



HURRY UP AND WAIT

While 2020 was consumed by the “C” word (as in COVID) along with other expletives, 2021 seems to be associated with the “I” word, and I don’t mean “Inclusion.” The bad word as of late is “Inflation”, and it’s on the tips of everyone’s tongues, from the nightly news to your local butcher. No matter where you turn, one cannot escape from the subject matter or hide from the word “transitory.” Even Nicki Minaj, a famous Trinidadian-born rapper, singer and songwriter has been tweeting about inflated “assets.” If you haven’t heard, I suggest you Google it!

So, what exactly is the definition of inflation you may ask? In short, too many dollars chasing too few goods...and these days, those goods are called reservations! The world has re-opened and patrons are hungry for dining anywhere but their own home. The Washington Post’s recent article, “What are Americans making for dinner? Reservations” was aptly titled for the wave of pent-up vaccinated masses eager to satiate their growing appetites. “I can’t get a reservation!” is often overheard from friends and passerby’s who I see frequently denied entry at local establishments. Some of the angst is due to limited capacity; however, the larger factor at play is workers, or should I say lack thereof. It seems hourly wages and tips are having a hard time keeping up with Uncle Sam’s generosity and in some cases, workers have just moved on to find other positions that offer more stability and/or flexible schedules, which many people have grown accustomed to during their COVID quarantine.

From LA to Las Vegas to New York City, staff is in short supply and same day cash payment and bonuses are proving to be little incentive. Small resort towns where labor tends to be seasonal, such as Aspen and Jackson Hole, are having an even tougher time as restaurants are forced to limit days and hours of the week when they are open. Combine that with reduced flight capacity, limited beverage service, poor timetables, and hostile passengers and it all adds up to the vacation blues for Summer travelers...and don’t even get me started on rental cars! Word to the wise, do not travel without a reservation, and when in doubt a staycation may still be your best bet.

I recently patronized a well-loved local bar and grill that serves, well...bar food. While they can generally whip out a burger in 8-10 minutes, they struggled to produce my meal in an hour. I could only spot two front of house staff; however, the kitchen seemed to be rocking; pumping out order after order, all of which were packed in...wait for it...To Go boxes. It seems some establishments are hedging their bets and deciding not to turn their backs on the take-out business that kept them afloat over the last eighteen months. In addition, they may be struggling to get the appropriate balance of staff to return to operations as normal. I don’t like to admit that I sometimes crave a McDonald’s sausage egg McMuffin, but on my last visit

I received a short-form job application with my order. Just another sign of the employment conundrum.

Hurry up and wait isn't just at restaurants either. While I am more of an online shopper myself, a recent errand forced me to go to the mall. I observed countless storefronts with lines out front, restricting the number of shoppers inside. Bewildered, I stood and stared, wondering if there was a run on underwear or hand bags. Nope, the lines were not due to lack of clothing rather a lack of employees to man the tills. Even Dollar General has announced raising prices on certain goods over \$1, given rising shipping costs due to lack of containers. "Too few goods" has become synonymous with employees and capacity!

They say that what comes up must come down, and the cure for high prices is high prices. So, is this inflation transitory? We think it is, but it depends on your definition of transitory. We've already seen lumber prices come back down. Why? Builders stopped building, and people delayed their home improvement plans just when DIY was getting popular. Used cars have also finally plateaued, as consumers have decided their current ride has a few more clicks on the odometer. If you want something bad enough, simply wait, patience is a virtue. After all, what's a year or two after a global pandemic? It's called transitory, and just like a virus, inflation has to run its course.

Despite the rumblings of inflation, what history has shown is that while global pandemics may experience price and employment shocks, they are generally deflationary. Not only to the hearts of people who lost loved ones but to the economy itself. We have not yet felt the full effect of losing 4.8 million people nor the aftershocks of those suffering from long-COVID and the drain that might cause on governments and healthcare systems. Indeed, we are definitely in a mini-cycle as supply chains get back on track and demand normalizes; however, larger disinflationary pressures are still at work from lower birth rates, reduced immigration, reduction in labor participation (COVID accelerated retirement), increased savings, and continued technological advances.

The alternative argument, is maybe this time is different? Past pandemics have never experienced such a massive global response or benefitted from the sheer speed of information and biomedical innovation. Governments have engaged in unprecedented fiscal and monetary stimulus to prevent costly lay-offs and bankruptcies and provided much needed liquidity to the credit markets. These policies have likely alleviated the adverse economic effects of the pandemic and may lead to a rise in (headline) inflation if maintained beyond the health crisis.

The key determinant of lasting pricing pressure is inflation expectations, and while consumer fears may be elevated (and rightfully so), the bond market (as referenced by the 5-year TIPS break-even rate) is currently pricing in 2.5%, modestly higher than the 1.8% historic trend



since 2003. Time will tell if the COVID-19 trend inflation, will indeed be different this time around.

Closing Thoughts

Perhaps the most dangerous form of inflation is inflated expectations for future returns. Given the significant run-up in US equities over the last several years, we cannot in good conscience project that to continue and neither do our capital markets forecasts. Diversification is key and a thoughtful strategic allocation must not be transitory to be successful. At Ulrich, we focus on long-term goals and have tactically shifted our client portfolios to benefit from cyclical equity drivers, increased commodity and real asset prices, and income generating investments. While the US has led the expansion, we do foresee a more synchronized global recovery going forward. Fits and starts are expected, along with continued volatility into year-end, due to potential tax reform, aggressive and uncertain Chinese regulations, and the unknown prospects of another COVID variant. At Ulrich, we pride ourselves on preparing our clients' portfolios for the known and unknown.

Regards,



John P. Ulrich, CFP®
President



Whitney E. Solcher, CFA®
Chief Investment Officer

Equity Markets

The S&P 500 Index was up a modest 0.6% in 3Q with results mixed across sectors. Industrials (-4.2%) and Materials (-3.5%) were at the bottom of the pack while Financials (+2.7%) were the best performers. Since the market low in February 2020, the S&P is up 97.3%. Growth stocks outperformed value (R1000 Growth: +1.2%; R1000 Value: -0.8%) but lag for the YTD period (+14.3% vs. +16.1%). Small cap stocks underperformed (R2000: -4.4% vs. R1000: +0.2%) and now lag YTD (12.4% vs. 15.2%).

