SHHHHH…DISNEY IS COMING (BUT DON'T TELL ANYONE!)…

Fifty years ago this month, Disney World in Orlando, Florida, opened its gates for the very first time.

I've always loved the story of how it happened. Walt Disney knew that Disneyland in Anaheim, California, which opened in 1955, was a huge success. But he also knew this park had few visitors from the East Coast, where 75 percent of the U.S. population lived at that time.

Disney hired a Florida real estate agent named Roy Hawkins to begin buying up tracts of land around Orlando for a dummy company called Florida Ranch Lands Inc. The goal was to buy as much land as possible before word got out that Disney was interested in the site.

Most landowners were willing to sell because much of the land was viewed as worthless swampland. Hawkins was able to complete 50 transactions for more than 27,000 acres for a total of $5 million. The average price was $182 per acre. In October 1965, the news broke that Disney was considering the site. When the official announcement came out, land began selling for $80,000 per acre!

Sadly, Walt Disney died a year later, but the park would open on October 1, 1971, at a total cost of $400 million. Had Mr. Hawkins not been successful in buying up all that land, the land alone could have cost more than $2 billion.

Today, Disney World is also a cautionary tale about the stealth effects of inflation. The cost of a ticket 50 years ago? $3.50 for adults and $1 for children. Today, the cheapest ticket to get into the Magic Kingdom is $109. What will that ticket cost in 25 years? What will health care, gas, electricity, or groceries cost in 25 years?

Two big questions going forward are inflation—and its impact on interest rates—and taxation, for corporations and individuals. Every day, we talk about the proposed changes in the tax code, their chances for passage, and how they might impact our clients. But despite all the bluster, it is apparent any change will be far less than the tax overhaul originally proposed. But even though the change this year may be small, we are certain about two things.

First, over time, taxes will go up, given the way our government has been printing money over the past two years. Second, the estate tax exemption will be dropping. The current law ($11.7 million per person) sunsets in 2025, and there is no appetite to keep it at current levels. Any couple who has a projected estate of more than $10 million can and should take advantage of an exemption today that likely won't be around in 2026.

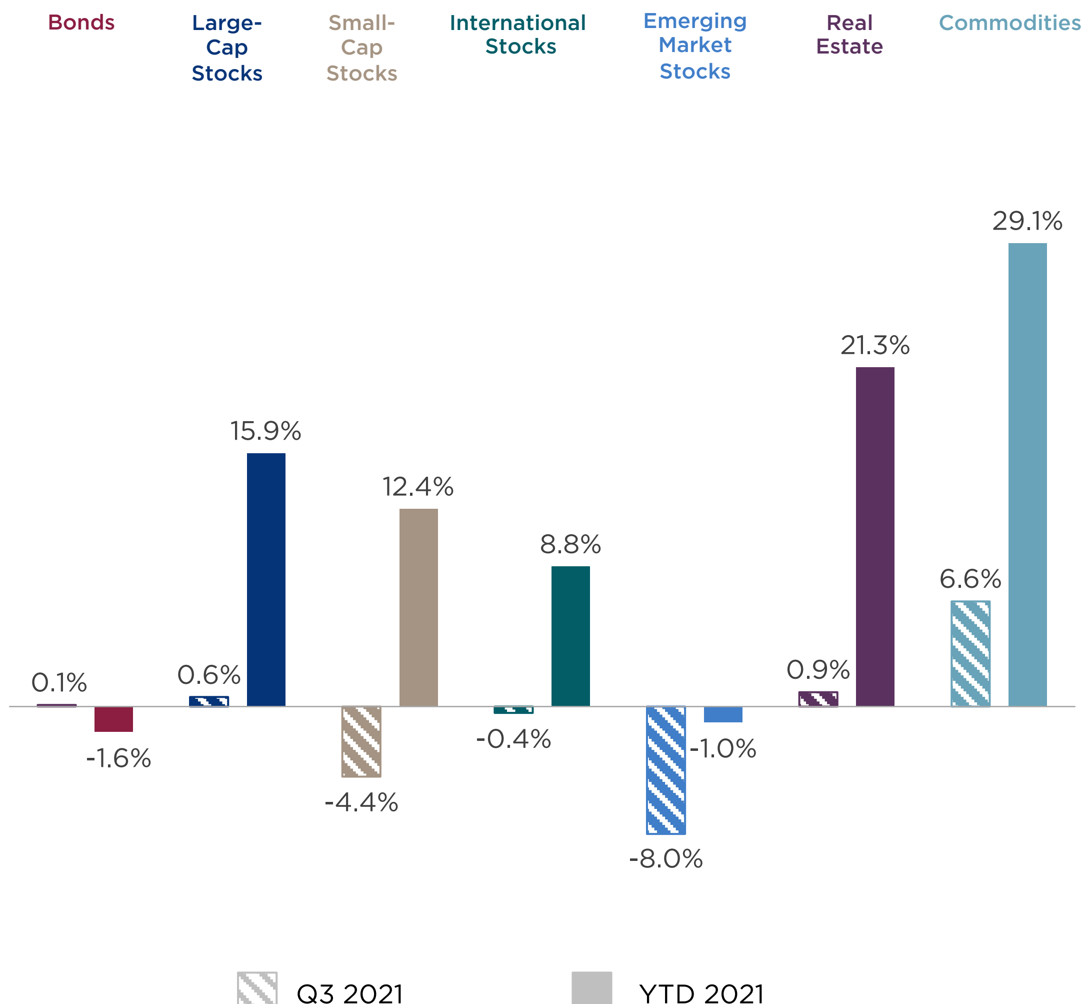
So be like Walt Disney and Roy Hawkins … quietly take advantage of conditions today, knowing they will likely change in a meaningful way in the years ahead.

