MATTHEW B. KENASTON THOMAS BAKER, CFA, J.D.

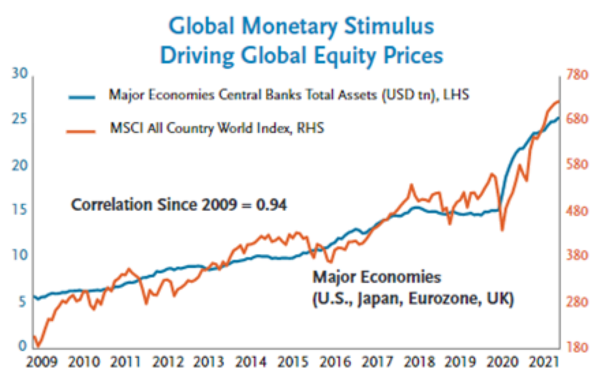
***"As goes COVID, so goes the economy"* – Mary C. Daly, President and CEO Federal Reserve Bank of San Francisco and participant on the Federal Open Market Committee**

The global reopening process slowed during the quarter due to the highly contagious Delta Variant of COVID-19. And markets reflected renewed uncertainty about equity valuations, higher inflation, and uninspiring bond market returns. Meanwhile, components of the $1.9 trillion American Rescue Plan's pandemic-era support ended, and tax and infrastructure bills grabbed headlines.

Our investment process is centered on risk management and our diversified portfolio allocations reflect this. This unrelenting focus helps us to quiet the "now noise" and maintain a long-term outlook. Tad Rivelle, from TCW said it best when he wrote, "investment success is not just about 'today,' but rather predicated on an awareness that the investors zeitgeist can – and will – change. When it does, no warnings are issued" (Mirror, Mirror August 2021).

This quarter, we explore what we perceive as the main driver of equity prices following the Financial Crisis of 2008-09 and how Blue Oak portfolios are positioned for an equity correction or potential inflation spikes.

As evidenced by the chart sourced from Bloomberg, risk assets have demonstrated a high correlation to monetary stimulus by global central banks. Man Institute writes, "it is hard not to conclude that we now live in a world of central-bank administered prices" (July 2021). While we acknowledge that the times have demanded extraordinary accommodations, our concern turns to the ability for economies, and therefore markets, to perform organically as the stimulus recedes.



Source: Bloomberg

The natural consequence of the economy not being able to stand on its own is a stock market correction and, in more extreme circumstances, a bear market.

Our portfolios reflect this concern through the steady allocation to bonds and alternatives which play the threefold role of diversifying our investments, providing current income, and dampening volatility. Although volatility increased in equity markets during the quarter, we do not anticipate a prolonged period of weakness and are not reducing our equity targets at this time.

With respect to inflation pressures, for now the large inflation spikes appear transient in nature and the result of supply-demand imbalances caused by still recovering supply chains and changes in consumer behavior. The weak August Consumer Price Index report supports the view that inflation peaked in the second quarter. Going forward however, we are closely monitoring the potential for inflation to hold more firmly as eviction moratoriums expire and the labor market continues to heal. We introduced a dedicated position in investment real estate to portfolios this quarter – in part to insulate against the potential for more durable inflation and to participate in rising rents as the economy recovers.

We expect the importance of diversification and liquidity will be amplified over the next several quarters. Identifying pockets of investment opportunity, and integrating them into portfolios, as we did this quarter, will contribute meaningfully to overall returns in a more dynamic market environment.

We thank you for your support and trust in us.