The MSCI ACWI ex-USA Index lost 3.0% for the quarter, hurt primarily by U.S. dollar strength and the benchmark's exposure to emerging markets. The best-performing sector was Energy (+7%), while Consumer Discretionary (-11%) and Communication Services (-10%) posted steep declines. Note that these sectors include some of the Chinese stocks that have been hit hard by the country's regulatory crackdown (Alibaba, Tencent, and Baidu). The MSCI EAFE Index (Europe, Australia, and Far East) lost 0.4% but in local terms it was up 1.3%. Japan (+4.6%) performed relatively well while many of the larger constituents were down for the quarter. The MSCI Emerging Markets Index sank 8.1%, making it the worst-performing asset class for



the quarter. Within emerging markets, Brazil (-20%), China (-18%), and Korea (-13%) fell sharply while India (+13%), Russia (+10%), and Colombia (+10%) were up strongly.

Fixed Income Markets

Yields in the U.S. were relatively unchanged from 6/30/21, masking intra-quarter volatility. The 10-year U.S. Treasury closed the quarter at 1.52%, up sharply from early August when it traded at 1.19%. TIPS outperformed nominal Treasuries for the quarter (Bloomberg US TIPS Index: +1.8%; Bloomberg US Treasury Index: +0.1%). The Bloomberg US Aggregate Bond Index returned 0.1% but remains down 1.6% YTD. Lower quality continued to outperform. The Bloomberg High Yield Index rose 0.9% and leveraged loans (S&P LSTA Lev Loan: +1.1%) also performed well. Municipals (Bloomberg Municipal Bond Index: -0.3%) underperformed Treasuries for the quarter.

Overseas developed market returns were similarly muted, and U.S. dollar strength eroded returns for unhedged U.S. investors. The Bloomberg Global Aggregate ex-US Bond Index fell 1.6% but was flat (+0.1%) on a hedged basis. Emerging market debt posted negative returns; the JPM EMBI Global Diversified Index fell 0.7% and the local JPM GBI-EM Global Diversified Index lost 3.1%, most of which was due to currency depreciation. In local terms, this Index was down only 0.2% for the quarter.

Real Assets

The Bloomberg Commodity Index rose 6.6% for the quarter and is up 29.1% YTD, but what lies under the hood is more interesting. Natural gas prices soared nearly 60% for the quarter, and those gains were relatively muted compared to the experience in Europe, where prices tripled over the quarter. WTI Crude Oil was up 4%. TIPS (Bloomberg TIPS Index: +1.8%) performed well relative to nominal U.S. Treasuries. Several other sectors were essentially flat for the quarter; the MSCI US REIT Index gained 1.0%; gold (S&P Gold Spot Price Index: -0.8%) and infrastructure (DJB Global Infrastructure: -0.9%) fell slightly. Copper fell more than 4% on worries over slowing demand from China.



Returns for Various Periods - September 30, 2021

	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
MSCI:ACWI	(1.05)	11.12	27.44	12.58	13.20	11.90	7.21
Russell:3000 Index	(0.10)	14.99	31.88	16.00	16.85	16.60	10.44
Russell:3000 Growth Index	0.69	13.49	27.57	21.27	22.30	19.40	13.13
Russell:3000 Value Index	(0.93)	16.58	36.64	9.94	10.94	13.48	7.52
MegaCap							
Russell:Top 50	1.91	16.05	28.14	19.29	19.23	17.44	10.72
Russell:Top 200	0.63	15.22	28.63	17.25	18.17	17.23	10.63
Russell:Top 200 Growth	1.62	15.43	26.77	22.70	23.86	20.35	13.78
Russell:Top 200 Value	(0.65)	15.00	31.27	9.90	11.07	13.32	7.01
Large Cap							
S&P:500	0.58	15.92	30.00	15.99	16.90	16.63	10.37
Russell:1000 Index	0.21	15.19	30.96	16.43	17.11	16.76	10.55
Russell:1000 Growth	1.16	14.30	27.32	22.00	22.84	19.68	13.33
Russell:1000 Value	(0.78)	16.14	35.01	10.07	10.94	13.51	7.52
MidCap							
S&P:400 Mid Cap	(1.76)	15.52	43.68	11.08	12.97	14.72	10.38
Russell:Midcap Index	(0.93)	15.17	38.11	14.22	14.39	15.52	10.30
Russell:Midcap Growth	(0.76)	9.60	30.45	19.14	19.27	17.54	11.98
Russell:Midcap Value	(1.01)	18.24	42.40	10.28	10.59	13.93	8.78
Small Cap							
S&P:600 Small Cap	(2.84)	20.05	57.64	9.44	13.57	15.69	10.30
Russell:2000 Index	(4.36)	12.41	47.68	10.54	13.45	14.63	9.16
Russell:2000 Growth	(5.65)	2.82	33.27	11.70	15.34	15.74	10.59
Russell:2000 Value	(2.98)	22.92	63.92	8.58	11.03	13.22	7.50
Russell:Microcap	(4.98)	22.59	61.07	12.23	14.47	15.42	8.41
Non-US Equity							
MSCI:ACWI ex US	(2.99)	5.90	23.92	8.03	8.94	7.48	4.38
MSCI:EAFE	(0.45)	8.35	25.73	7.62	8.81	8.10	4.10
MSCI:EAFE Growth	0.07	6.88	20.87	11.91	11.41	10.06	5.82
MSCI:EAFE Value	(0.97)	9.61	30.66	3.04	5.96	5.97	2.25
MSCI:EAFE Small Cap	0.90	10.02	29.02	9.05	10.38	10.73	6.35
MSCI:EM	(8.09)	(1.25)	18.20	8.59	9.23	6.09	5.68
Fixed Income							
Blmbg:Aggregate	0.05	(1.55)	(0.90)	5.36	2.94	3.01	4.17
Blmbg:TIPS	1.75	3.51	5.19	7.45	4.34	3.12	4.43
Blmbg:Long Gov/Credit	0.07	(4.57)	(2.97)	10.12	5.21	5.76	6.95
Blmbg:Long Credit A	(0.24)	(3.92)	(0.23)	9.85	5.48	6.28	6.62
Blmbg:HY Corp Cash Pay	0.89	4.52	11.28	6.92	6.52	7.42	7.31
Blmbg:Muni 1-10 Yr	(0.01)	0.35	1.33	3.93	2.50	2.72	3.53
Blmbg:Glb Agg xUSD	(1.59)	(5.94)	(1.15)	3.17	1.10	0.90	2.91
Blmbg:Glb Agg xUSD Hdq	0.09	(1.47)	(0.54)	3.93	2.71	3.87	4.02
JPM:EMBI Plus	(1.11)	(4.20)	1.20	4.68	2.31	4.80	5.82
Other Assets							
Blmbg:Commodity TR Idx	6.59	29.13	42.29	6.86	4.54	(2.66)	(2.15)
S&P GSCI	5.22	38.27	58.30	(1.49)	3.64	(4.83)	(4.99)
S&P:Gold Spot Price lx	(0.82)	(7.29)	(7.31)	13.67	5.93	0.80	7.38
FTSE:NAREIT Equity Index	0.98	23.15	37.39	10.01	6.83	11.27	6.51
Alerian:MLP Index	(5.71)	39.40	84.63	(4.32)	(2.42)	1.21	5.06

