2021 THIRD QUARTER MARKET SUMMARY AND FALL MARKET OUTLOOK

CONTRIBUTORS:
MICHAEL SOUZA , GIRI KRISHNAN & CHAD WILLIAMSON

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KOA WEALTH MANAGEMENT®

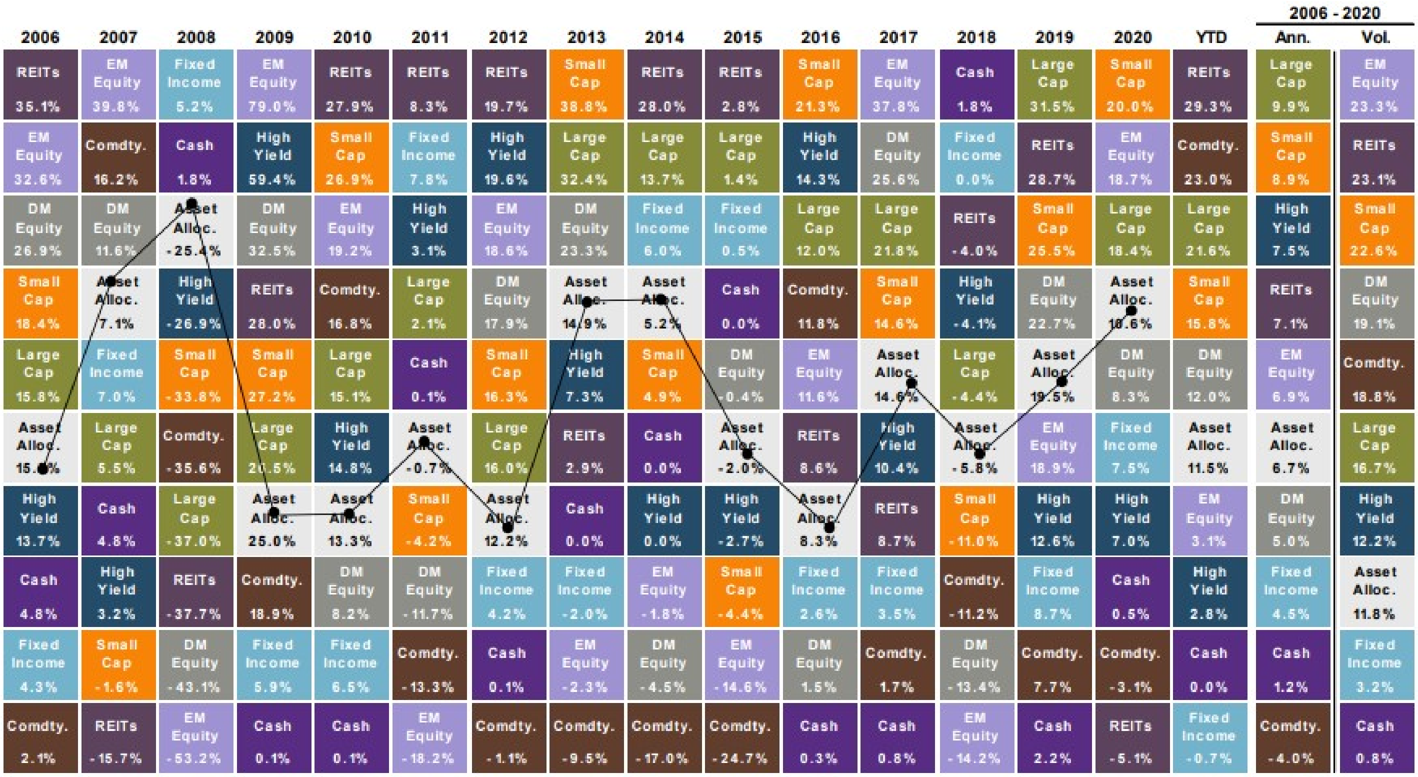
2021 THIRD QUARTER MARKET SUMMARY AND FALL MARKET OUTLOOK – A CHANGE IN LEADERSHIP & MUTED VOLATILITY