Kelly Brothers, CFP®, MBA
Principal, Financial Advisor

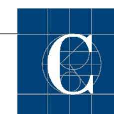
MARKETS MIXED IN Q3

Asset classes posted mixed results in the third quarter as the delta variant raised concerns about the sustainability of the economic reopening. Wrangling in Washington over the budget, infrastructure, tax proposals, and the debt ceiling roiled markets in September. However, despite a rocky quarter, U.S. and international stocks, real estate, and commodities remain firmly in positive territory for the year.

- U.S. large-cap stocks rose slightly, and small-cap stocks fell modestly in the third quarter. Despite recent volatility, they have posted double-digit year-to-date gains thanks to a resilient economy and the U.S. consumer's health.
- International developed market stocks slipped in September and continue to trail U.S. stocks for the year. Emerging market stocks fell modestly and are now slightly negative for the year. driven by slower growth and regulatory actions in China.
- Bonds treaded water in the third quarter. Interest rates were little changed for the period.
- Fueled by a rebound in oil prices, commodities were the standout performer for the quarter. Prices have risen due to supply constraints and rising demand as the economy reopened.
- Public real estate notched a small gain in the third quarter as interest rates marked time.



Asset class returns are represented by the following indexes: Bloomberg Barclays U.S. Aggregate Bond Index (U.S. bonds), S&P 500 Index (U.S. large-cap stocks), Russell 2000® (U.S. small-cap stocks), MSCI EAFE Index (international developed market stocks), MSCI Emerging Market Index (emerging market stocks), Dow Jones U.S. Real Estate Index (real estate), and Bloomberg Commodity Index (commodities).



DIGGING DEEPER: STOCKS AND BONDS

Equities

	Q3 2021	YTD 2021	Last 12 Months
U.S. Stocks	0.6%	15.9%	30.0%
• Q3 Best Sector: Financials	2.7%	29.0%	59.0%
• Q3 Worst Sector: Industrials	-4.2%	11.5%	28.9%
International Stocks	-0.4%	8.8%	26.3%
Emerging Market Stocks	-8.0%	-1.0%	18.6%

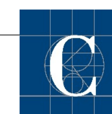
Fixed Income

	09.30.21	06.30.21	09.30.20
1-Year U.S. Treasury Yield	0.09%	0.07%	0.12%
10-Year U.S. Treasury Yield	1.52%	1.45%	0.69%
	QTD 2021	YTD 2021	Last 12 Months
10-Year U.S. Treasury Total Return	-0.07%	-4.24%	-6.07%

Equities – Relative Performance by Market Capitalization and Style

Q3 2021				YTD 2021				Last 12 Months			
	Value	Blend	Growth		Value	Blend	Growth		Value	Blend	Growth
Large	-0.8%	0.6%	1.2%	Large	16.1%	15.9%	14.3%	Large	35.0%	30.0%	27.3%
Mid	-1.0%	-0.9%	-0.8%	Mid	18.2%	15.2%	9.6%	Mid	42.4%	38.1%	30.5%
Small	-3.0%	-4.4%	-5.7%	Small	22.9%	12.4%	2.8%	Small	63.9%	47.7%	33.3%

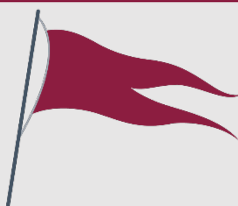
Sources: Bloomberg, U.S. Treasury. Asset class returns are represented by the following indexes: S&P 500 Index (U.S. stocks), MSCI EAFE Index (international developed market stocks), and MSCI Emerging Markets Index (emerging market stocks). Relative performance by market capitalization and style is based upon the Russell US Style Indexes except for large-cap blend, which is based upon the S&P 500 Index.



ECONOMIC OUTLOOK

The pace of economic recovery has exceeded expectations, but not without growing pains in the form of rising prices, labor shortages, and supply chain disruptions. Below, we summarize the major economic headwinds and tailwinds as we enter the final quarter of 2021.

HEADWINDS



Logistics Logjam

- Businesses of all types face supply chain and logistics challenges, including soaring transportation costs and delays, materials shortages, and rising input costs.