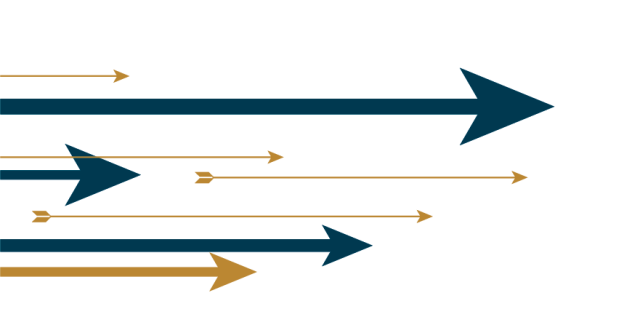
The views expressed represent the opinion of Ulrich Investment Consultants. The views are subject to change and are not intended as a forecast or guarantee of future results. This material is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. Stated information is derived from sources that have not been independently verified for accuracy or completeness. While Ulrich Investment Consultants believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Ulrich Investment Consultants' view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements

Source: Callan



CAPITAL MARKETS REVIEW & OUTLOOK

Third Quarter 2021



MAJOR MARKET INDICES (AS OF 9/30/2021)

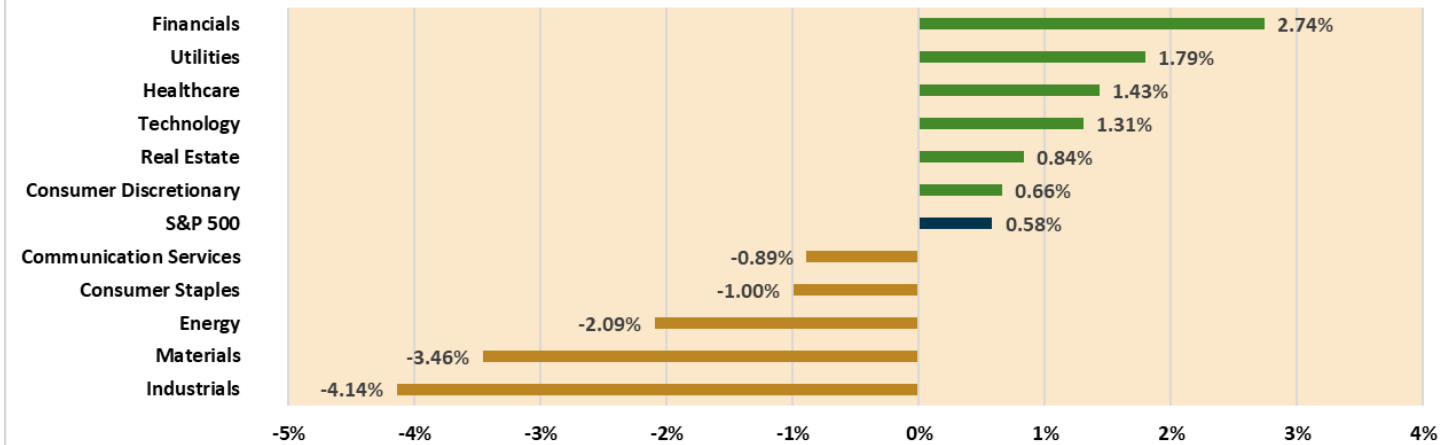
Domestic Equity	2021		1 Year	Annualized		P/E Ratio TTM
	Q3	YTD		5 Year	10 Year	
S&P 500	0.6%	15.9%	30.0%	16.9%	16.6%	24.1
Russell 3000	-0.1%	15.0%	31.9%	16.9%	16.6%	23.0
Russell 1000 Value	-0.8%	16.1%	35.0%	10.9%	13.5%	17.8
Russell 1000 Growth	1.2%	14.3%	27.3%	22.8%	19.7%	33.2
Russell 1000	0.2%	15.2%	31.0%	17.1%	16.8%	23.5
Russell 2000	-4.4%	12.4%	47.7%	13.5%	14.6%	15.9
Russell 2500	-2.7%	13.8%	45.0%	14.3%	15.3%	17.6
International Equity	2021		1 Year	Annualized		P/E Ratio TTM
	Q3	YTD		5 Year	10 Year	
MSCI ACWI Ex US	-2.9%	6.3%	24.4%	9.4%	8.0%	14.8
MSCI EAFE	-0.4%	8.8%	26.3%	9.3%	8.6%	15.4
Emerging Markets	-8.0%	-1.0%	18.6%	9.6%	6.5%	13.6
Fixed Income	2021		1 Year	Annualized		Yield
	Q3	YTD		5 Year	10 Year	
Barclays Aggregate	0.1%	-1.6%	-0.9%	2.9%	3.0%	1.6%
Barclays Universal	0.1%	-1.1%	0.2%	3.3%	3.5%	1.9%
Other	2021		1 Year	Annualized		Value
	Q3	YTD		5 Year	10 Year	
US Dollar	1.9%	4.8%	0.4%	-0.3%	1.8%	\$94.23
WTI	-0.2%	57.6%	102.5%	9.0%	-3.3%	\$75.03
Gold	-1.7%	-9.5%	-7.6%	6.0%	0.6%	\$1,757

