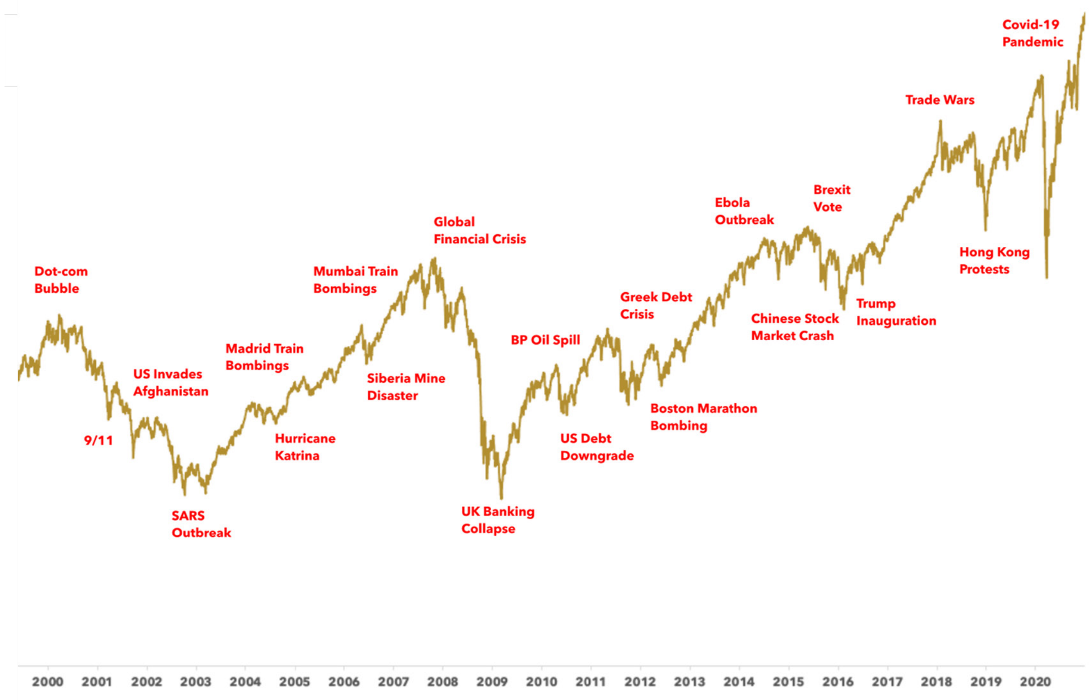
Third Quarter 2021 Review

GLOBAL EQUITY AND INTERNATIONAL STRATEGIES

Despite a bout of volatility that emerged during the month of September, global equity markets finished the third quarter with positive gains. The S&P 500 Total Return Index was up 0.6% while the MCSI World Total Return Index was up 0.1%. Although third quarter gains were modest, global equities have generated attractive returns through the first nine months of the year. On a year-to-date basis to September 30th, the S&P 500 Total Return Index is up 16.8% while the MCSI World Total Return Index is up 13.6%. The advance in global equity markets has been driven by the ongoing global economic recovery and further progress with COVID-19 vaccinations, which has allowed many countries to re-open their economies.

The volatility that surfaced in September has continued into October. The increased volatility can be attributed to various factors that are creating doubts in the minds of investors. Some of the concerns include peak economic growth, peak earnings growth, inflation, the U.S. debt ceiling, Fed tapering, the Delta COVID variant, vaccine efficacy, China's economic slowdown, Evergrande, and supply chain disruptions around the world. These concerns have created a Wall of Worry so to speak. Periods of elevated volatility are normal and have typically been a good time to buy stocks given that most of the concerns prove to be temporary and are eventually resolved. As seen in the chart below, there have been several periods of elevated volatility throughout history including the bursting of the Dot-com Bubble, the Global Financial Crisis, and the COVID-19 Pandemic. In each instance, global stock markets eventually resumed their upward trend.



Outlook for Q4 2021 and 2022:

As we think about the remainder of 2021 and as we look ahead to 2022, we remain cautiously optimistic about the prospects for global equities.

The underlying rationale for our positive stance is related to our expectation of an ongoing global economic recovery. We believe there are encouraging developments on the horizon for both the supply side and the demand side of the global economy. On the supply side, there is a significant amount of slack remaining and a portion of this can be attributed to supply chain disruptions around the world. These issues have led to production shortfalls across several different industries. As the global economy returns to normal, these logistical problems will eventually get resolved. On the demand side of the equation, we believe there is still a tremendous amount of pent-up demand from consumers. There are several pockets of the global economy that remain depressed due to the impact of the pandemic including Consumer Services. The Travel and Hospitality industries are good examples of these. As vaccinations continue around the world and as the global economy re-opens, consumers will return to restaurants, sporting events, concerts, hotels, and airports.

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In terms of the key risks, we put inflation near the top of the list. The key question is whether it will be long lasting or whether it will be more transitory in nature. If inflation remains stubbornly above market expectations and persists, it could have negative implications for the stock market. While inflation is likely to remain elevated in the near term, we believe that inflationary pressures will eventually subside. From our vantage point, the recent uptick in inflation is largely driven by transitory disruptions that occurred across global supply chains. These supply chain issues are an outcome of factors that can be attributed to the COVID-19 pandemic. In the early stages of the pandemic there was a series of shutdowns that surfaced across a wide range of industries. These shutdowns were deemed necessary due to falling demand and the implementation of public safety measures to contain the spread of the COVID-19 virus. In hindsight, the magnitude of the shutdowns proved to be far too pessimistic and significantly underestimated the speed at which vaccines would get approved. As we all know, the demand side of the economy rebounded much faster than expected. However, the supply side of the economy was not able to ramp up production fast enough to satisfy the sudden rebound in demand, which helps to explain why we are now experiencing a spike in inflation. In the short-term, inflation could remain elevated as these supply chain issues are resolved. However as we indicated, we believe many of the logistical supply chain issues will get resolved over the next 6-12 months. Furthermore, we believe there are several secular trends that exist in the world today that will keep inflation under control. Technology is at the forefront of these trends and we believe it will act as a counter-inflationary force for the global economy. Automation and robotics on the factory floor have improved productivity and lowered the cost of manufacturing. The rise of the Internet and e-commerce has led to greater price transparency. This has resulted in greater price competition and has squeezed out high-cost producers across several global industries. We believe these are long lasting trends that will continue to act as a counter-inflationary force for the global economy.

Outside of inflation there are other risks on the horizon including a potential slowdown in China's economy and geopolitical risks in many countries around the world. While we believe these risks are manageable, they are out of our control. Given this dynamic, we prefer to focus our efforts on factors that we can control. Portfolio construction is something that we can control and it plays a very important role when it comes to managing our portfolios. The companies that we own across our portfolios are profitable across the business cycle and they generate strong free cash flow even during economic downturns. Given their leading market positions, our companies have strong pricing power which will help them if inflation remains persistent. We are confident that our companies can handle the setbacks that will eventually materialize down the road. In summary, we expect an ongoing recovery for the global economy and believe that our global and international mandates are well positioned to benefit from this recovery.

Phil D'Iorio
Lead Manager,
Cumberland* Global and International Equities
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*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Phil D'Iorio as its lead Portfolio Manager. Phil D'Iorio is a Portfolio Manager at CIC.