Quarterly NEWSLETTER

FALL 2021

Commonwealth Bank & Trust Company

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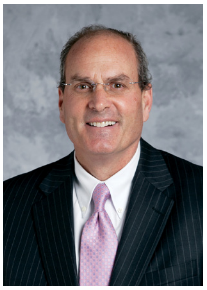

Proprietary Strategies Endure

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As we enthusiastically anticipate CBT's merger with Stock Yards Bank in early December, our team is delighted to report on the stellar performance results (see proprietary performance chart) we have achieved for clients over the past year and indeed over the past 3, 5 and 10 year periods. We are humbled and very proud that these proprietary strategies have proven themselves to generate benchmark-beating "alpha" over virtually all relevant time periods. Furthermore, we are excited that these strategies will continue to be sponsored post-merger, thus affording clients the opportunity to preserve and enhance their wealth via our unique combination of specialized investment offerings. We have included an insert on one such specialized offering, the Liquid/Structured Alpha strategy, which had particularly strong performance over the past quarter and year-to-date period. We believe the Alternatives strategies will continue to play an important role in structuring portfolios as we face the prospect of frothy equity markets and a rising interest rate environment.

This newsletter marks the end of a 20 year tenure reporting on Commonwealth's proprietary investment strategies and Outlook on the economy and markets. It has been an honor and privilege for our entire team to work on behalf of our valued clients and we certainly look forward to continuing such efforts with Stock Yards Bank & Trust Company. Best wishes to all for continued investment successes and mutual prosperity!

Please visit our Investment Commentary page for our complete Market Outlook, which includes a section on the Biden administration's proposed infrastructure plan and other expected tax plans at https://cbandt.com/wealth-trust/resources/.

Q3 2021
S&P 500 Sector Performance

	Q3	1 Year
Healthcare	1.43%	22.56%
Consumer Discretionary	0.01%	19.15%
Consumer Staples	-0.31%	11.34%
Financials	2.74%	58.97%
Communication Services	1.60%	38.39%
Information Technology	1.34%	28.90%
Materials	-3.51%	26.48%
Energy	-1.72%	82.83%
Industrials	-4.22%	28.95%
Utilities	1.78%	11.06%
Real Estate	0.88%	30.52%

Proprietary Performance Results

Equities	3rd Qtr	YTD	1 year	3 year	5 year	10 year
Focused Equity Fund[1]	1.44%	24.51%	41.38%	21.10%	19.45%	16.75%
Science/Technology Fund[3]	1.19%	16.67%	30.18%	24.58%	26.24%	20.81%
S&P 500	0.58%	15.92%	30.31%	15.99%	16.89%	16.62%
Balanced	**3rd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	-0.21%	12.29%	24.25%	10.88%	10.31%	9.63%
60% Russell 3000 Value, 40% Barclays Aggregate Index	-0.52%	9.13%	20.59%	8.67%	8.07%	9.47%
Alternatives	**3rd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	7.91%	18.91%	22.56%	7.66%	5.95%	n/a
Structured Alpha LP	10.86%	26.40%	29.34%	8.44%	n/a	n/a
SG CTA Index	0.57%	7.13%	14.36%	4.63%	1.74%	n/a
Tax-Free	**3rd Qtr**	**YTD**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	-0.04%	1.06%	2.16%	5.30%	3.43%	3.44%
Barclays 1-12 yr. Muni Index	-0.01%	0.35%	1.33%	3.93%	2.50%	2.72%
Aquila Churchill Tax-Free Fund of KY	-0.30%	0.70%	1.75%	3.88%	2.42%	2.92%
Dupree KY Tax-Free Income	-0.29%	1.03%	2.47%	4.57%	2.80%	3.34%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Inception date 3/31/2006. [2]Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [3] Inception date 12/31/2008. [4] Inception date 12/31/2008.

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Fixed Income

The Federal Reserve kept the Fed Funds rate unchanged at 0-0.25% during the quarter. In September, the Fed's FOMC meeting signaled another "hawkish" tilt, similar to June. Although, the committee did acknowledge the uptick in COVID-19 cases due to the Delta variant, saying "The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery." Market participants have been looking for clues as to the Fed's tapering of asset purchases in Treasuries and Mortgage-backed securities. This FOMC statement was relatively clear on this point citing, "If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." The new language suggests the Fed expects to announce taper at one of the remaining two meetings this year.