After a fairly tame second quarter when economic growth accelerated and a steady dose of vaccinations helped to ensure that Covid cases diminished, the third quarter proved to be a mixed bag. While corporations continued to post strong earnings growth despite high earnings expectations, the quarter also saw the following: 1) A resurgence in Covid cases due to the Delta variant 2) A significant drawdown in prominent Chinese large cap tech companies due to stricter Chinese government regulations and 3) Continued delays in passage of the long-awaited infrastructure bill. International growth was mixed given the overhang from Covid vaccine and insufficient vaccine availability in smaller countries. Also, despite a Q3 resurgence in technology stocks vs. cyclicals, Value names (amongst mid-caps and small caps) have outperformed Growth names YTD, which may come as a surprise to some since large cap growth equities have trumped large cap value equities.

In 2021, we have also seen a continuation of some Q4 2020 trends. The S&P 500 outperformed Developed and Emerging Markets yet again, with the former posting better-than-average returns of 16% Year-to-Date (YTD)[1], outperforming Developed and Emerging Markets which were up 8% and down 3% respectively[2], and the small cap Russell 2000 index which rose 13%[1]. From a sector standpoint, there was a change in market leadership in the third quarter with technology/communication sectors in the US trumping cyclical, value-oriented sectors such as Energy and Financials. Also, the bond market continues to have one of its rockier starts in recent years. Convertibles, Floating Rate bonds and High Yield bonds were among the few bright spots while Treasuries and Investment Grade bonds lagged.

PORTFOLIO POSITIONING – ASSET ALLOCATION DISCIPLINE & MEAN REVERSION

A true-and-tried maxim in investing is the following: “Diversification is the only free lunch”. Keeping that in mind, we spotlight the importance of asset allocation and prudent diversification through JP Morgan’s “Guide to the Markets” publication. The chart below highlights mean reversion, a key tenet of investing, whereby the best and worst-performing asset classes or style factors have swapped spots from best to worst over the past 15 years. To us, this showcases why we build globally diversified portfolios and rebalance portfolios periodically, both to weather market volatility and to take advantage of shifting market cycles.



																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 29.3%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Comdty. 23.0%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Large Cap 21.6%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 15.8%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	DM Equity 12.0%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.[illegible]%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 2[illegible].5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 11.5%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	EM Equity 3.1%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	High Yield 2.8%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 0.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Fixed Income -0.7%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor’s, J.P. Morgan Asset Management.

OUR MARKET THOUGHTS – COVID REDUX, CHINESE MARKET MALAISE, THE FED, MARKET CYCLES, VALUATIONS

As most global markets digest recent volatility driven by the Evergrande property fiasco in China, we expect this volatility to remain elevated into what has historically been one of the seasonally weaker months (October) and into a quarter when the Fed may taper asset purchases and global Covid preparedness will face a retest. For the most part, it has been a fairly quiet post-election year in the US, with the S&P 500 going through a 200+ day stretch (through mid-September) without enduring a 5%+ drawdown and having only five trading days when the index fell below its 50-day moving average.

As we look ahead to the fourth quarter and early 2022, it is not unreasonable to expect that after a 15%+ YTD S&P 500 run on top of an 18% run in a topsy turvy 2020, that future equity returns may be muted. With the US economy having made a full recovery (In terms of GDP output) from pre-Covid levels, the market is now focusing its attention on the Federal Reserve which could be poised to taper asset purchases (per Chairman Powell’s recent communication) and potentially raise short term interest rates in 2022.

We are also seeing continued discussion from Biden administration and Congress around tax reform which could potentially result in higher tax rates for corporations and individuals. The next few quarters could see multiple industries hit with supply chain shocks, and growth could slow further in the Chinese economy. Offsetting these growth dampeners are tailwinds that include the expanded re-opening of the economy as Covid's impact wanes, and potential passage of the much-hyped infrastructure bill by the Biden administration. Below are a few key issues/drivers for investors to pay attention to in the last quarter of 2021 and early 2022.

