MARCUM WEALTH

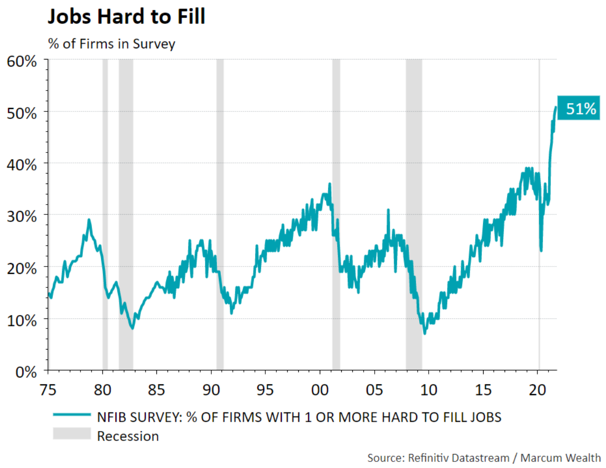
Strategy Newsletter – 4th Quarter 2021

- Growth continues while bottlenecks in supply are pushing up prices.
- Equities were mixed last quarter with small caps looking less expensive again.
- The Fed may be taking its foot off the gas soon.
- Home prices continue climbing while surveys are down from peak levels.

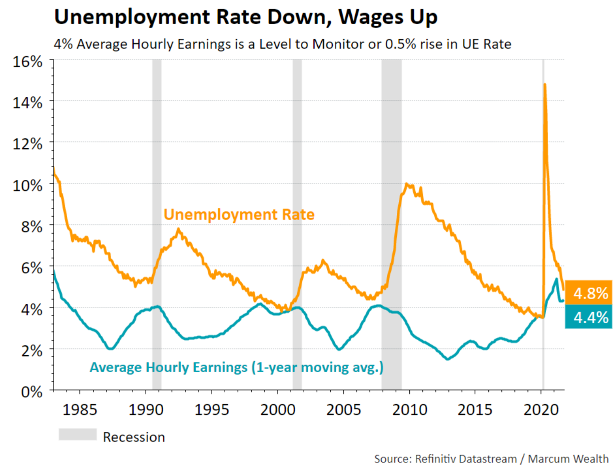
Economy

The economic recovery continues with strong growth across sectors. Even hospitality and leisure, one of the hardest-hit sectors during the pandemic, is seeing positive gains in a variety of metrics.

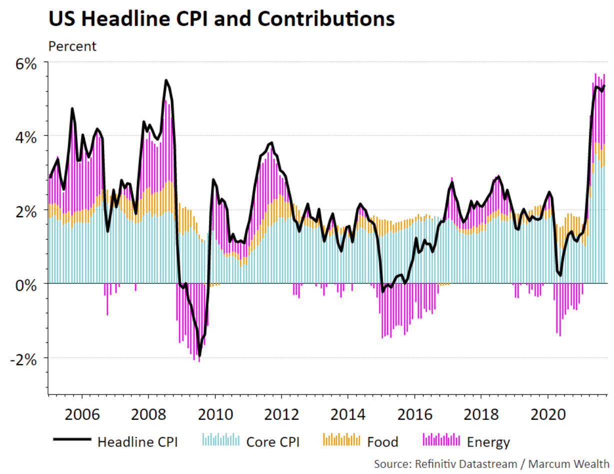
Supply chain issues — whether it's goods, materials, or finding the right employees — are currently putting a lid on economic growth. In the National Federation of Independent Business's latest survey, more than half of employers reported that jobs are difficult to fill. In comparison, following the 2009 recession, only 12% said jobs were hard to fill.



Following the 2009 recession, it took eight years to recover from 10% down to 4.8%. Following the 2020 recession, the unemployment rate fell from 15% to 4.8%. Wages are growing rapidly compared to the past. The year-over-year change in the one-year moving average just came in at up 4.4%.



Inflation remains higher than in the past. Energy prices (magenta) have both detracted from and contributed to the headline CPI in the last 15 years. Policymakers are concerned about core categories that are spiking higher (teal). Many categories will come down over the next year, like used car prices, though others (like housing) will keep the CPI high.

