LINCOLN CAPITAL INVESTMENT UPDATE – AUGUST 24, 2021

Those of us in developed economies are well advanced in coping with COVID-19 compared to our status one year ago. Economic growth and vaccinations are well underway and, with cash levels on consumer and business balance sheets at record levels, the economy has ample liquidity to fuel sustainable growth. With the Fed continuing to suppress interest rates, which reduces the cost of financing government deficits, asset prices may well continue to rise in the next twelve to eighteen months with periodic declines.

While Fed actions are important to our outlook and strategy, other factors come into play including elevated prices and valuations of stocks and real estate, and the disturbing developments in Afghanistan. For the latter, the ugly U.S. exodus from this war-torn country has caused global consternation, which may have negative repercussions domestically and abroad. Will the perception of our troop withdrawal result in the loss of political capital for the administration and, perhaps, impair pending stimulus and budget proposals? With hundreds of U.S. citizens unable to leave the country, is it possible, even if unlikely, that we see a 2021 Taliban version of the 1979 Iran Hostage situation? (see the sidebar for a capsule refresher of this stressful time in U.S. history 40 years ago).

With massive amounts of monetary and government stimulus injected into the economy, and with more underway, risk assets continue to have the wind at their back. While inflation is evident in many areas, the Fed considers current price pressures as transitory, which is logical as most price rises are due to supply-chain disruption and product shortages. These imbalances will work into balance over time.

Asset price inflation is evident in the valuations of stocks and real estate, and in speculative areas more prone to price manipulation such as crypto currencies and stocks promoted on social media websites. These ingredients typically result in a "healthy correction" (it is healthy if it cools speculation with just a modest repricing of more solid assets). Though these signs of excess give us pause, they are unlikely to evolve into a bear market and recession in the remainder of 2021 and into 2022.

For now, odds favor stock prices rising in sync with growing revenues and earnings. If price rises become extreme with unfavorable risk/reward probabilities, then we will trim risk assets further. In the interim, we are not making any investment policy changes.

Iran Hostage – Due to the presence of vast oil deposits in Iran, the United States and the United Kingdom had significant investments in that country dating back for decades to the early 1900s. When the investments made by these companies were expropriated by the Iranian government (1953), the United States and the United Kingdom orchestrated the overthrow of Prime Minister Mohammad Mosaddegh in a coup that led to the rise of Shah Mohammad Reza Pahlavi, who sided with the U.S. and the U.K. The Shah ruled the country as a monarchy that lasted 26 years with the U.S. being an ally.

In 1979, after two prior attempts to capture and use U.S. citizens as bargaining power, Ayatollah Khomeini and other theocratic Islamist's blessed the takeover of the U.S. Embassy which resulted in 52 U.S. citizens and diplomats being held hostage for 444 days. These were dark days for President Carter and were a significant factor in Ronald Reagan being elected president in 1980.