1 DELAYED RETURN TO NORMALCY IN A POST-COVID WORLD.

Unlike the second quarter, when we saw notable declines in Covid cases globally driven by vaccinations and social distancing measures, the third quarter was a different story primarily due to the delta variant. Broadly speaking, while the delta variant does not pose the same level of risk as Covid did in 2020 in the US thanks to the availability of effective vaccines and a heightened awareness of Covid spread measures, it could be a bigger issue globally. Of late, countries like Japan & Australia have brought back lockdowns to quell Covid's spread, suggesting that Covid and its variants might be here to stay a while. However, the fact that vaccinated patients have significant lower levels of hospitalization and mortality vs. unvaccinated patients suggests that we likely will not revert to full lockdown-mode globally despite periodic hiccups; this makes us stay constructive about the extension of the economic recovery into Q42021 and 2022.

2 CHINA, EVERGRANDE AND EMERGING MARKET CONCERNS.

It should be no surprise to market watchers that the Chinese markets have been amongst the worst performers YTD, down ~17% as of the time of this writing. Moreover, the KraneShares CSI China Internet ETF (KWEB), which tracks an index of leading China-based Internet companies such as Alibaba (BABA) and Tencent (TCEHY), is down 39% YTD, driven primarily by Chinese-government led crackdowns on some of their largest tech stalwarts and the specter of expanding oversight by the Chinese Communist Party (CCP).

To add fuel to the fire, the recent controversy around Evergrande (China's second largest property developer) and the question of whether the Chinese government will let it default on interest payments to its creditors might weigh on Chinese property markets and Chinese investor sentiment. If Evergrande is allowed to fail, it could provoke concerns around a potential spillover impact on global equity markets. While the Chinese government's decision to either let indebted companies like Evergrande restructure their debt or default can be impossible to predict, we believe it would be premature to assume this could be a 2008-style global market crisis since foreign institutional ownership of Chinese property developers' debt/equity is relatively benign. Given that China's weighting in the MSCI Emerging Markets index is ~33%, it isn't surprising that China has dragged the emerging markets to a -2% return YTD; we believe China's loss could be pushing foreign investors towards alternatives like India, judging by the latter's 22% gain for the year.

3 FEDERAL RESERVE POLICY AND INVESTMENT IMPLICATIONS.

Since the 2008 Financial Crisis, the Fed has continued to play an ever-larger role by injecting massive amount of liquidity into financial markets, influencing investor confidence. 2020 was the latest chapter in that book - while some have criticized these unprecedented actions, we believe they may have saved us from a deeper recession post-pandemic.

In their recent September Federal Open Market Committee (FOMC) meeting, the Federal Reserve voted to keep the fed funds target rate unchanged at 0-0.25% and their current $120 billion commitment to monthly bond purchases unchanged, until they saw meaningful progress in the economic recovery and a notable pickup in inflation. However, they did leave the room open for ending tapering by mid-2022; using the Fed's dot plot as a guide, we believe that we could see the first rate hikes by end of 2022 and a couple more rates hikes in 2023. Of course, this is predicated on a continuing economic recovery and no notable Covid-related hiccups. Overall, we continue to believe that the Fed will walk a tightrope as they attempt a slow-and-steady course correction in order to ward off overheating in the economy and a potential spike in inflation without spooking markets. Eventually, this may help reflation beneficiaries such as Cyclicals & Materials, but one key consideration whether any spikes in inflation are transitory or permanent.

4 MARKET CYCLES AND THE INFRASTRUCTURE BILL.

Of late, we have heard a drumbeat of calls suggesting that a 10-20% market correction is imminent even as markets are in the process of transitioning from early to mid-cycle. Following the Evergrande crisis which is now on full display, some are taking it as a given that a big market meltdown is around the corner. If only investing was that easy! On the one hand, it is true that the S&P 500 has not experienced a 10% correction since the dog days of March 2020. However, beneath the surface, many sectors (e.g. Industrials, Energy, Materials) have experienced rolling corrections over the past few months.