(More) Help Wanted

- Firms also face pressure from continued labor shortages, unfilled jobs, and rising wages.
- Although higher input prices often fade when growth cools, higher labor costs tend to linger.

Uncertain Policy Outlook

- Washington is abuzz with a legislative docket that includes funding to avoid shutdown, debt ceiling suspension, a bipartisan infrastructure bill, and a larger "soft" infrastructure package likely to raise taxes. Reconciliation will be messy.

China Crackdown

- A flurry of regulatory actions affecting a wide range of industries signal a more aggressive *common prosperity* agenda from Beijing, with significant implications for future growth prospects both within China and across the globe.

TAILWINDS

Fundamental Strength

- Corporate revenues and profits staged an impressive recovery as pandemic-driven cost-cutting and productivity gains boosted profits when revenues recovered.
- Although profit margins will face pressures from rising labor and input costs, we expect business conditions to remain supported by strong consumer demand, business investment, and an extended inventory restocking cycle.

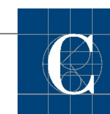
Buying Power

- U.S. households' balance sheets are stronger than ever, buoyed by soaring levels of home equity and an estimated $2.5 trillion in excess savings.
- However, confidence is a key to consumer spending behavior, and inflation fears risk dampening consumer appetites.

Monetary Policy Still Supportive

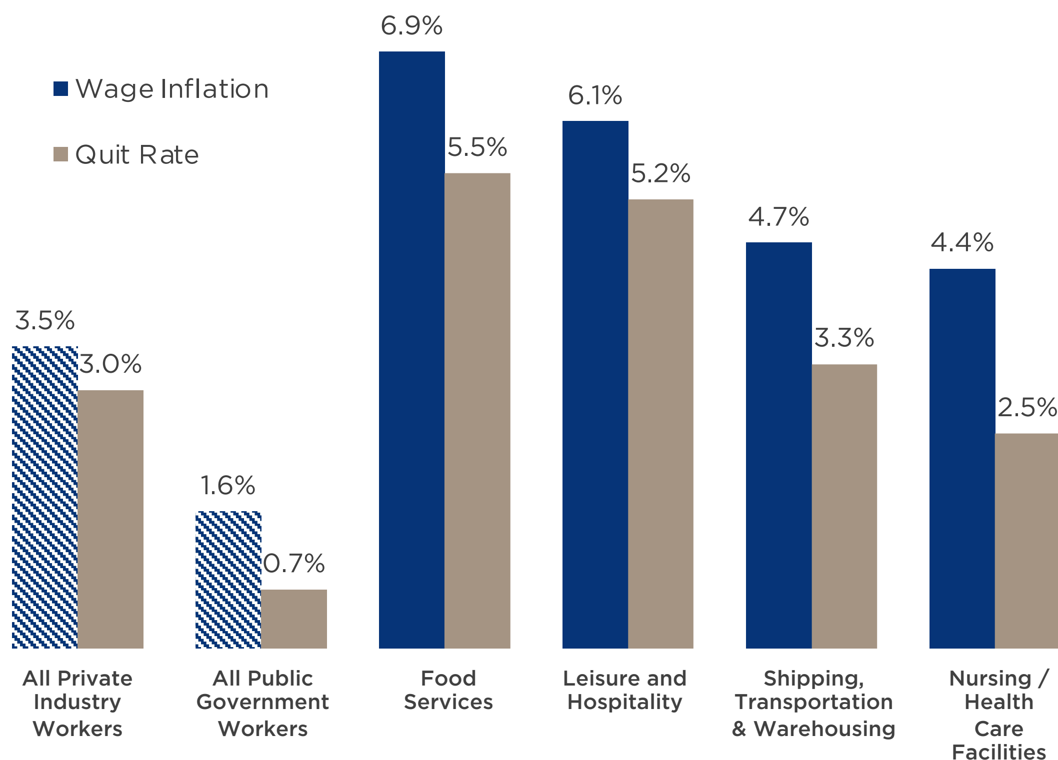
- Although the Fed has hinted that continued economic improvement could prompt tapering of its bond-purchase program by year-end, interest rates are likely to remain extremely low for an extended period.

We may be past the point of peak recovery, but this doesn't mean the economy must reverse course. As a variety of constraints are eased, from the delta variant to supply chain and labor market disruptions, the global economy still has room to grow.



WAGE INFLATION FOR (SOME) WORKERS

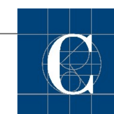
U.S. workers' wages are growing at their fastest pace in 20 years as companies compete for workers in a tight labor market. The number of job openings has reached historic levels, and the share of firms unable to fill positions has increased to record highs. However, labor force participation has yet to recover from the pandemic, forcing businesses to offer higher pay, bonuses, and other perks to induce workers to return.