- September pumped the breaks on many major market indices, yet the S&P 500 was still positive for the quarter.
- Value gave up a bit in Q3, but still outperforms Growth year-to-date and over the last 12 months.
- SMID cap lagged Large Cap for the quarter and for the year, however, has still outperformed over the last 12 months.
- International equities have been slower to rebound out of the recovery and Emerging Markets were heavily pressured by Chinese regulatory actions.
 - A strong dollar and rising US interest rates added to these factors.
- Oil and especially natural gas, rallied as supplies remain low for LNG and rising costs of coal have increased demand for the cleaner fuel.

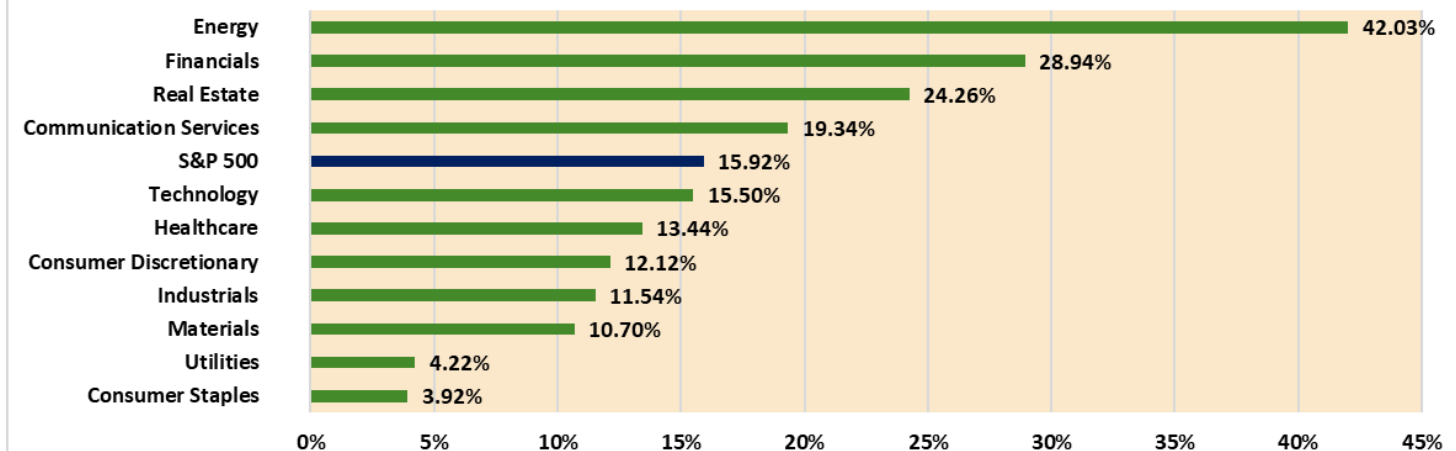
Source: Koyfin, Morningstar, Callan

SECTOR PERFORMANCE

Q3 2021 Sector Performance



YTD Sector Performance



- There was a strong deviation between winners and losers for the quarter with companies less sensitive to higher rates leading the way up.
- Year-to-date, energy, financials and real estate have dominated market returns.

Source: Morningstar and Yahoo! Finance

► VALUATION AND DISPERSION

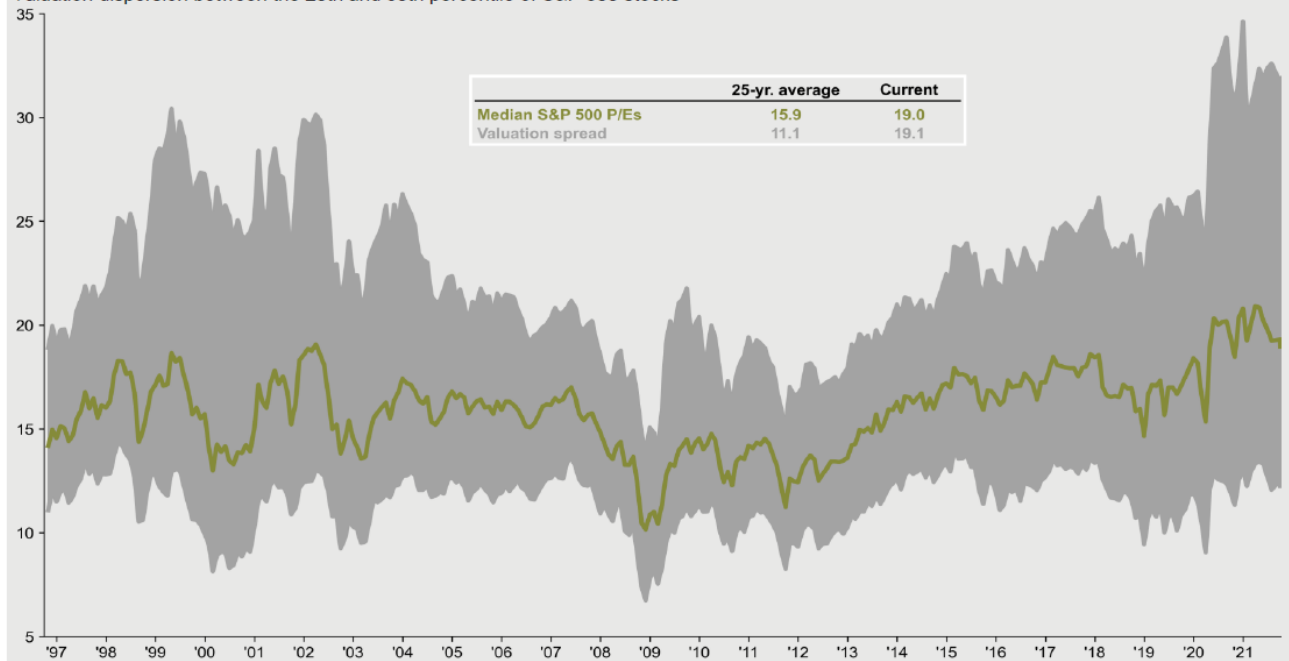
P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months