In reality, while it is always possible that at elevated valuations, the smallest bit of bad news could send the market convulsing into fits, it is not clear except in hindsight what triggers market corrections or when exactly the market transitions from early to mid-cycle mode. Rather than try to predict the next big meltdown or sit on the sidelines with excess cash, we prefer using a barbell approach to investing with secular, higher-growth investments on the one hand and conservative income-oriented public/alternative investments on the other side of the barbell while lengthening our investment timeframes out to 3-5 years.

5 EARNINGS GROWTH, VALUATIONS AND ASSET CLASS RETURNS.

Second quarter earnings growth was robust across most sectors, but with stocks having risen at a healthy clip YTD, this has both raised the bar for earnings beats and left US markets trading at the top end of their historical valuation ranges[2]. While Emerging Markets and Europe trade relatively cheaper than US markets per historical valuations, the former suffers from slowing growth in China and Latin America, while the latter has a slower overall growth outlook. Valuations alone are rarely a good predictor of future market returns however, we take them into account while making portfolio management/asset allocation decisions before investing client assets.

KEY INVESTMENT PORTFOLIO CHANGES – POSITIONING FOR A MID-CYCLE MOVE & HIGHER VOLATILITY

In the past, we have expounded on a few tenets of our investment philosophy: 1) Buying high-quality companies with secular growth tailwinds and pricing power 2) Value-oriented franchises trading at meaningful discounts to fair value and 3) Equity & bond fund offerings from top-notch investment organizations that can efficiently navigate market cycles. We generally take a three pronged approach within our Equity bucket, splitting it into Secular Growers, Cyclical Growers and Defensive Dividend Payers. Within our fixed income bucket, we currently utilize a balanced core approach with the goal to preserve capital, and add categories like floating rate bonds to position ourselves for rising rates. We supplement our daily-liquid portfolio with pedigreed alternative asset offerings that can generate strong risk-adjusted returns over a multi-year period with significantly lower volatility than an often-fickle public market.

Over the last quarter, we made a few noteworthy changes to our investment portfolios, while keeping a longer-term (3-5-year investment timeframe) in mind:

1 WE INITIATED A POSITION IN ONE OF THE WORLD’S LEADING GLOBAL LOGISTICS BUSINESSES.

Currently, there are a few enduring global growth themes that we believe are worth investing in, and Outsourced Logistics is one of the more prominent emerging themes. As the world of commerce migrates from offline to online, there are underlying sustainable growth drivers i.e. outsourcing, e-commerce & automation. Across most developed markets, e-commerce is expected to grow at a 10-15% compounded annual growth rate (CAGR) [likely higher in emerging markets] into the trillions of dollars. By some estimates, global e-commerce still accounts for <20% penetration of total retail sales, which leaves lots of untapped opportunity. To facilitate e-commerce, goods suppliers need sophisticated supply chains and outsourced contract logistics to handle key functions such as product shipping/inventory management/product returns. Moreover, corporations engaging ine-commerce require scalable and automated warehouses where they achieve high productivity levels through usage of robots to stack products, and facilitate restocking in case of product returns.

Accordingly, we invested in one of the few global contract logistics providers, a recent spinout from of the larger domestic industrials that currently holds a 5% share of the $130 billion outsourced logistics market. We believe this firm provides arguably one of the better ways to play the growth of global outsourced logistics and warehouse automation.

2 WE ENHANCED OUR POSITIONING WITHIN THE BROADER FINTECH ECOSYSTEM, ADDED TO OUR ALTERNATIVES ASSET MANAGER HOLDINGS AND EXITED TWO OF OUR GLOBAL EMERGING MARKET PLAYS.