OBSERVATIONS

- While year-over-year wage levels across all private industries grew by 3.5%, the effects have been uneven. Food service workers saw wages rise at nearly twice the overall average.
- Staffing shortages are particularly acute in the service industries hardest hit by the pandemic, including leisure and hospitality, as well as critical sectors such as transportation and health care.
- The *quit rate*—or the share of workers who voluntarily leave their jobs—has traditionally been highest in lower-wage service sector jobs. Now, quit rates are on the rise as existing staff bear the brunt of staffing shortages, while rising wages promote job hopping.
- Wage gains are important to raise living standards and help close the income gap. But unlike other business input costs, wages tend not to decline, increasing the risks of more persistent inflation.

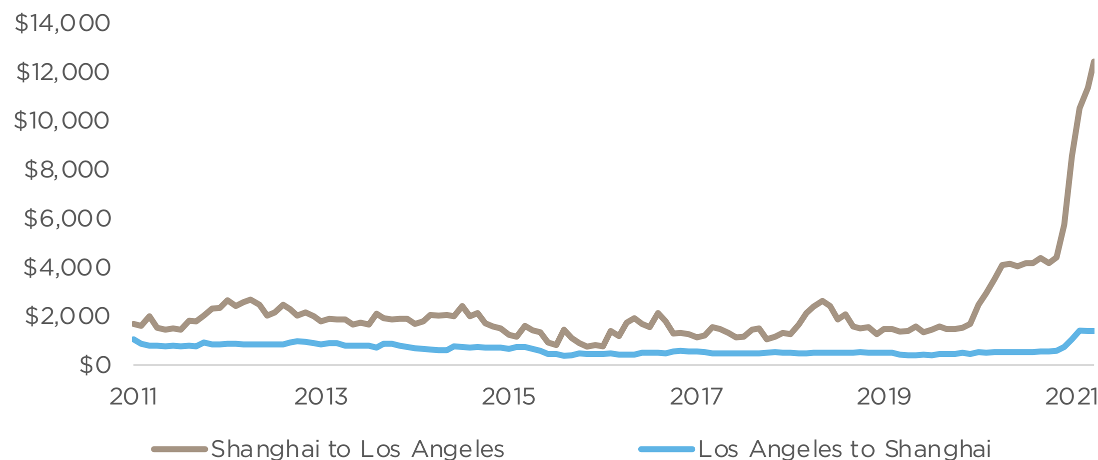
Sources: U.S. Bureau of Labor Statistics, CAPTRUST Research



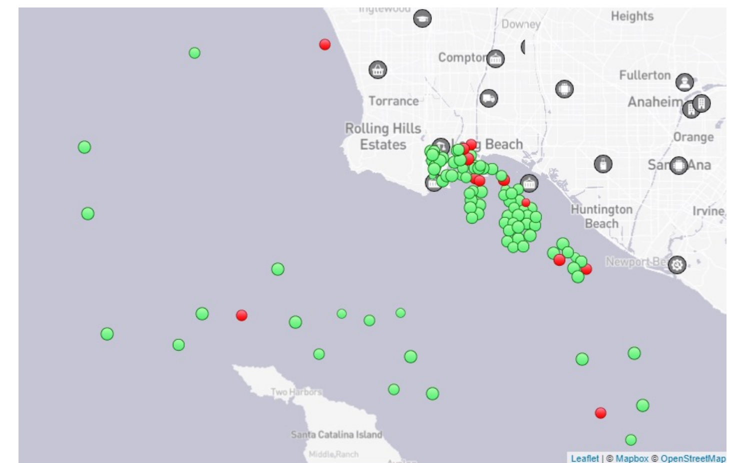
A GLOBAL LOGISTICS LOGJAM

Each year, an estimated 225 million steel cargo containers traverse the world's oceans. But as the complex machinery of a highly interconnected global economy struggles to return to full speed following the pandemic, severe bottlenecks have emerged, leading to shipping delays, bare store shelves, parts and material shortages, and rising prices that threaten to exacerbate inflation pressures.

Shipping Price per 40-Foot Container



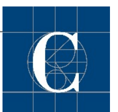
Ships at Anchor—Port of Los Angeles/Long Beach



