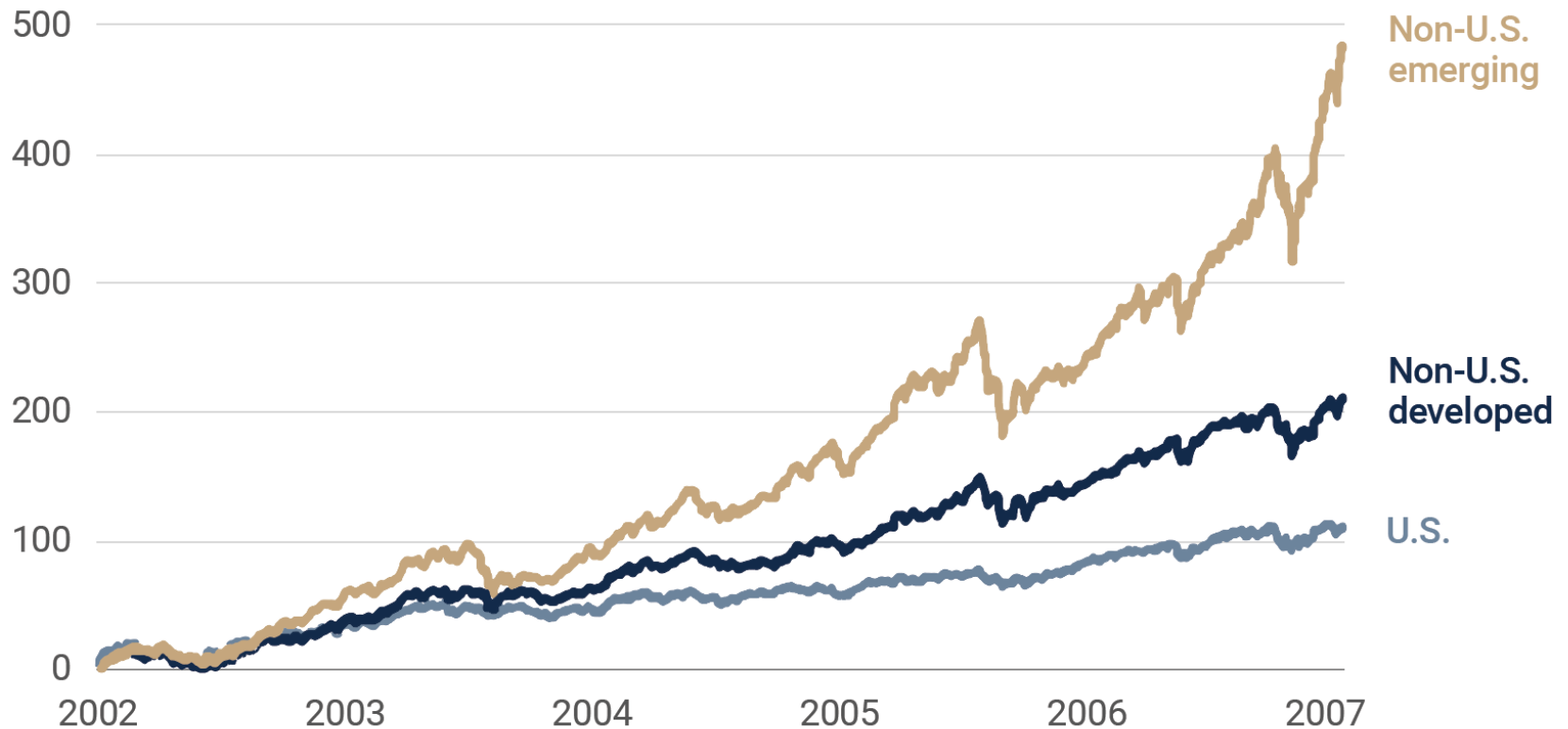
Post Global Financial Crisis: U.S. Equities Have Dominated