Where relevant, we try to invest in broader themes that are enduring and where the Total Addressable Market (TAM) runs into billions of dollars since the investment opportunity set is fairly rich. One of those themes is Fintech, which encapsulates companies that belong in an ecosystem where businesses utilize technology to disrupt an existing financial process e.g. payment networks, merchant acquirers, transaction processors, trading exchanges and online lenders.

While we own multiple businesses within the fintech ecosystem, we added to our holdings in a leading large cap digital payments company and technology platform that is also a rising player within the increasingly popular Buy Now, Pay Later (BNPL) category.

Also, in an environment of low bond yields and what is likely to be an environment of higher volatility in Q42021/2022, we believe institutional allocations to alternatives will only increase as they seek non-traditional sources of income or equity-market-like returns with lower volatility. Hence, we added to our positions in one of the world's leading Alternatives Asset Managers, which boasts $600+ billion in assets, has industry leading franchises in Private Equity, Infrastructure, Real Estate & Renewables and services large institutional clients such as pension funds, family offices and endowments.

Lastly, we exited our holdings in one of the world's leading global ecommerce businesses/cloud platforms in Asia despite it being a well-run undervalued business facing huge market opportunities due in part to concerns around increasing regulation by the Chinese government & potential deceleration in growth rates.

3 WE INITIATED A POSITION IN A DOMESTIC COVERED CALL OVERWRITE FUND, AS WE BELIEVE OPTIONS-BASED STRATEGIES WILL BE INCREASINGLY RELEVANT AS AN ALTERNATIVE SOURCE FOR INCOME.

Consistent with our view that an environment of low interest rates and a lower-for-longer regime at the Federal Reserve spells a market regime with scarce income-oriented investments, we expanded our portfolio search to include the world of options. Subsequently, we chose a fund that first puts together a diversified, low volatility dividend-oriented equity portfolio chosen through a proprietary research process, and then generates income by selling options on the S&P 500 index by straddling multiple expiration periods. In doing so, we chose a Portfolio Management team that we are very familiar with, that has a 10+ year track record of using options to either hedge long-only portfolios or using covered call overwrites to generate a 7%+ annual yield.

4 FINALLY, WE EXPANDED OUR ALLOCATIONS TO ALTERNATIVES BY ADDING PRIVATE EQUITY TO THE MIX.

Being at the tail end of a 40-year bond market bull run and facing close-to-peak valuations in the public equity markets, we have used Alternatives (no pun intended) both to squeeze yield and dampen volatility while not sacrificing returns. Per the Alternative Investment Management Association (AIMA), the average pension fund invests ~19% in alternatives; among top-tier endowments like Yale in the US, it is not uncommon to see this allocation top 20%. Hence, we see compelling rationale to continually expand our client allocations here.

To that end, we chose an established Private Markets manager that has a core, evergreen private markets holding that provides access to various segments within Alternatives, including Private Equity, Real Estate & Infrastructure investments across North America and overseas. Available to accredited investors, this vehicle (which launched in 2020) offers one-stop-shop access to clients that need both diversification within the private markets, long-term capital appreciation and current income with less correlated returns relative to the publicly traded markets. During the quarter, we also added to our investments in Private Credit, which typically consists of middle market, senior secured first/second lien loans that are often senior in the capital structure and floating rate.

For the sake of illustration, our Private Real Estate and Private Credit investments target a 5-8% annual distribution (Sources: breit.com, bcred.com), well above the yield of the 10-year Treasury or the Barclays Agg, with the former treating much of its annual 5% distribution as return of capital.

FINANCIAL PLANNING SUMMARY – MISTAKES THAT CAN REDUCE YOUR FINANCIAL AID AWARD

Planning how you are going to pay for college is a lot like getting out of an escape room. If you haven't been to one, I highly suggest you try it out. Typically, a group of 5 – 8 friends and sometimes strangers are locked in a room. The goal is to solve a set of clues in order to unlock the door keeping you in. What you'll learn during the process is there's typically one know-it all that may lead you down the wrong path, often times there are numerous areas that are overlooked, and lastly you probably should have used your 3 clues from the host a heck of a lot sooner than you did! Similar to college planning, I often find parents getting bad advice from people they trust but aren't properly informed; they often overlook the bigger picture on how overspending on their child's education impacts their other goals and get pushed into bad decisions at the eleventh hour. In today's piece, I want to highlight mistakes we often find parents making when they put together a plan to pay for college.