OBSERVATIONS

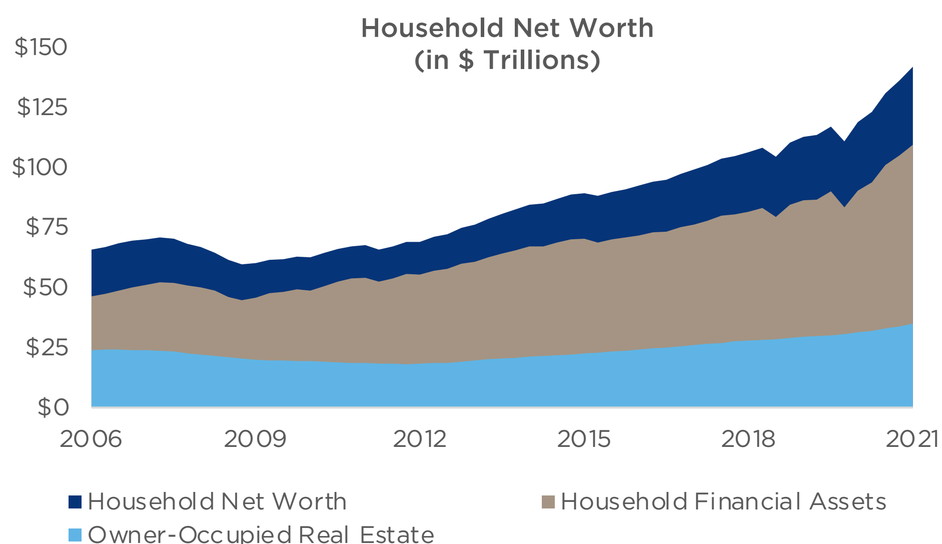
- An important driver of globalization has been low and stable freight prices. But as shown above, the price of moving a 40-foot container from China to the U.S. has spiked eight-fold just as we enter the pre-holiday inventory-restocking season. Rates for westbound freight haven't followed suit, leading some ships to return empty and causing stranded containers to pile up at U.S. ports and railyards.
- Crowded ports remain a significant bottleneck. The map above shows a record number of ships waiting at anchor at the vital port of Los Angeles/Long Beach as wait times to offload cargo stretch beyond a week.
- Obstacles remain after freight reaches shore. A shortage of truck drivers—expected to reach 100,000 by 2023—has prompted proposals to lower the minimum age for interstate truck drivers from 21 to 18. In September, FedEx turned to technology to boost capacity as it launched a pilot program to haul packages between Houston and Dallas with self-driving trucks.

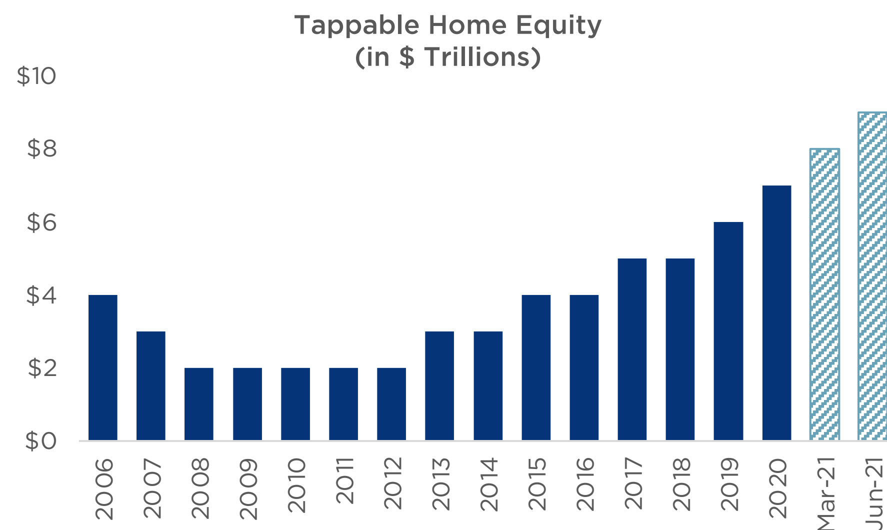
Source: Bloomberg, MarineTraffic



HOUSEHOLD WEALTH SURGE

Propelled by soaring stock and real estate markets and stimulus checks, U.S. households' net worth has reached record highs. The Federal Reserve estimates that household net worth grew to nearly $142 trillion during the second quarter, with a $3.5 trillion gain in the value of equities, a $1.2 trillion jump in real estate values, and a $2.9 trillion gain in private savings. While ballooning wealth provides momentum for strong consumer spending, not everyone has benefitted from gains, raising concerns around wealth inequality and calls for tax reform.

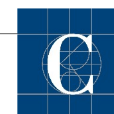




OBSERVATIONS

- Alongside significant gains in financial and real estate assets, consumers have also accumulated massive amounts of cash in checking and savings accounts. Given low or nonexistent interest rates on savings, these balances represent an enormous war chest for continued consumer spending and investing.
- As home prices have soared—fueled by low mortgage rates, limited supply, and growing demand—the amount of home equity available to homeowners has risen above $9 trillion. This tappable equity represents the amount available in excess of the normal 20% equity requirement for most conventional mortgages and is an important source of funds for consumer spending and new business formation.

Source: Federal Reserve, Black Knight, CAPTRUST Research



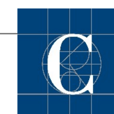
PRODUCTIVITY DRIVES MARGINS HIGHER

Despite the significant disruptions caused by COVID-19, U.S. companies have delivered impressive financial results through cost-cutting measures and enhanced productivity, driving profit margins to record highs. Although firms now face headwinds as input and labor costs rise, economic conditions remain supported by strong consumer demand, business investment, and an extended inventory restocking cycle.