The Fed's interest-rate projections for the Funds rate are also creeping higher. For instance, the median projection for calendar 2023 rose to 1.0%, up from 0.625%. The financial press likes to focus on the median, but the wide disparity of views in 2023 and now 2024 demonstrates a lack of conviction. For example, not one "hawk" is predicting a 2% Fed Funds by the end of 2023, so it is clear no member is worried about inflation getting away from them. The new predictions for 2024 are worth mentioning with a median interest rate of 1.75%, and a significant number of members forecasting rates just below their longer-term projections, mostly in the range of 2.25% to the 2.5% median rate.

FOMC members revised down their 2021 GDP growth projections to 5.9% from 7.0%, similar to what we have seen from analysts. While their 2022 GDP median rose to 3.8% from 3.3%. As we suspected, the 2021 inflation forecast jumped significantly, as the median rose from 3.4% to 4.2% for the "headline" number and from 3.0% to 3.7% for the "core" rate or ex-Food & Energy. 2022 forecasts were only slightly higher, perhaps an indication of their "transitory" inflation messaging.

Fixed income markets have embraced the "transitory" inflation argument, after heightened concerns in the first quarter. The 10-year Treasury's closing high for yield was actually on March 31, when it hit 1.74% vs. 0.91% to start the year. During the third quarter, the 10-year Treasury was range bound and mostly traded with a yield of 1.2% to 1.4%, averaging 1.32% based on closing quotes. The Treasury market did have a delayed reaction to the more "hawkish" Fed, with its yield jumping above 1.5% in late September. Although the move in rates could also reflect the rapidly approaching debt limit, being hashed out in Washington D.C.

Treasuries lost -1.08% in September for a total return of only +0.09% for the third quarter. In contrast, Treasuries lost -4.25% in the first quarter, or -2.58% during the first half. Investment-grade corporate returns were literally flat (0%) during the third quarter, and non-investment grade or "high-yield" corporates returned +0.89%, or mostly its higher income component. Investment-grade spreads remained around 0.8%, with high-yield spreads increasing slightly to 2.9% from 2.7%. Both of these spread levels remain near record lows.

Like Treasuries, tax-free municipal bonds also struggled in September returning -0.72%, pushing exempts into negative territory for the third quarter at -0.27%. Although tax-exempts maintain a nice advantage to Treasuries this year at +0.8% vs. -2.5% through September. We believe this is due to a combination of the improved fundamentals, higher income tax proposals, and the overall supply/demand imbalance. Municipalities also continue to benefit from the reopening, as well as the direct aid in the most recent stimulus plan: including $350 billion in payments to state, local and territorial governments, and an additional $170 billion for education ($130 billion to support K-12 and $40 billion for colleges/universities). The possibility of higher tax rates on corporations and higher-incomes remain uncertain as the Infrastructure bills remain in limbo. Although we suspect higher tax rates will eventually prevail.

From a broad-based perspective, the Bloomberg Barclays Aggregate index returned +0.05% during the third quarter and -1.55% so far this year. The good news is that the overall yield on the index increased to 1.56%, up from 1.12% to start the year. Historically, the "starting-point" yield has been a strong predictor of future/multi-year annual returns. Although the trend became disjointed in recent years, after the continued decline and record low rates during the height of the pandemic.

Entering this year, we knew that the returns of the last few years were "not repeatable", unless a significant amount of U.S. debt begins to trade at "negative yields", a concept we first discussed in 2016. Not totally out of the question, but a low probability indeed. We still believe that investment-grade fixed income will generate annualized returns of 1%-3% over the next 3-5 years, with a bias towards lower returns if rates approach more historical levels.

Focused Equity

For the third quarter and the twelve months ending September 30, the strategy returned 1.44% and 41.38%, respectively, versus a 0.58% and 30.01% gain for the S&P 500 Equity Index. Since inception, the strategy has outperformed the S&P 500's annual return of 15.36% by 0.78% with an annualized gain of 16.14%. The fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.85, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 2.83 since inception (12/31/2008).