Index Levels, March 2009 to August 2021



Post Dot-Com Bubble to Global Financial Crisis: Non-U.S. Equities Dominated

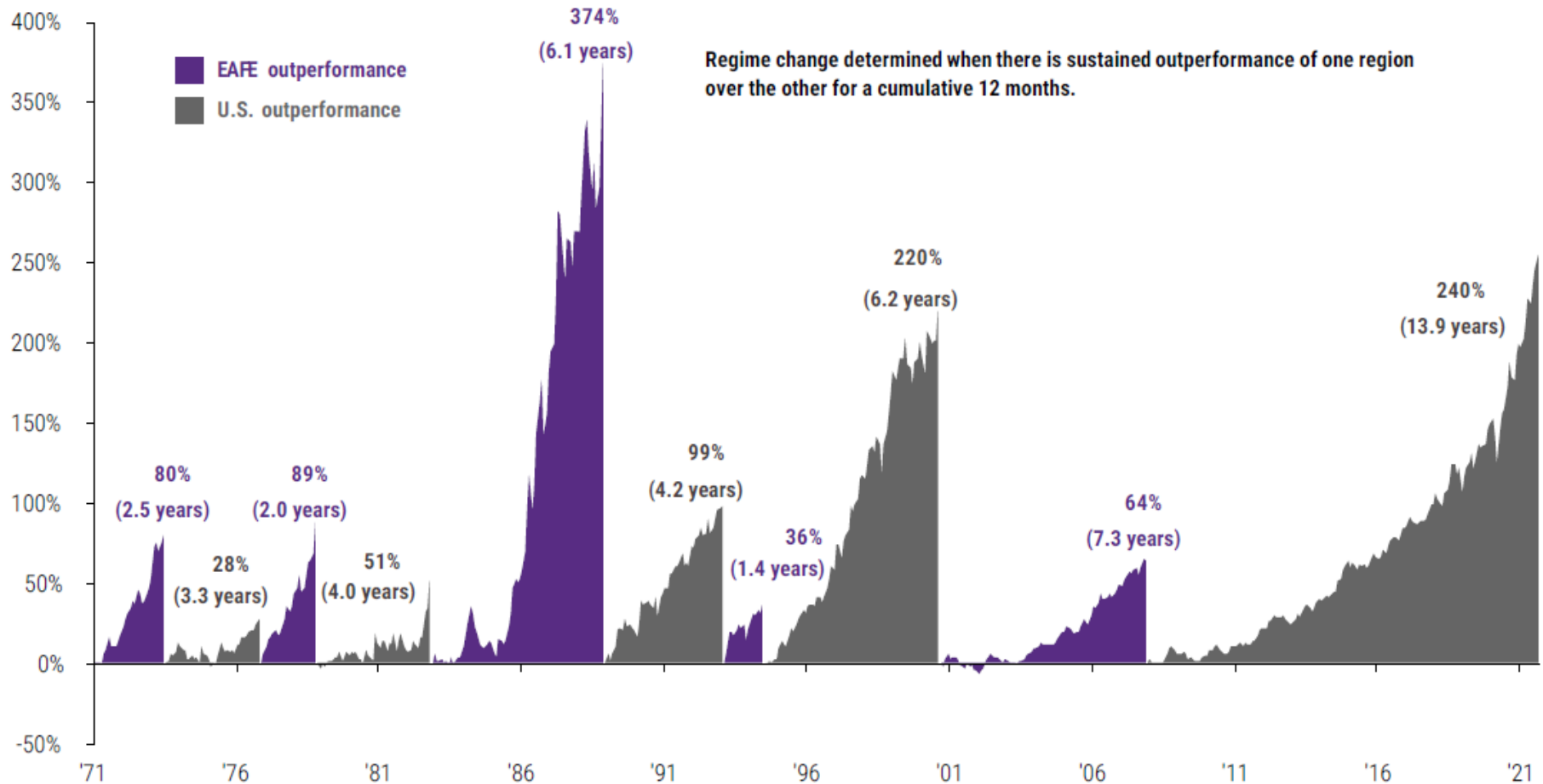
Index Levels, October 2002 to October 2007