OBSERVATIONS

- During the initial pandemic shock, corporate earnings and profit margins collapsed due to the unprecedented economic shutdown.
- Aided by record levels of fiscal stimulus and low borrowing costs, businesses adapted with technology and operational efficiencies, driving productivity higher. Firms realized these benefits, generating record profits during the vaccine-fueled rebound.
- Stock prices reflect both future growth expectations and current operating results. Although last year's rally was fueled by optimism, this year's gains have been driven by fundamentals, allowing stocks to grow into the lofty price levels reached last year.
- For this upward trend to continue, firms must successfully navigate a range of cost and supply-side pressures that pose risks to future profit margins.

Sources: Bloomberg; CAPTRUST Research



ASSET CLASS RETURNS

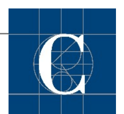
Period Ending 9.30.21 | Q3 21

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD 2021
Fixed Income 5.24%	International Equities 42.14%	Real Estate 28.48%	Real Estate 8.69%	Real Estate 17.77%	Small-Cap Stocks 38.82%	Real Estate 30.38%	Strategic Opportunities 2.86%	Small-Cap Stocks 21.31%	International Equities 27.77%	Cash 1.87%	Large-Cap Stocks 31.43%	Large-Cap Stocks 20.96%	Real Estate 21.30%
Cash 1.51%	Mid-Cap Stocks 40.48%	Small-Cap Stocks 26.85%	Fixed Income 7.84%	International Equities 17.39%	Mid-Cap Stocks 34.76%	Large-Cap Stocks 13.24%	Real Estate 2.14%	Mid-Cap Stocks 13.80%	Large-Cap Stocks 21.69%	Fixed Income 0.01%	Mid-Cap Stocks 30.54%	Small-Cap Stocks 19.96%	Large-Cap Stocks 15.19%
Strategic Opportunities -13.09%	Real Estate 28.61%	Mid-Cap Stocks 25.48%	Large-Cap Stocks 1.50%	Mid-Cap Stocks 17.28%	Large-Cap Stocks 33.11%	Mid-Cap Stocks 13.22%	Large-Cap Stocks 0.92%	Large-Cap Stocks 12.05%	Mid-Cap Stocks 18.52%	Strategic Opportunities -0.49%	Real Estate 28.92%	Mid-Cap Stocks 17.10%	Mid-Cap Stocks 15.17%
Small-Cap Stocks -33.79%	Large-Cap Stocks 28.43%	Large-Cap Stocks 16.10%	Cash 0.10%	Large-Cap Stocks 16.42%	International Equities 15.78%	Fixed Income 5.97%	Fixed Income 0.55%	Real Estate 7.56%	Small-Cap Stocks 14.65%	Real Estate -4.03%	Small-Cap Stocks 25.52%	International Equities 11.13%	Small-Cap Stocks 12.41%
Large-Cap Stocks -37.60%	Small-Cap Stocks 27.17%	International Equities 11.60%	Mid-Cap Stocks -1.55%	Small-Cap Stocks 16.35%	Strategic Opportunities 3.58%	Small-Cap Stocks 4.89%	Cash 0.05%	International Equities 5.01%	Real Estate 9.84%	Large-Cap Stocks -4.78%	International Equities 22.13%	Fixed Income 7.51%	International Equities 6.29%
Real Estate -37.97%	Fixed Income 5.93%	Fixed Income 6.54%	Strategic Opportunities -3.71%	Fixed Income 4.22%	Real Estate 2.47%	Strategic Opportunities 0.79%	Mid-Cap Stocks -2.44%	Fixed Income 2.65%	Fixed Income 3.54%	Mid-Cap Stocks -9.06%	Fixed Income 8.72%	Strategic Opportunities 2.72%	Strategic Opportunities 1.82%
Mid-Cap Stocks -41.46%	Cash 0.21%	Cash 0.13%	Small-Cap Stocks -4.18%	Strategic Opportunities 0.88%	Cash 0.07%	Cash 0.03%	Small-Cap Stocks -4.41%	Cash 0.33%	Strategic Opportunities 3.40%	Small-Cap Stocks -11.01%	Strategic Opportunities 4.37%	Cash 0.67%	Cash 0.04%
International Equities -45.25%	Strategic Opportunities -3.58%	Strategic Opportunities -0.12%	International Equities -13.33%	Cash 0.11%	Fixed Income -2.02%	International Equities -3.44%	International Equities -5.25%	Strategic Opportunities 0.31%	Cash 0.86%	International Equities -13.78%	Cash 2.28%	Real Estate -5.29%	Fixed Income -1.55%