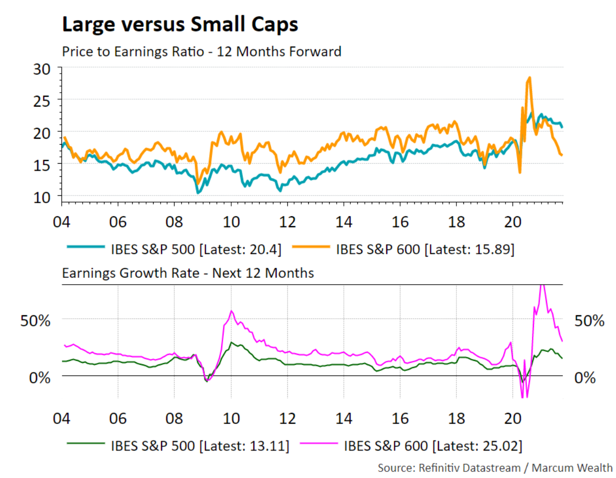


Equity

After rising the first two months of the quarter, September lived up to the hype as a seasonally weak month. Broad market indices peaked with dispersion among style and market capitalizations.

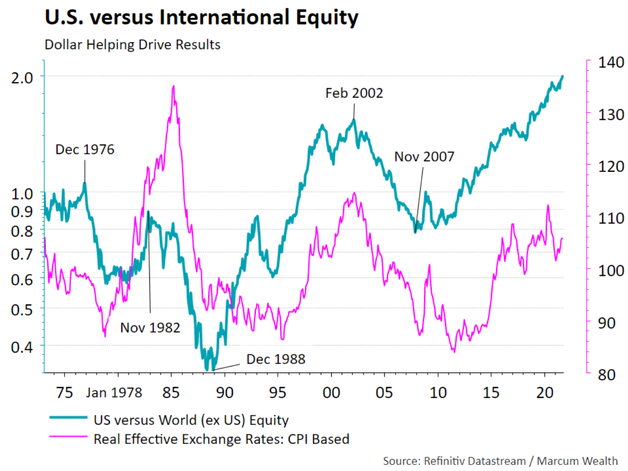
US Equity	3Q 2021
Large Cap Stock	
S&P 500	0.6%
Small & Mid Cap Stock	
S&P 400 Mid Cap	-1.8%
S&P 600 Small Cap	-2.8%
All Cap Style Indices	
S&P 1500 Value	-1.0%
S&P 1500 Growth	1.6%
International Equity	**3Q 2021**
MSCI EAFE	-0.4%
MSCI EAFE Value	-0.8%
MSCI EAFE Growth	0.1%
MSCI Europe	-1.5%
MSCI Japan	4.7%
MSCI Emerging Markets	-8.0%

Large-cap equities hit new high prices during September. Conversely, small caps peaked in February and largely traded sideways. This has allowed the price-to-earnings ratio to fall, despite the strong expectation of growth over the next 12 months.

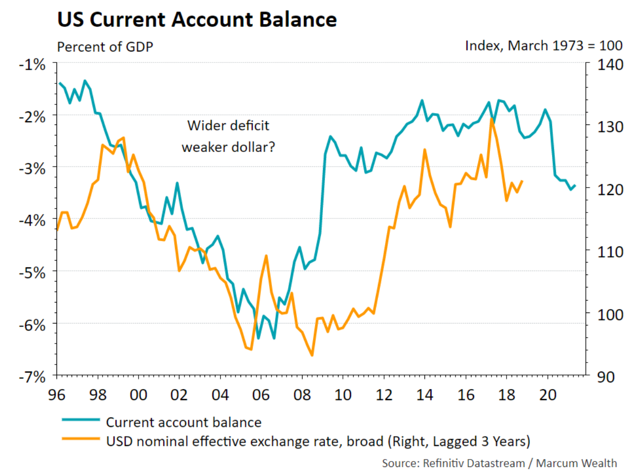


Since 2004, small caps traded at a price-to-earnings premium to large caps. Today, there is a discount. And over the next 12 months, analysts expect earnings for small-cap companies to grow by 25% versus 13% for large caps.

