November 2021

Against the backdrop of a solid stock market but fragile bond market, Zuma Wealth clients posted strong gains during the first month of the last quarter, led by overweight positioning in large-cap growth stocks and stock sector funds.

Party like it's 1984

Investors digested the start of a solid third quarter earnings season pushing U.S. stock prices up and registering the best month since November 2020. The well broadcast risks to stocks are supply chain bottlenecks, drama inside the Beltway and a tight labor market. We understand those and believe that the market does too. We are in the camp that expects growth to continue and see the U.S. economy expanding by more than 5% for 2021, the highest rate since 1984. This will continue to translate into positive earnings growth for corporations and since stock investors look forward, not backwards, we reiterate a constructive stance on the U.S. stock market.

During October, we initiated positions in sector ETFs, including consumer discretionary, energy and technology stocks and added to large-cap growth stock holdings. The overweight positions led to relative outperformance for Zuma Wealth clients.

Yield curve flattening, spreads going nowhere

The Federal Reserve finally announced its widely anticipated decision to begin "tapering," that is, reduce its massive and unprecedented open-market bond purchases. The move is pushing short-term interest rates up. Longer rates are inching up at a slower pace; skittish investors seem worried that Jay Powell and Friends could tighten too much. The result is the flattest yield curve since March 2020. Looking to the riskiest part of the bond market, high yield bond spreads have bounced around in a narrow range for 6 months yielding very little benefit. In short, a difficult investing environment for bonds has become even more difficult.

Bond investors seek two goals: capital preservation *and* income/return. The bull market in bonds is over: dividend-paying stocks and options-writing are more productive ways to meet the dual goals of bondholders.

We pursue two goals: growing wealth and guarding it. We look at risk and return both strategically and protectively. Strategically, through good offense, by combining different asset classes we create an allocation with great prospects for delivering the growth investors seek while guarding against unnecessary risk. Protectively, through great defense, we incorporate data to flexibly respond to market information and to guard against losses.