Source: Markov Processes, Inc., Bloomberg, Mobius

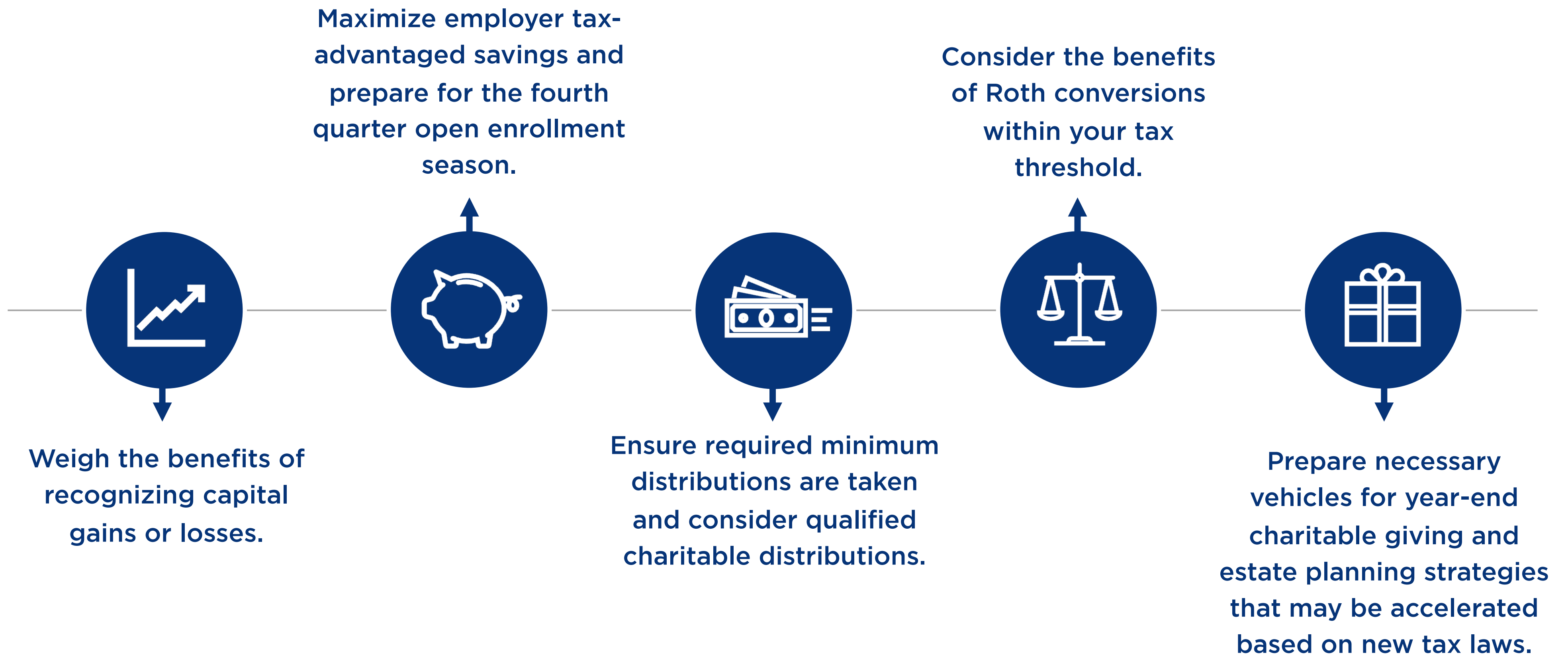
- Small-Cap Stocks (Russell 2000 Index)
- Mid-Cap Stocks (Russell Mid-Cap Index)
- Large-Cap Stocks (Russell 1000 Index)
- Real Estate (Dow Jones U.S. Real Estate Index)
- Strategic Opportunities (HFRX Absolute Return Index)
- Cash (Merrill Lynch 3-Month Treasury Bill)
- International Equities (ACWI Ex-U.S. Index)
- Fixed Income (Bloomberg Barclays U.S. Aggregate Bond Index)

The information contained in this report is from sources believed to be reliable but is not warranted by CAPTRUST to be accurate or complete.



YEAR-END FINANCIAL PLANNING CONSIDERATIONS

While making New Year's resolutions is widely considered wishful thinking, you may want to consider revisiting a few financial planning strategies before year-end to set yourself up for future success. When discussing your financial plan with your advisors, consider not only your current financial position, but also the potential passing of proposed tax legislation to determine if you should take advantage of any of the following strategies.



UPDATES ON THE TAX LEGISLATION HORIZON

Last quarter, we reviewed the tax proposals from the White House that we were tracking. The House Ways and Means Committee has since produced a proposal of its own that will now be negotiated and updated before a final bill is signed. In many ways, this proposal is more muted than the original Green Book from the White House. While the final bill may be agreed upon by year-end, changes will be made before it is finalized. Here are a few highlights of the proposal.

INCOME TAX

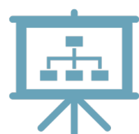
The top income bracket may increase from 37% to 39.6%. This could affect individuals with taxable incomes over $400,000 or married couples filing jointly with taxable incomes over $450,000.

There could be a 3% surtax applicable to taxpayers, trusts, and estates with MAGI over $5 million.

CAPITAL GAINS

If you're in the top long-term capital gains tax bracket, the top rate would be increased to 25% from 20%. This would be combined with the 3.8% Medicare surtax on net investment income. This could be effective for capital gains recognized after Sept 13, 2021.