International equities lagged the performance of U.S. equities over the past decade. Part of this is the strong dollar. When the dollar is rising (magenta line), the U.S. tends to outperform (teal line) and vice versa.



With all the stimulus flowing through the system, a weaker dollar is a possibility. In addition, a widening current account deficit has often hurt the U.S. dollar. This could be a tailwind for international equities.



Equities remain at the strategic target weight within the Marcum Wealth Asset Allocation Frameworks.

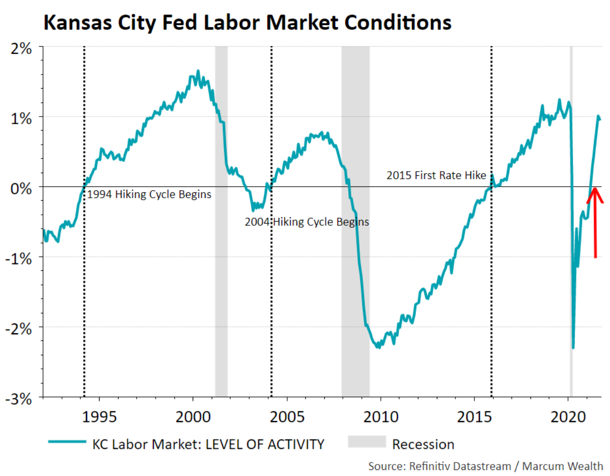
Fixed Income

Returns within fixed income were mixed. High-quality treasuries and investment grade were flat in price. High-yield and TIPS were up, while global bonds fell.

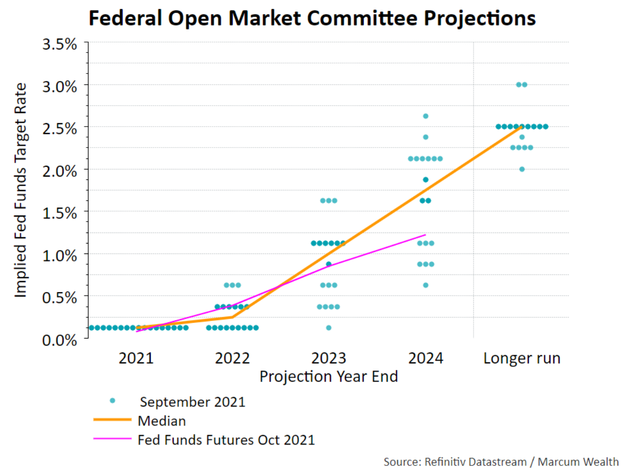
Fixed Income	3Q 2021
Barclays U.S. Aggregate Bond	0.1%
Barclays Corporate Inv. Grade	0.0%
Barclays High Yield Bond	1.0%
Barclays Global ex. U.S. Treas.	-2.0%
Barclays Municipal Bond	-0.3%
Barclays TIPS	2.4%

A year ago, the Fed led a monetary policy framework review. Following the review, the Fed announced a new inflation targeting goal that would average inflation over time, to make up for the inflation during recessions (like in 2020).

If the policy was not changed, then the Fed may have raised interest rates already. The tight labor market, as discussed previously, means that all eyes on the Fed. As demonstrated below, when the level of activity for labor conditions crossed above zero in the past, rate hikes occurred (1994, 2004, and 2015).