- Despite the elevated returns and inflated multiples in US Equities, there are still sectors that should make money.
- The S&P 500 is dominated by the technology sector, which currently comprises roughly 27% of the index.
- Cyclical and industrials look more attractive at current valuations, as well as sectors less affected by corporate taxes, such as energy, real estate, and utilities.
- Active management should outperform with dispersion of valuations this wide.

S&P 500 valuation dispersion

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks

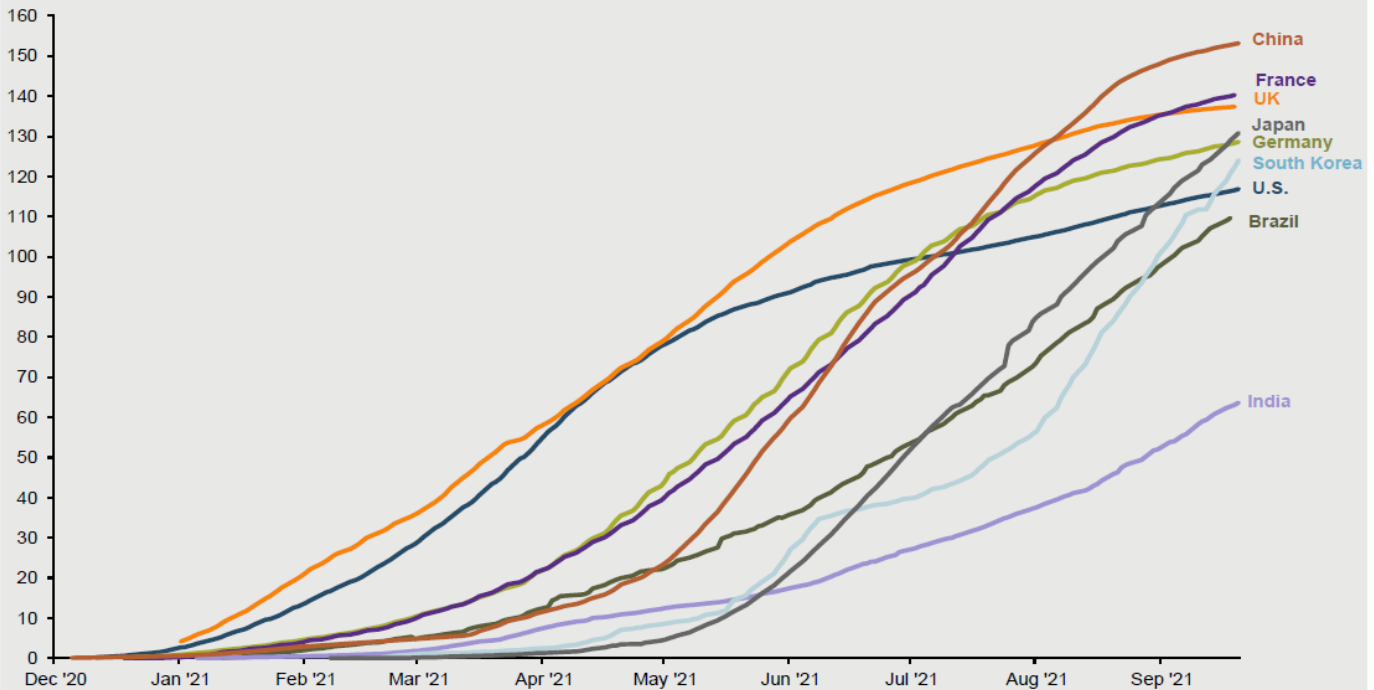


Source: JP Morgan

VACCINES AND GDP

COVID-19 vaccine rollout

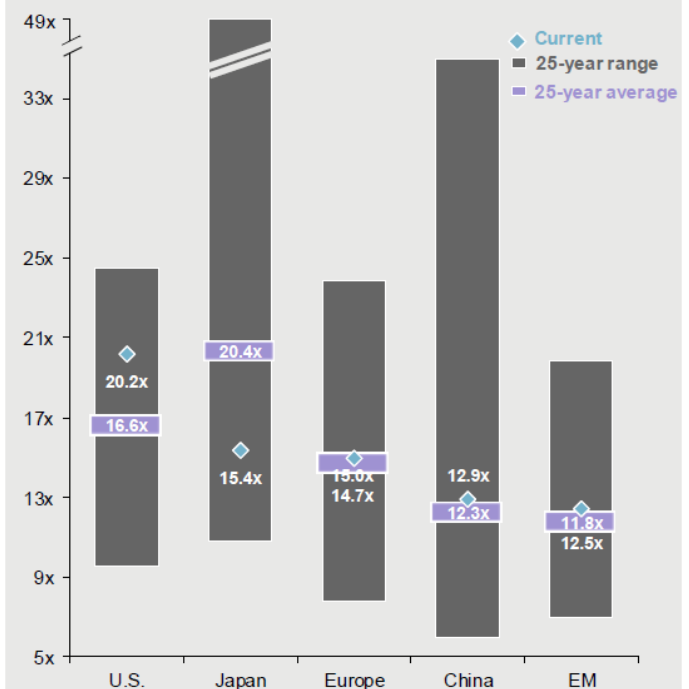
Total vaccine doses administered per hundred people



- The US vaccine rate is much lower than most developed countries.
- China, which has the highest rate and has been the most aggressive in attacking the virus, may have damaged their economy more in the process through a series of coordinated lock downs.
- Given overall rates and rising herd immunity, we expect to see more of a global recovery in the 4th quarter.
- We also expect the dollar to weaken going forward, which should provide a tail wind to international equities.