Performance Cycles by Geography

MSCI EAFE and MSCI USA relative performance

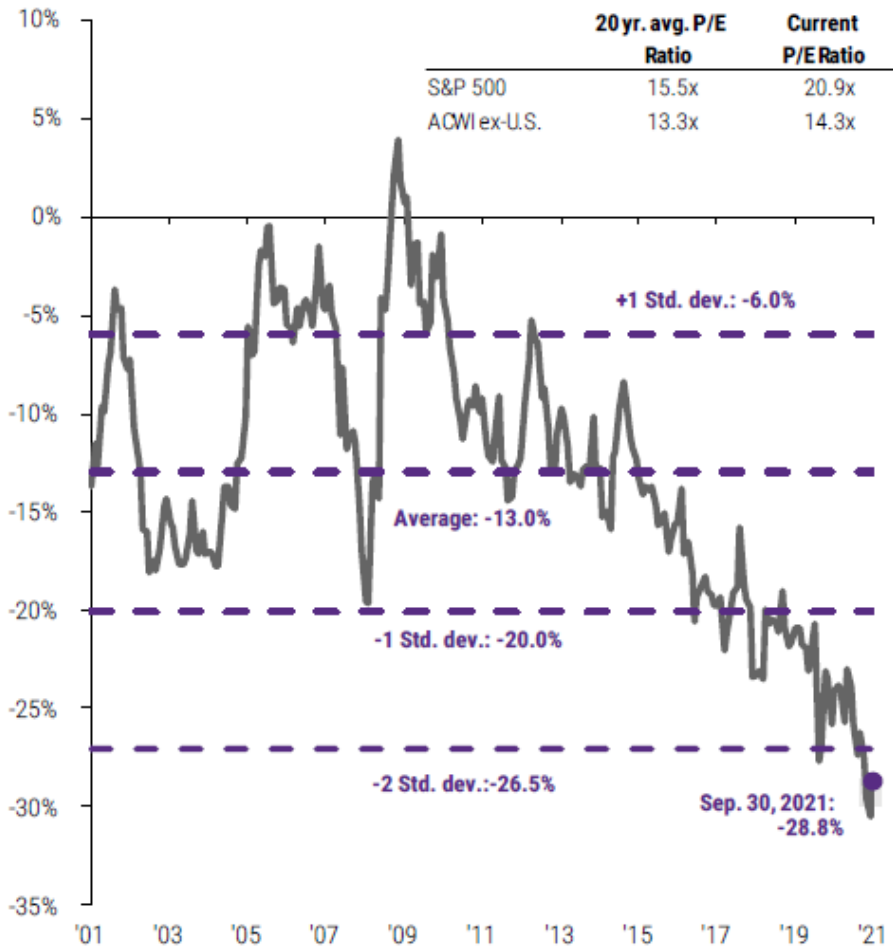
U.S. dollar, total return, cumulative outperformance*



The Case For International Stocks - Valuation

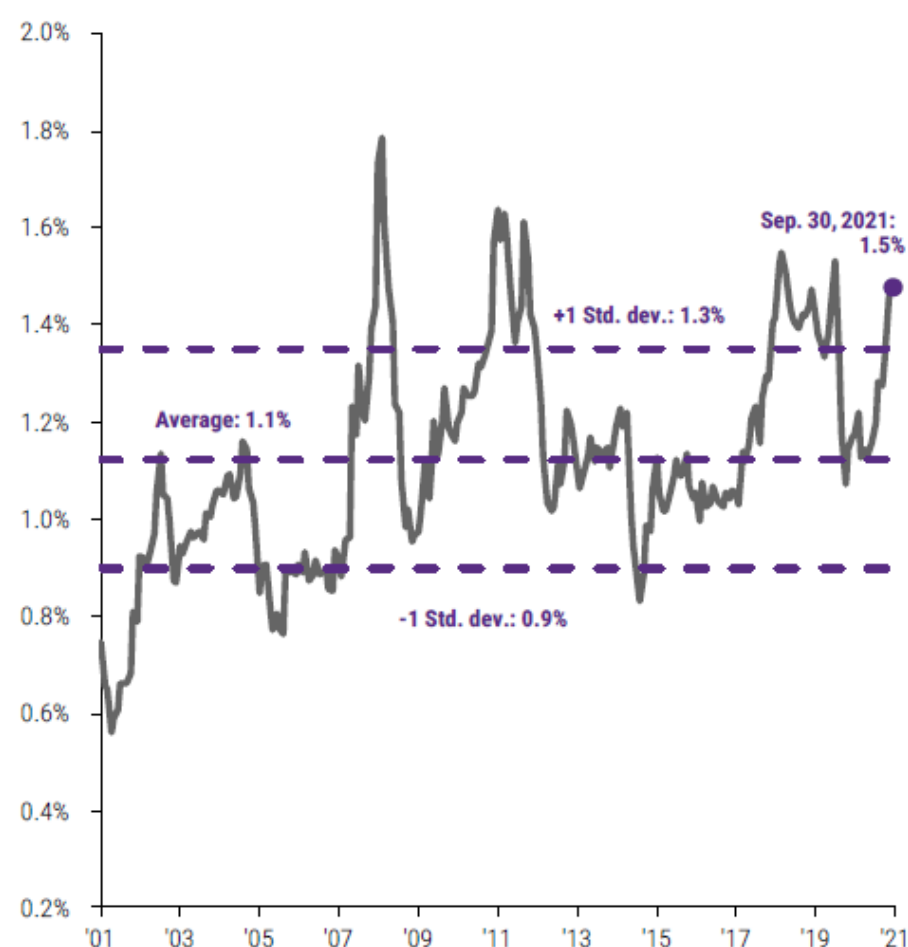
International: Price-to-earnings discount vs. U.S.