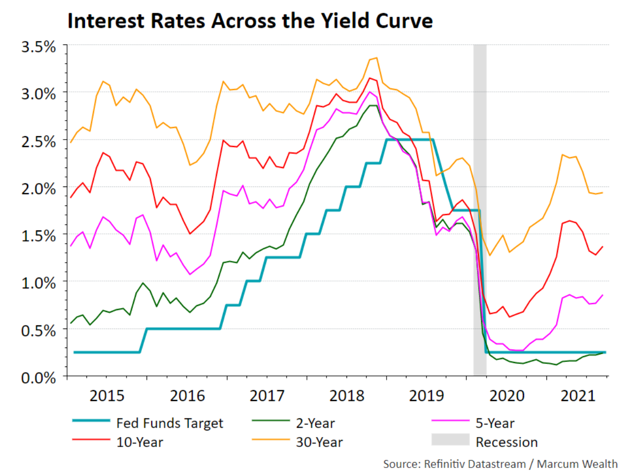


This time around, the Fed is hinting that its quantitative easing program will begin to end. In addition, the forecast for the Fed funds interest rate (also known as the dot plot), shows a slightly faster rate of increase. The market, as measured by the futures market (magenta line), shows a similar path of interest rates for 2022 and 2023, though not quite as high in 2024.



Fixed income investors want to know the path of interest rates so they can position portfolios. Of course, the path can change as new data emerges that changes the market and the Fed's outlook.

In the last hiking cycle (from 2015 to 2018), the two-year and five-year maturities of the yield curve increased the most. The 30-year yield only rose slightly during this time.



The Marcum Wealth Asset Allocation Frameworks maintain the target exposure to fixed income. Assets are diversified across a range of high-quality, securitized, and corporate bonds to provide portfolios with income and risk diversification.

Real Estate

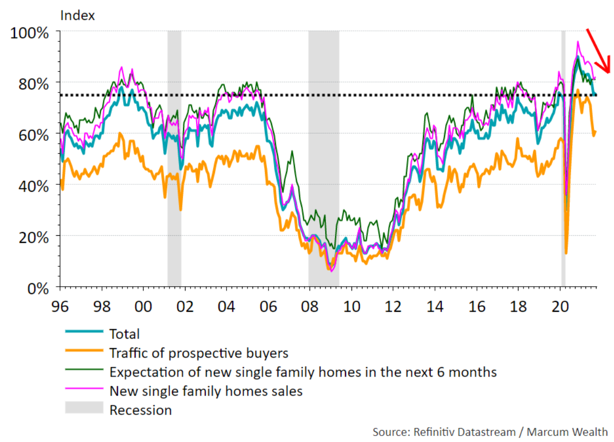
REITs, the top-performing sector last quarter, came back to earth.

Real Estate	3Q 2021
Wilshire U.S. REIT	1.6%
Wilshire Int'l REIT	-3.1%

The relentless rise in home prices continues to be a topic of conversation. Low inventory and supply constraints for new homes pushed annual price increases to over 20% in many markets.

The tide may be turning at the margin. The latest surveys from the National Association of Home Builders are down from the peak in early 2021, though at higher levels than most periods of the last 25 years.

US NAHB Housing Market Index

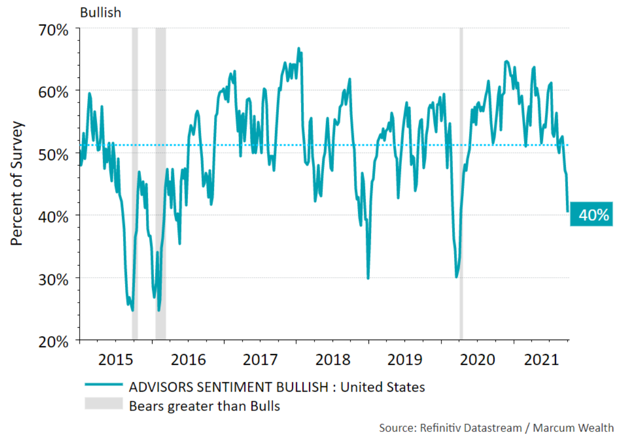


The Marcum Wealth Asset Allocation Frameworks continue to maintain equal weight exposure to REITs.

Summary

Equity prices fell 6% from peak to trough last month, a modest price correction compared to history. Surveys showed investors were concerned about the market. The percent of advisors bullish on the market fell 19% over the quarter, landing at 40% overall. This placed it in the 11th percentile of bullish advisors since 2011— in other words, during the past 11 years there were more bulls 89% of the time. While not an all-clear signal, it could be a contrarian signal for investors.

Investors Intelligence Survey - Advisor Sentiment



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.