Global valuations

Current and 25-year next 12 months price-to-earnings ratio

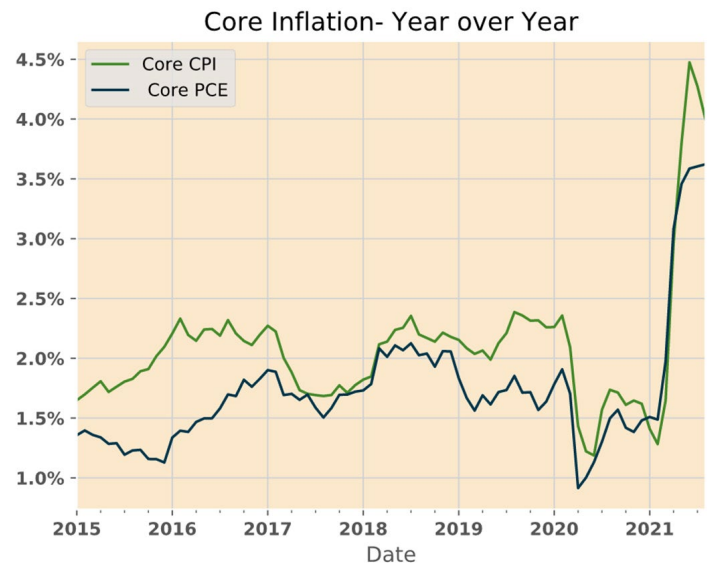
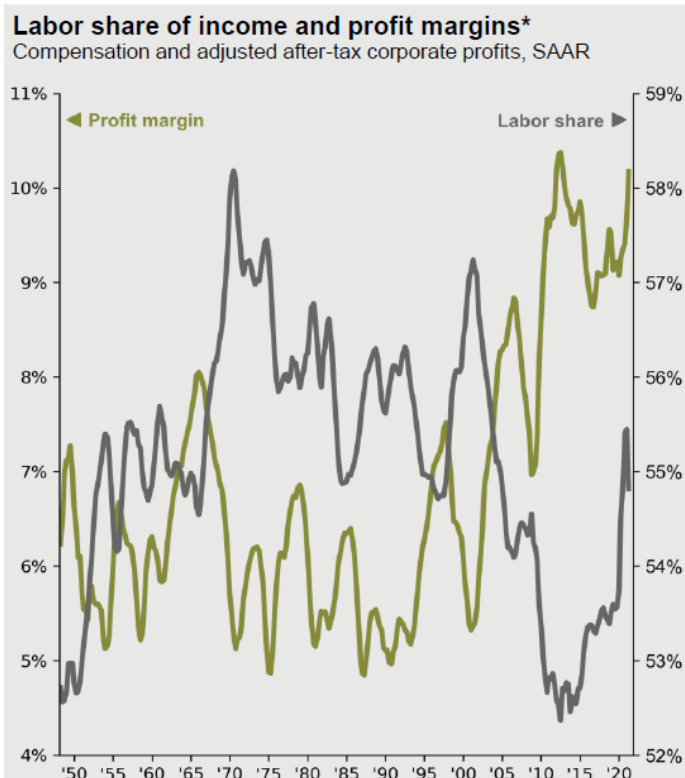


Source: JP Morgan

EARNINGS & PROFIT MARGINS

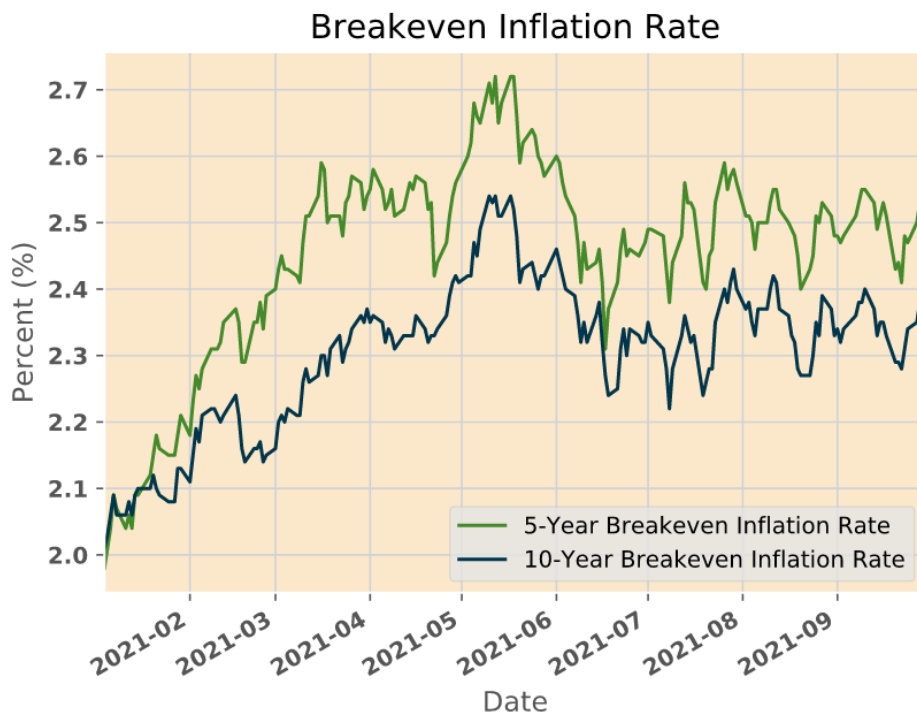
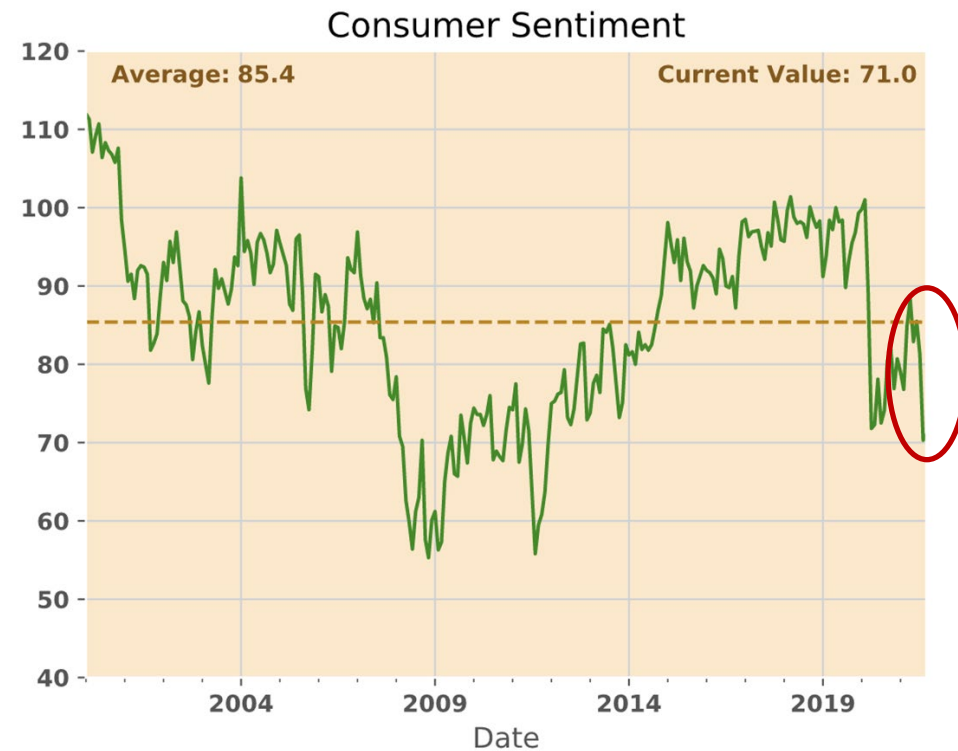


