BIONDO
PERSPECTIVES

THIRD QUARTER REVIEW

DESPITE LATE QUARTER VOLATILITY, THE MARKET REMAINS RESILIENT

Joseph P. Biondo

US stocks showed continued strength throughout the third quarter, as indices hit new all-time highs once again during the period. Investors looked past a new wave of COVID-19 (Delta) cases, and instead focused on the combination of a resilient economic recovery, ongoing unprecedented support from the Federal Reserve, and strong corporate earnings. In the final weeks of September, market volatility increased dramatically, reminding investors that the road to prosperity can be rather bumpy at times.

Despite the late quarter volatility that saw corrections in market benchmarks by as much as 5%, the S&P 500 Index managed a gain of 0.58% for the quarter, bringing the year-to-date total return to 15.92%, through September 30. International stocks continued their relative underperformance again in the third quarter, as the Bloomberg World Index was down -1.59% in the quarter, and up 8.56% for the nine months ended September 30, 2021.

After more than a year of rapid recovery from the pandemic lows, the US economy continued to return to pre-pandemic levels of activity, and corporate earnings remained solid. Several metrics, including consumer spending, housing and labor markets did show signs of slowing during the quarter, leading to a more muted upside than experienced in prior quarters.

Second-quarter earnings, released mostly in July, were broadly stronger than expectations – allaying some fears of a cooling recovery. Federal Reserve Chair Jerome Powell reiterated at the July meeting that the Quantitative Easing (QE) program would not be tapered until later this year. This continued support for markets allowed investors to look past rising COVID-19 cases, and allowed markets to hit new highs by late August. The fact that government authorities did not re-impose restrictions as was experienced during the prior waves of rising cases, gave investors a sense of continued return to normalcy. Instead, most policy responses centered around mask mandates, resulting in a milder impact on the economy, as compared to previous episodes.

Politics once again became a focus of the markets in August, as the Senate passed a $3.5 trillion budget reconciliation bill that would be the framework for potential changes to tax rates, entitlements and climate policy. Democrats unveiled new details of the plan that included increases to corporate taxes, personal income taxes for high earners, and changes to capital gains and inheritance taxes. What passed in August merely set the stage for the looming policy battle once Congress returned from the summer recess.

As some of these issues played out in September, markets began to experience some turbulence. Many of the positive factors that supported stocks earlier in the quarter began to fade. First, corporate commentary turned more cautious. Profit warnings that cited supply chain constraints and margin compression came from multiple industries, causing investors to become more concerned about the outlook for corporate earnings. In addition, economic data from August showed that the

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rise in COVID-19 cases had in fact weighed slightly on the economic recovery.

The volatility was compounded by the news that the second-largest property developer in China, Evergrande, was likely going to default on debt payments. Fear of potential financial market contagion hit stocks in late September, and the S&P 500 suffered its first 5% pullback in nearly a year. Markets remained volatile through the end of the quarter, as Washington approached the looming deadline of a government shutdown with no extension in sight, although that was avoided in the last few days of the quarter.

"Corrections of 10%+ occur about once every eighteen months, and investors who ride through these periods achieve much greater success than those that do not."

In sum, the market remained resilient in the third quarter, but the final few weeks of September served as a reminder to investors that markets will face the resolution of numerous macroeconomic unknowns in the fourth quarter, and while fundamentals remain decidedly positive, an increase in market volatility should be expected.

Market resiliency should not be taken as a sign that risks no longer remain. The impact of the future Fed policy, the pandemic, political wrangling over spending and taxation, and inflation are all unknown at this point. The economy and markets are also in the midst of the shift from rapid recovery to more steady expansion.

The Federal Reserve has communicated that it will begin to taper Quantitative Easing in the fourth quarter, but markets do not yet know when exactly the Fed will start to scale back those asset purchases or the pace at which they will be reduced. If the Fed starts to taper QE sooner than expected, or the pace of reductions is faster than the market has currently priced in, it will likely cause additional volatility.

Regarding the still ongoing pandemic, COVID-19 remains a risk for the economy and the markets. Positively, effective vaccines have allowed policymakers to avoid re-implementing economic lockdowns that could hurt corporate earnings and the economy, but the risk remains that a new COVID-19 variant renders the vaccines less effective, and that would put the economic recovery in jeopardy.

Politics can be a powerful influence on the markets and over the next several weeks we will learn whether the debt ceiling is extended and if there will be any significant tax increases. If policies from Washington are viewed as negative for corporate earnings or consumer spending, they will likely cause a rise in market volatility.

Finally, inflation remains elevated at multi-decade highs, and when combined with continued supply chain disruptions due to the ongoing pandemic, corporate margins and profitability have shown signs of weakening. If an increasing number of companies warn about future profitability due to these factors during the upcoming third-quarter earnings season, it will negatively impact markets.

While risks always remain, the really big picture is that macroeconomic fundamentals are still decidedly positive. It is important to remember that a well-executed and diversified, long-term financial plan can overcome periods of intense volatility, that are much more common than most investors care to admit. Corrections of 10%+ occur about once every eighteen months, and investors who ride through these periods achieve much greater success than those that do not.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is done best over a long period of time, and even temporary bouts of volatility like we have experienced during the height of the pandemic, are unlikely to alter a diversified approach, set up to meet your long-term investment goals.