1 NOT FILLING OUT THE FAFSA ON TIME

Now when I say on-time, I mean early, and when I say early, I mean as soon as possible! The FAFSA becomes available for the Fall 2022 school year October 1st, 2021. Many schools and states award financial aid on a first-come, first-served basis and for those who put off completing the FAFSA, it can come at a cost. According to Saving for College, "Students who fill out the FAFSA during the first three months tend to get twice as much grants, on average, as compared with students who file the FAFSA later."

In addition, to potentially receiving more financial aid, students and parents will have more time to weigh out their options and see which schools fall in their budget. This is especially important for families that would like to negotiate for more aid from their top schools!

2 FUNDING COLLEGE EXPENSES WITH THE WRONG ASSETS

Whether it's grandma's 529 that she set up for her grandchild or the withdrawal you took from your IRA to pay the tuition bill; the strategies chosen to pay for school can ultimately leave you worse off when applying for financial aid for future years. Unfortunately, the FAFSA is not a one and done type of item; in order to keeping getting the aid you are awarded for year one, you have to continue filling out the application each October. The problem is your school or the Financial Aid Department isn't going to tell you the plan you have in place to pay for college might not work out the way you think it will. Here are two popular snags we often see.

Grandma and grandpa are generous and nice enough to put money in a 529 plan for your child's education. In year one after you get the first tuition bill you're just as thankful they put some money away. However, what you don't realize is any money distributed during the year will be counted as the student's income when filling out the FAFSA in future years, which has one of the biggest impacts to financial aid awards (behind the parents' income).

Another strategy we've seen employed, are parents' drawing funds from are their individual retirement accounts (e.g. IRAs) to pay for higher education expenses. While you might think this isn't a bad idea because you can withdraw from your IRA penalty free for education expenses, you are still going to have to pay income tax on these withdrawals, AND it's going to increase your income reported on the FAFSA in future years, causing your financial aid to be lowered.

3 FUNDING COLLEGE EXPENSES WITH THE WRONG ASSETS

The last item we've experienced and learned from are the different questions and fields within the FAFSA that could increase your financial aid award. Here are just a few:

- Number of dependents in college currently – if you have multiple kids in college at the same time this could reduce your Expected Family Contribution by up to 50%, if not more. This would potentially result in a higher financial aid award.
- Colleges you are interested in attending – When you fill out the FAFSA you have the choice to list up to 10 colleges you'd like to attend. While you can go back and edit these 10 colleges after you submit your FAFSA, if you want the best odds of receiving state grant and aid it would be wise to list any eligible in-state college as your top choice. In certain states, if you do not list any in-state school amongst your 10 choices, you will not be considered for any state grant aid (IE. the state of CA).
- Request an appeal or professional judgement – the FAFSA requires you use your previous year's tax return to gather your income and taxes paid. That means parents filling out the FAFSA for the fall 2022 school year will use their 2020 tax return. If your family has had a dramatic decrease in income that's not reflected on the tax return submitted, you should consider requesting an appeal with the schools you are applying to. It's important that current and accurate information be submitted for review.

The rules to the financial aid game are extensive and schools aren't exactly incentivized to assist parents with finding the money they need to send their kids to college. Don't let them take advantage of you, do the research or work with a college planning professional to review your situation in order to get the most financial aid possible!

As always, please feel free to reach out if you have any questions on any of the topics discussed above.

Michael Souza
CEO

Giri Krishnan
Senior Portfolio Manager

Chad Williamson CFP®
CERTIFIED FINANCIAL PLANNER™

11260 El Camino Real, Unit 220, San Diego, CA 92130
760-602-6920
info@koawealth.com