- S&P 500 profit margins are at all time highs.
- With rising wages and a potential increase in corporate taxes, can the whole pie continue to get bigger? Or will earnings be permanently squeezed?
- Will producers be able to pass costs along to the consumer or absorb “transitory” supply chain price increases?
- While CPI may have peaked in May, this was calculated from very low levels.



Source: JP Morgan, Federal Reserve Bank of St. Louis

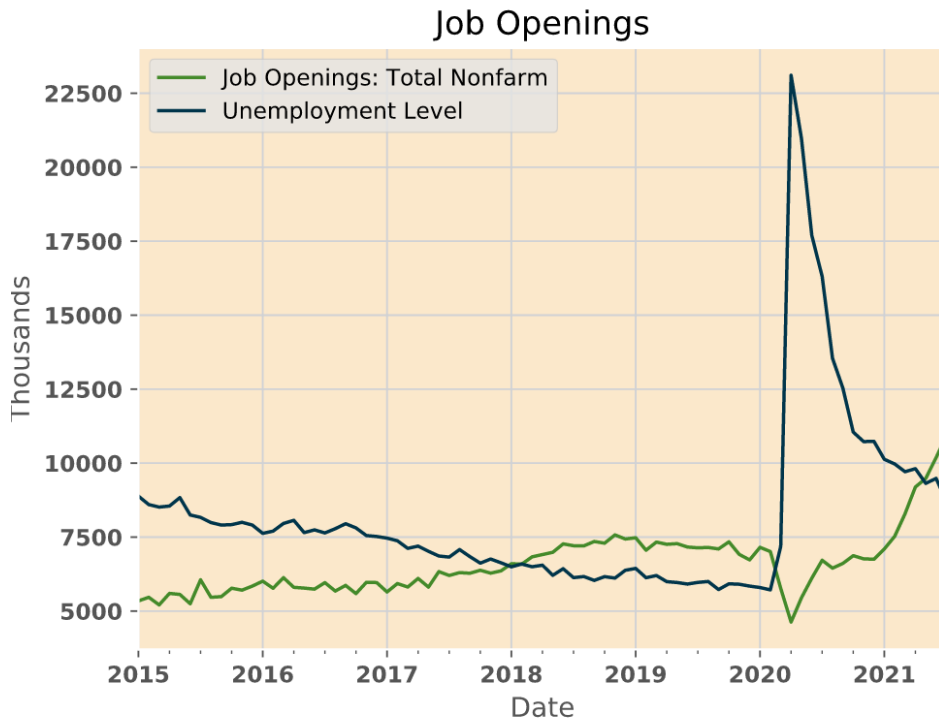
INFLATION FEARS



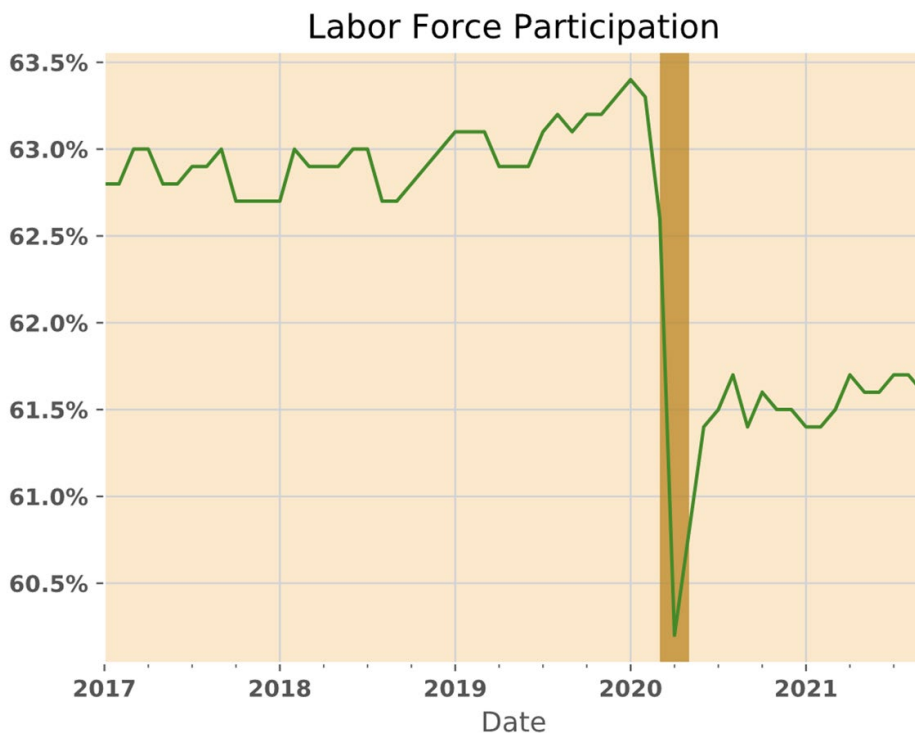
- Consumer sentiment appears to be waning alongside rising inflation expectations, as the 5-Year TIPS breakeven rate has risen from 2 to 2.5%.