Leaders: Inflation, the COVID-19 delta variant and the Fed's signaling on September 22 that tapering could soon be on the table weighed on investor sentiment and US equities sharply pulled back from record highs late in the quarter, alongside a rebound in Treasury yields where the 10-year yield reached its highest level since early June. Utilities (+8.54%), Communication Services (+4.28%), Financials (+2.24%) and Consumer Staples (+1.95%) were the top performing sectors within Focused Equity over the last three months, with Costco (COST, +13.77%), American Water Works (AWK, +10.07%), Alphabet Inc. (GOOGL, +9.49%) and Nextera Energy (NEE, +7.63%) recording some of the strongest returns in the third quarter. The Financials (+57.72%) sector led the strategy over the last twelve months with large contributions from Discover Financial Services (DFS, +116.58%), JPMorgan Chase (JPM, +74.80%) and Berkshire Hathaway (BRK.B, +28.18%) as interest rates rose and the yield curve steepened. However, the post-lockdown recovery was powerful as seen in double-digit GDP rebounds from 2020 lows, allowing consumer-related stocks including Cheesecake Factory (CAKE, +118.44%), Live Nation Entertainment (LYV, +69.49%), Dine Brands (DIN, +62.87%) and Marriott International (MAR, +59.96%) to rank among the top-performing holdings in the strategy over the last twelve months as the economy re-opened. Within the ECA portion of the portfolio, the primary driver of return was exposure to cyclical sectors, namely energy (particularly Canadian oil & gas producers) and financials (particularly regional banks).

Costco Wholesale Corp. (COST)
7/1/2021 – 9/30/2021

Laggards: A slowing pace of the ongoing economic recovery, the lack of passage of the $1 trillion bipartisan infrastructure bill and widespread supply chain constraints pressured Industrials (-4.35%), Energy (-3.09%) and Materials sectors, which were the worst performing sectors for Focused Equity in the third quarter. As the market melted-up to close three of the last four quarters at new highs, defensive companies such as Lockheed Martin (LMT,-7.41%), Wal Mart (WMT, +1.15%), Waste Management (WM, +3.09%) and Mondelez International (MDLZ, +3.65%) posted the largest detraction to the strategy's relative performance over the last twelve months. Within our ECA managers, the biggest performance drag was exposure to selected small cap industrial companies, particularly Luna Innovations (LUNA, -12.28%).

Strategic Income Builder

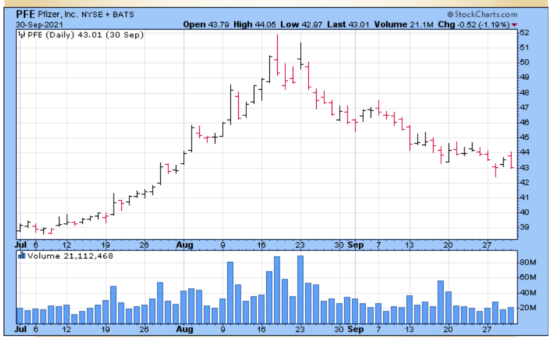
For the quarter, the strategy (SIB) returned -0.2% vs. -0.5% for its benchmark (60%/40% Russell 3000 Value / Barclay's US Aggregate). Twelve month results show sustained outperformance since the pandemic's onset, at +24.3% for SIB versus +20.6% for its benchmark.

On a risk-adjusted basis, the strategy has generated an annualized alpha of +1.61% over the past five years relative to the benchmark. Since inception (1/1/09), the SIB strategy has returned an annualized +9.9%, outpacing its benchmark return of +9.2% by about 0.7% annually, while yield from the strategy has consistently exceeded that of its benchmark. Given strong price performance over the last 12 months for the Russell 3000 Value index, its indicated yield has fallen to about 2.0% from 2.3% at the end of 2020, and 2.5% at the end of 2019.