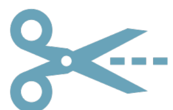
Potential for expanded wash sale rules.



LEGACY

The estate and gift tax exemption could be reduced back to 2010 levels, adjusted for inflation, as early as 2022. This could potentially reduce the individual exemption from $11.7 million to roughly $6 million. This would accelerate the former Tax Cuts and Jobs Act expiration by four years.

Future transactions utilizing grantor trusts and valuation discounts on family limited partnerships may lose their tax advantages.



LIMITATIONS ON LARGE RETIREMENT PLANS

Backdoor Roth conversions may be eliminated for all.

If you're in the new top income tax bracket, you may not be able to participate in any form of Roth conversion by 2031.

If you're in the new top income tax bracket and your retirement accounts total more than $10 million, you may be limited on any contributions to a traditional or Roth IRA, and additional distributions from these accounts may be required.

CONCLUDING REMARKS

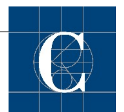
In last quarter's concluding remarks, we noted the S&P 500 Index had posted its fifth consecutive quarterly gain and stated, "That was clearly far from normal." While the third quarter got off to a nice start in July and August, September proved to be a challenging month for stocks globally. While the S&P 500 Index lost 4.7% in September—its worst month since March 2020—it still managed to eke out a minor gain of 0.6% for the quarter while most other markets were negative.

There is a litany of reasons why markets reversed course in September. Here are a few of them:

1. Rising consumer prices sparked fears of higher interest rates and more persistent inflationary concerns.
2. Continuing uncertainty surrounding the COVID-19 delta variant weighed on markets as investors evaluated how quickly the economy would reopen.
3. A fraught political environment worsened as legislators clashed over massive spending proposals and a looming debt ceiling deadline. Fortunately, Congress narrowly avoided a government shutdown by passing a stopgap bill before funding would have lapsed and a default on U.S. debt would have occurred. We've seen this movie before, as they just kicked the can down the road until December. Now, Congress is going to wrangle over the debt ceiling, a $1 trillion infrastructure bill, a $3.5 trillion spending bill (focused on health care, education, family support, and climate change initiatives) coupled with tax legislation to pay for all of the above. Many Wall Street analysts are now revising their 2022 earnings estimates downward for corporate America, as they handicap the outcome of the anticipated corporate tax increases that are on the horizon.
4. Persistent supply chain disruptions look like they will continue to be an issue well into 2022, effectively driving up prices for a variety of items.
5. The jobs report for August, along with the recently released report for September, came in well below expectations. That has put a damper on the widely held notion that employees would return to work once schools reopened and enhanced unemployment benefits came to an end. Nonetheless, the unemployment rate is down to 4.8%, its lowest reading since the pandemic began.
6. We would be negligent if we didn't mention China and its impact on global markets. Chinese stocks posted their worst quarterly decline since 2015. Between China's slowing economy and uncertainty around tightening regulatory policies in its technology, education, and online gaming sectors, investors were spooked, which led to an 18% selloff. China's problems had a ripple effect on surrounding emerging markets, as well as European exporters, which rely heavily on Chinese demand.

While the third quarter ended with equity markets giving up some of the year's earlier gains, we remain cautiously optimistic about the near- to mid-term future.

Looking ahead to November 2 and 3, the Federal Reserve Bank's Open Market Committee will convene for its last scheduled meeting of the year. The primary topic will be to determine whether it will begin tapering the Fed's monthly purchases of Treasury bonds and mortgages (currently, they are purchasing $120 billion per month between the two).



CONCLUDING REMARKS (continued)

It's widely anticipated it will begin doing so by year end, but the bigger question is the volume and pace of the cuts. It is also a widely held belief that the Fed will not raise short-term interest rates until the tapering process is complete, which the market is anticipating will occur near the end of next year.

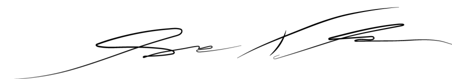
As outlined, there are a variety of headwinds that have been impeding and will continue to impede equity market gains going forward. Countering that is a record amount of cash on the sidelines. The Fed estimates there is $5.4 trillion sitting in money market funds getting virtually no return (in reality, a negative real rate of return when you factor in inflation). We believe any near-term market corrections will be muted, as some of the cash on the sidelines will get redeployed and buy into any dips.

Further out, we continue to see vaccination rates rising globally and restrictions being lifted. Major economies around the world should experience robust growth for the remainder of this year and 2022.

As we go into the closing stretch of 2021, we continue to have the portfolios positioned for recovery while also safeguarding against a potential rough patch for domestic equities. As always, we are humbled by and thankful for your trust and confidence in CAPTRUST .

All the best,

Michael Genovese, CFP®
Principal, Financial Advisor



Scott Thomas, CFP®, MBA®
Principal, Financial Advisor