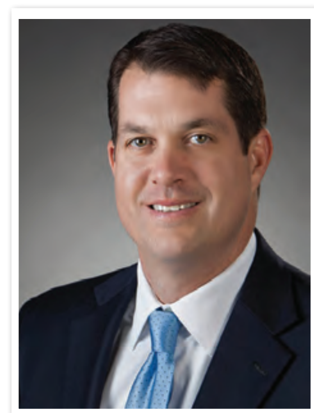
While we remain optimistic regarding economic progress in the coming years, we always remain vigilant towards risks to portfolios. We will continue to search for and invest in great businesses, run by exceptional people, that we believe offer excellent returns. We are continuously monitoring these companies and will always strive to make changes as they become necessary. As always, we appreciate the trust and confidence you have placed in our firm. Our entire team will remain dedicated to helping you successfully navigate this market environment and execute your financial plan. Please do not hesitate to contact us with any questions or to schedule a portfolio review.

Joseph P. Biondo

Chief Executive Officer, Chief Investment Officer
Portfolio Manager

Sources: Index returns – Ultimus Fund Services, Bloomberg; Senate Bill, Federal Reserve – Wall Street Journal; S&P Pullback – Yahoo Finance

THE ESTATE DILEMMA



Karl A. Wagner, III

Recently, we have fielded numerous questions on the Estate Planning landscape and how to best navigate what portends to be some pretty drastic changes. Thus, we felt it timely to write a quick piece on the current landscape as we see it and to share some actionable ideas.

There have never been more favorable tax laws for a decedent with a sizable Estate than now. Current exemptions, indexed for inflation, are at $11,700,000 per spouse for tax year 2021. This means as long as assets are properly titled with ownership being 50/50 per spouse, or a proper Credit Shelter Trust has been created, there would be no federal estate tax due on Estates worth $23,400,000 or less for married couples. Actually, this past year, only about 1,900 families owed Estate taxes out of the roughly 2.8 million Americans who passed away.

All of this is most certain to change. First, the current law is scheduled to sunset, or expire, by the end of 2025, which will reduce the individual exemption back to $5 million, indexed for inflation. The Biden administration currently has proposed roughly the same reduction on the individual exemption by 50%, down to $5,850,000. As an example:

A retired, single person has a total Estate worth $10,000,000. If they died tomorrow, the Estate taxes owed would be $0. If they passed away 1/1/2022 or thereafter, under the proposed plan, the difference between the total Estate amount ($10,000,000) and the reduced exemption ($5,850,000) will be taxed at a 40% rate, resulting in taxes owed of $1,660,000. Quite a large difference!

What can be done? **The first strategy is to gift as much as you are comfortable gifting this year to reduce your Estate before any changes are made.** An example looks like this:

A married couple has a combined Estate of $20,000,000. They decide they only need $3 million to live on, so they gift $17 million to their kids and grandkids prior to January 1, 2022. This reduces their lifetime gift exemption to 0 going forward, but their entire $17 million gift was made tax free. On January 1, 2022, the rate they would pay on that same gift becomes 40% of anything over $11.7 million. In this case, that would be $2.12 million in estate taxes. This is a rare, "use it or lose it" opportunity to complete some tax policy arbitrage.

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These numbers may sound large, but don't forget what is included in a taxable estate. "The Estate Tax is a tax on your right to transfer property at your death. The includible property may consist of cash and securities, real estate, insurance, trusts, annuities, business interests and other assets." (IRS.gov) With the current level of the stock market and appreciation in residential and commercial real estate values, it wouldn't be surprising to see this tax impact more people.

Maybe you are not inclined to gift such an amount at this time. Another tactic utilizes the Irrevocable Life Insurance Trust (ILIT), provided the person is insurable. This will create an asset outside of your taxable Estate, which will pass tax free to your beneficiaries, allowing them to have the necessary capital to pay for the future Estate tax liability.

As we work closely with other trusted advisors, such as CPAs or Estate Attorneys, please let us know if you are interested in an introduction to explore these strategies further. As always, we hope you find this information useful as we continue to strive to bring relevant content to our clients.

Sources: IRS.gov; Forbes; Tax Policy Center

OCTOBER IS CYBERSECURITY AWARENESS MONTH

The firm takes cybersecurity very seriously, and we have clear and actionable steps to protect client confidential information. We also encourage you to embrace measures to help protect your personal identity and mitigate potential security risks.

Your devices make it easy to connect to the world around you, but they also contain a lot of information about you and your friends and family, such as your contacts, photos, location, health and financial data. Unfortunately, cyber fraud continues to escalate, is ever-changing, and continues to become more sophisticated.

In support of your efforts, we recently added two additional resources to the Cybersecurity page on our website:

20 Ways to Block Mobile Attacks
On-line Security Tips

We hope you take a moment to review these timely resources. They can be found under **Helpful Tips** at **www.thebiondogroup.com/cybersecurity.**

REMINDERS

Is your beneficiary information up to date?

This is a good time to review the beneficiary designations on your accounts.

Contact your Wealth Advisor at 570-296-5525 to make any changes.

Any new changes in your contact information?

We would like to know... so we can keep your contact information up to date.

Please send us your updated email, address or telephone number to team@thebiondogroup.com or call 570-296-5525.

Do you have a "Trusted Contact" form on file with us?

Should there be any questions or concerns about your health or welfare, this form authorizes us and Fidelity to contact the designated trusted contact.

If you would like a form sent to you or have any questions regarding its use, please reach out to us at team@thebiondogroup.com or call 570-296-5525.

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