Source: Federal Reserve Bank of St. Louis

WORKERS AND WAGES

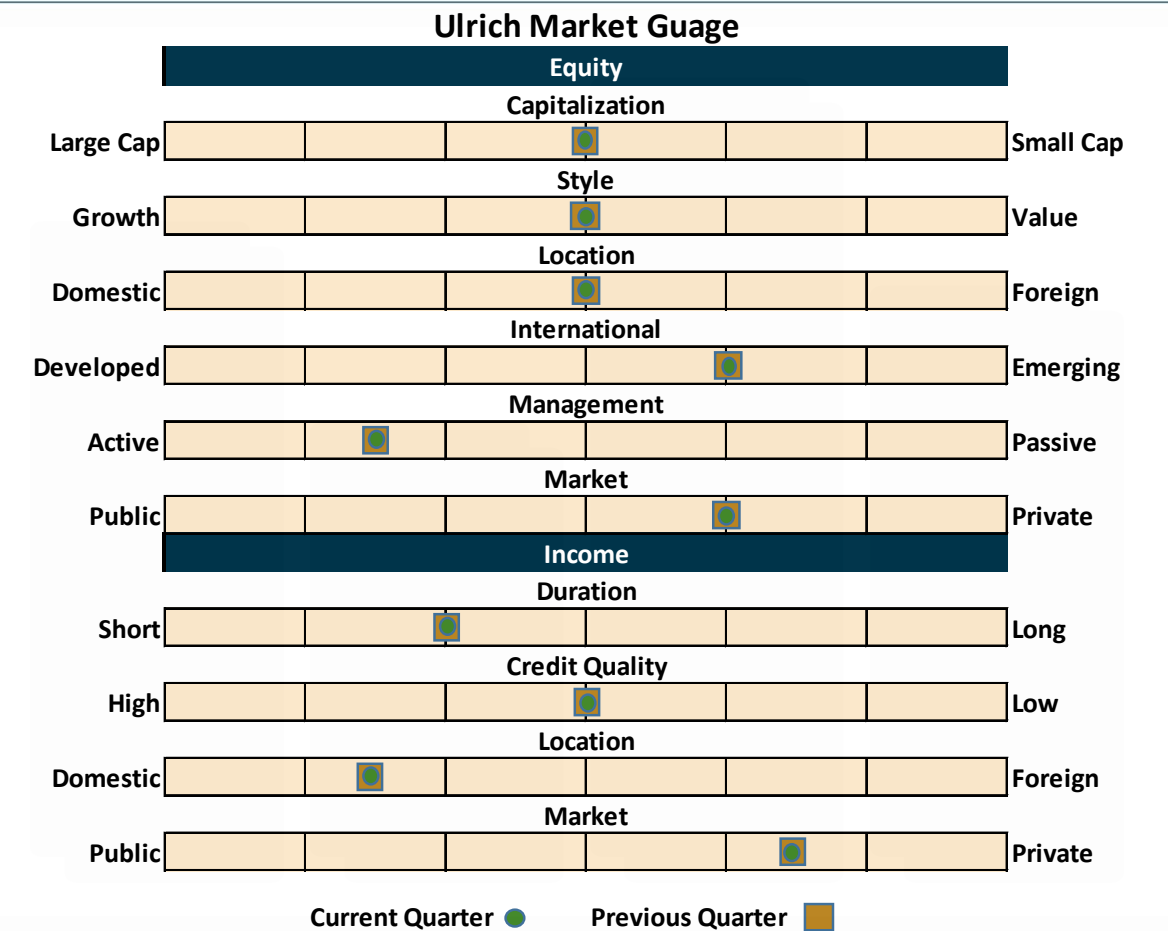


- There continue to be more job openings than unemployed people.
- However, labor participation still remains quite low.
- As the economy recovers, we would expect people to return to the job market, which could push unemployment numbers up and reduce wage pressures.
- Alternatively, some workers who resorted to early retirement and/or full-time childcare may never return to the job market.



Source: Federal Reserve Bank of St. Louis

SUMMARY AND OUTLOOK



- Despite the run up in markets, we still prefer equities to bonds given ultra-low interest rates, however, at this time we do feel private equity markets may afford a more attractive risk-adjusted return and are exploring efficient ways for our client to gain access to this asset class.
 - We have reduced our overweight to domestic equities, as we believe a wider global recovery should begin to favor international stocks and the recent run-up in the US dollar could reverse due to our rising debt.
 - Longer-term, emerging markets look more attractive compared to developed countries based on growth expectations and exposure to rising middle classes. However, near term risks from Chinese regulatory scrutiny and rising commodity costs could provide head winds.
 - We have tilted market cap downward, which has also benefitted portfolios.
 - We have remained tactically tilted towards biotech, technology and innovation and have added exposure to infrastructure, which should benefit from increased spending.
- We continue to diversify our income producing assets to provide a more attractive risk/return profile, including real estate, infrastructure, transportation and direct lending.