MORAN
WEALTH MANAGEMENT

OCTOBER 2021

MORAN MONTHLY DIGEST

Insights From Our Founder

We hope you are doing well. Thank you in advance for taking the time to read our updates on the market and happenings around the office. Season is going to be here before we know it, and we are excited to welcome our snowbirds back to the sunshine state. If you do not find yourself in SWFL anytime soon, please remember that we can always schedule a Zoom or conference call at your convenience.

September historically is the worst month for the stock market. Dating back to 1928 since the Great Depression, the average September return for the S&P 500 has been a loss of 0.99%. This September has followed the same trajectory with the market falling 4.8%. To be fair, there were several key developments that made for a bumpy ride. From the looming debt ceiling, the financial turmoil of Chinese real estate giant Evergrande, and the global energy crunch, the market had plenty to be concerned about. To learn more, I encourage you to read our Economic Commentary which takes a deep dive into each of these themes. We expect the debt ceiling to be resolved by mid-October, but anticipate some volatility in the market until then. Despite these immediate challenges, we remain optimistic in the medium-term and recommend remaining invested as a long-term investor.

Lastly, I would be remiss to not address our reasoning for canceling the Welcome Back Receptions this year. With the current rise in COVID cases due to the Delta Variant, and social distancing a challenge during events in which guests are mingling, we made the difficult decision to cancel once again. We are hopeful that we will be able to host receptions in our offices next season. That said, we are confident that we can provide safe social distancing during our seminars and client luncheons. Please see page 7 or visit our website to see a schedule of our upcoming events. In lieu of our receptions, we are again offering our clients the option to elect a gift basket or, if wine and popcorn aren't appealing, Sandi and I will donate the equivalent value to a local charity. Please be on the lookout for more information in your mail soon.

As always, please contact our office if you have any questions or if we may be of help in any way. It is our privilege to be of service to you and your family, and we appreciate the trust you have placed in us.

Cheers,
Tom

Thomas M. Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager

WHAT'S INSIDE

MONTHLY MARKET COMMENTARY

Considering the recent pullback in the stock market, this September certainly lived up to its historical reputation as the worst-returning month on average. Indeed, given the litany of shocks and headwinds involved, an unabated rally would have raised more than a few eyebrows. Reading the headlines, it seemed as if each passing week brought forth a new crisis. There are, in fact, significant challenges confronting capital markets, particularly in certain sectors and regions. However, equally significant are the favorable fundamentals, continued economic recovery and strong growth forecasts—even after their downward revision from earlier in the year. Like two opposing weather fronts, the clash between these forces can easily produce stormy weather for the markets in the near-term. We'll explore three significant developments of the past month—the impending Evergrande collapse, the global power crunch and the U.S. debt ceiling standoff—and their future capital market implications. Additionally, we'll explain why we believe the best course of action for investors in volatile times is to stay the course, looking through market squalls to the clearer skies we believe are ahead.

To understand the Evergrande debt crisis, one must understand the nature of real estate development in China and its importance to the Chinese economy—the industry makes up close to 30% of China's GDP. Developers borrow heavily to purchase land from local and regional governments—an important revenue stream for them—and embark on enormous construction projects. The result is tremendous economic growth, yes, but also overbuilding, overleveraged developers, and skyrocketing housing prices. Furthermore, a great deal of individual savings in China is invested in real estate. Sound somewhat familiar?

Fear not; there are a multitude of differences between now and the crash of 2008 that make such an outcome incredibly unlikely. Chinese policy makers are aware of the risks and have actually been trying to rein in this excessive borrowing for some time. Their most forceful effort to do so came last year with the introduction of the "three red lines" policy to which Evergrande and other heavily indebted developers largely owe their current predicament. The challenge for the Chinese government is to provide sufficient support to the real estate market, financially solid developers and individual homeowners without reigniting the speculation and debt-fueled development it was initially trying to curb; easier said than done. A policy error here could prove damaging, and the eventual outcome could have long-term implications about the future growth and competitiveness of the Chinese economy.

Alas, Evergrande is not the only crisis China is confronting. As a matter of fact, both China and Europe find themselves entangled in the global energy crunch that continues to escalate. At its core, this situation is a fuel shortfall—demand for power exceeds the supply of fuels with which to generate it. The economic rebound from the pandemic has boosted demand for electricity from both factories and consumers while energy producers, during the months of cheap oil and natural gas prices, conserved capital by shuttering unprofitable production facilities.

MONTHLY MARKET COMMENTARY

Additionally, environmental regulations and import restrictions have led to surging prices for coal, oil and natural gas. Factories in both regions have experienced power cuts as utilities face rapidly rising costs to generate power. Unfortunately, the situation has a significant chance of worsening as we head into winter when the need for consumer heating rises. The Energy sector is an obvious beneficiary of this crunch as can be seen from it being the only sector in the S&P 500 to have a positive return in September. On the other hand, this turn of events is unfortunate for the energy-hungry Materials and Utilities sectors.