MSCI AC World ex-U.S. vs. S&P 500 Indices, next 12 months

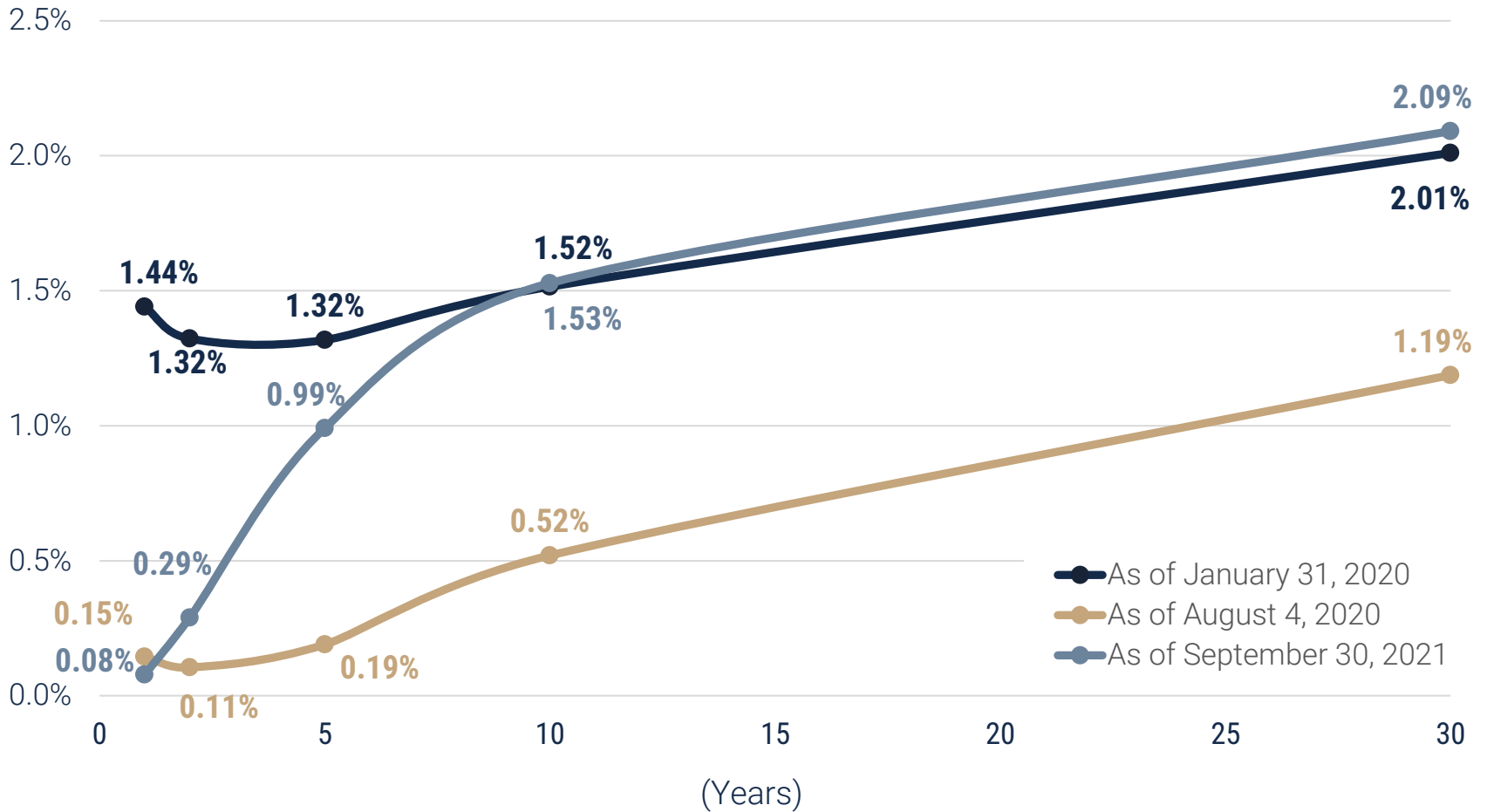


International: Difference in dividend yields vs. U.S.

MSCI AC World ex-U.S. minus S&P 500 Indices, next 12 months



U.S. Treasury Yield Curves



10 - Year Asset Class Return Outlook

Equities	Return projection	Median volatility
U.S. equities	2.6%–4.6%	16.7%
U.S. value	3.4%–5.4%	18.8%
U.S. growth	–0.5%–1.5%	17.7%
U.S. large-cap	2.4%–4.4%	16.4%
U.S. small-cap	2.4%–4.4%	21.7%
U.S. real estate investment trusts	2.4%–4.4%	19.5%
Global equities ex-U.S. (unhedged)	5.5%–7.5%	18.9%
U.S. inflation	1.4%–2.4%	2.4%

Fixed income	Return projection	Median volatility
U.S. aggregate bonds	1.4%–2.4%	4.5%
U.S. Treasury bonds	1.1%–2.1%	4.7%
U.S. credit bonds	1.8%–2.8%	5.7%
U.S. high-yield corporate bonds	2.2%–3.2%	10.2%
U.S. Treasury Inflation-Protected Securities	0.8%–1.8%	7.0%
U.S. cash	1.3%–2.3%	1.3%
Global bonds ex-U.S. (hedged)	1.3%–2.3%	3.8%
Emerging markets sovereign	2.1%–3.1%	9.9%

Cautious On Short-Term Outlook

- Slowing growth
- Higher Inflation
- Opaque data
- Fed policy risk
- Fiscal policy risk

Equities Remain Asset Of Choice For Long-Term Growth

- Low yields = TINA
- Valuations point to lower returns for U.S. large caps
- International stocks are relatively attractive

Bonds Still Play A Role In Portfolios, But Structure Matters

- Keeping maturities short - no compensation for additional duration risk
- Continue to overweight credit exposure if economy is healthy

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Barclays US Aggregate Bond Index: Benchmark covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

Yield to Call is the yield of a bond or note if you were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity.

Yield to Maturity is the rate of return anticipated on a bond if it is held until the maturity date.

During the period(s) shown, there were no material market or economic conditions which affected the results portrayed. With the exception of several market corrections during the period(s), the overall market as measured by the S&P 500 was generally rising. If such trends are broken, the clients may experience real capital losses in their managed accounts.

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Commodities and futures generally are volatile and are not suitable for all investors. The value of commodity funds relate directly to the value of the futures contracts and other assets held within the fund and any fluctuation in the value of these assets could adversely affect an investment in commodities.

High yield bonds are rated in the lower rating categories by the various credit rating agencies, investors must take into account the special nature of such securities and certain special considerations in assessing the risk associated with such investments. Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal.

MSCI EAFE Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

S&P 500 Index: The S&P 500 Index is a market capitalization-weighted index, including reinvestment of dividends and capital gains distributions that is generally considered representative of the U.S. stock market.

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