Turning our attention to the U.S., the political brawl over the debt ceiling is the issue most immediately relevant. In our previous commentary, we opined that higher taxes posed a greater risk to the US equity markets than the debt ceiling. Although the risk from higher taxes is still present and worth following, it has decreased in magnitude and become a somewhat more distant risk largely due to disputes among various factions of the Democratic Party in Congress. In contrast, the risks stemming from the looming debt ceiling modification have materially increased. Historically, Congress has approached the brink of default, only to reach a bipartisan agreement to either raise or suspend the debt ceiling at the eleventh hour. The worst-case scenario is that the U.S. government defaults or delays payment on some of its financial obligations, producing a financial catastrophe. As a result, both parties have a strong incentive to avoid default but stand to gain politically by delaying until the last possible moment. We still expect Congress to avoid default—either through the budget reconciliation process or a bipartisan agreement—given the severe consequences. The key risk is the possibility of a political miscalculation that inadvertently leads to default. As the point of no return approaches, that risk increases. We expect market volatility until Congress resolves the standoff around the debt ceiling as Wall Street pays increasingly close attention to news coming out of Washington.

With volatility coming from so many potential sources, what should investors do? Liquidate their investments and wait for the market to calm down? We believe the answer is definitively no. Missing even a handful of the best days in the market can significantly reduce one's annual return and the best and worst days are frequently clustered together. It is notoriously difficult to time the market. In trying to escape the worst days of the market, you may find that you also miss the best. Performing a tactical shift in your asset allocation to reduce your equity exposure can be valuable so long as it is done prudently and as part of a well-reasoned plan. We prefer to focus on the currently strong long-term fundamentals, knowing that volatile times eventually pass. Though we spent much time in this commentary speaking to various sources of potential risks in the current macroeconomic and political environment, there is ample fuel for optimism in the current market environment.

MONTHLY MARKET COMMENTARY

The economic recovery from the pandemic remains strong. GDP growth projections remain well above the historical average, despite recent downwards revisions, and consumer balance sheets and spending levels remain resilient. It is possible that the risks outlined above fail to materialize or are less severe than expected. From our current perspective, we believe that opportunities in the equity markets will persist at least through the end of 2022.

Thomas Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager

Patrick Moran
Investment Analyst

WHAT'S NEW AT MORAN WEALTH MANAGEMENT

ARE YOUR ACCOUNTS UPDATED WITH YOUR TRUSTED CONTACTS?

A ***Trusted Contact*** is an individual you have identified in the event of a situation regarding any or all of your accounts, that we can communicate with to ensure we are taking actions in accordance with your wishes.

Our *Trusted Contact Authorization form* is intended to provide us with an added means of awareness and an ability to communicate account activity to those you designate. The form does not grant your designated Trusted Contact any authority to transact or provide instruction regarding asset movement.

With this critical contact information, we will have an added means to combat the rapidly growing societal issue of financial exploitation and abuse; and you will have the added comfort of knowing someone you trust will be contacted in the event that we have concerns about your physical health or detect suspicious activity on your account(s).

FEATURED STRATEGY

Click link below for Factsheet or visit our website under "Strategies"

Macroeconomic (ECON):

Seeks to provide higher risk-adjusted returns than the S&P 500 Index by reducing exposure to market downturns.

- Factsheet
- Risk Statistic

RECENT MARKET RESEARCH

Click link above or visit our website under "Resources"

Click here to complete the *Trusted Contact Authorization form* and contact us to update your client profile.

GET TO KNOW: OUR MANAGEMENT AND ADMINISTRATION TEAM

Pictured from L to R: Marissa Plummer, Marketing Associate; Dawn Barakett, Executive Administrative Assistant; Peggy Sundook, Training and Development Officer, Julie Cusson, Managing Director and Chief Operating Officer; and Kim Koert Training and Operations Officer

It is with mixed emotions that we announce Peggy Sundook, our much loved Training and Development Officer, is retiring from Moran Wealth Management after 16 years of service. Her last day will be in the first week of December. One of Peggy's many career highlights includes being recognized as a Wells Fargo Advisors Premier Client Associate in 2011, a distinction held by a select group of Registered Client Associates within Wells Fargo Advisors nominated by their management for their consistent display of professionalism, integrity and core leadership values. Peggy is a champion for her clients and a selfless benefactor to numerous charities. She will be deeply missed by her clients and coworkers alike. Please join us in sending her off with nothing but warm wishes and hopes for a long, happy retirement.

MORAN WEALTH MANAGEMENT
CENTER FOR FINANCIAL EDUCATION

UPCOMING EVENTS AND SEMINARS

Please click on the below links to register for seminars

Our practice is encouraging the public to follow all state, local, federal and CDC ordinances and restrictions in relation to Covid-19.

Steering your Nest Egg during these volatile times to accommodate the potholes of taxes, inflation, Covid, and more

hosted by Charles E. Chesebrough, Jr. CFA®
Senior Vice President
October 20, 10am ET

Integrating Philanthropy with Wealth Management

hosted by Michael Mongin
Senior Vice President
October 21, 2pm ET

Should You Declare Florida Domicile?

hosted by Thomas M. Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager
October 27, 10am ET | October 28, 2pm ET

CONTACT INFORMATION

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