Interest rates declined early in the third quarter before rebounding sharply as the Federal Reserve hinted at a reduction, or "tapering", of its quantitative easing programs. We utilized this spike in rates to rebalance the portfolio into fixed income. SIB ended September at approximately 65%/30%/5% stocks/bonds/alternatives. The dividend yield for the strategy ended the quarter at 2.5%, or roughly 0.5% higher than the Russell 3000 Value and 1.1% more than the S&P 500. Moreover, these yields carry a growth advantage vs. fixed income yields.

For the quarter, SIB's equities returned -0.3%, outperforming the Russell 3000 Value return of -0.6%. Year to date, SIB's equities have outperformed +18.0% vs. +16.6% for the Value index, with a modest overweight to equities contributing to overall outperformance for the strategy.

Pfizer, Inc. (PFE)
7/1/2021 – 9/30/2021



Top individual contributors in the quarter were Microsoft Corp (MSFT +4.7%), Pfizer Inc. (PFE +10.8%), and Apple Inc. (AAPL +3.5%). During 3Q we initiated a position in Essential Utilities Inc (WTRG), a Pennsylvania-based water and natural gas utility operating in 10 US states. WTRG has raised its dividend an average of about 7% per year over the past decade. We closed out positions in Bristol Myers Squibb Co. (BMY) and Iron Mountain Inc. (IRM) in the quarter, seeking income stocks with better growth prospects.

SIB's fixed income returns were -0.1% in 3Q vs. +0.1% for the Bloomberg Barclays Aggregate Bond Index. Despite a less attractive environment for fixed income over the last 12 months as US interest rates have increased, our fixed income holdings have outperformed over that time frame, returning +2.0% vs. -0.9% for the Aggregate index.

Our alternative returns were a drag on performance for the quarter but contributed positively over the past year, returning -0.8% and +12.0% for the quarter and 12-month period.

Science & Technology Strategy

The Science & Technology growth fund (SciTech) returned +1.2% in the third quarter, while SciTech's benchmark S&P 500 Growth index rallied 1.9%. Even so, SciTech remains ahead of its benchmark on a YTD basis (+16.7% vs +16.4%). Underperformance for the Technology sector relative to the Growth Index was a headwind for the fund in 3Q, which was offset in large part by strong stock picking in the Communications and Healthcare sector that make up about a third of the SciTech portfolio. A late-September spike in interest rates as the Fed contemplates a taper program colored market performance broadly during the quarter, with higher quality growth-oriented companies stumbling late in the quarter. Nevertheless, SciTech roughly doubled the S&P 500 total return in 3Q, which gained only 0.6%. Over the last year, SciTech returned +30.2%, outpacing the S&P 500 (+30.0%) and the S&P 500 Growth Index (28.9%), despite the former benefiting from a strong Value rotation at the onset of vaccine approvals last November. Over the last ten years the fund has gained an annualized 20.8% versus 19.0% for the S&P Growth and just 16.6% for the broader S&P 500. SciTech has exhibited better risk adjusted returns than its S&P 500 Growth benchmark over the last five years, with a Sharpe Ratio (measure of return versus risk) of 1.41 versus 1.24, and annualized alpha of 3.69%.

Netflix, Inc. (NFLX)
7/1/2021 – 9/30/2021

Leaders: The Communication Services sector was a bright spot for SciTech during the third quarter, as our allocation outperformed the sector by 90 basis points (+2.5% vs +1.6%) at a weight of 20.4% of the portfolio at quarter-end. Alphabet (Google, GOOG/GOOGL) and Netflix (NFLX) positons gained about 9% and 16%, respectively. SciTech's top technology holding last quarter was cyber security firm Palo Alto Networks (PANW, +29.1%). The PANW position is up nearly 100% for the fund over the last 12 months as ransomware attacks and other cyber threats boosted corporate spending on firewalls and other security software. Medical products and devices continued to outperform pharma and services. Leading positions ranged from under-the-radar conglomerate Danaher (DHR, +13.5%), to Align Technologies (ALGN, +8.9%), the maker of Invisalign braces, and Intuitive Surgical (+8.1%), a leader in robots for surgery assistance.

Laggards: Two of the three largest losses within the fund in Q3 were attributable to leading Tech+ companies in China where fears over shifting Chinese regulations flared up during the quarter. Alibaba Group (BABA) and Tencent Holdings (TCEHY) positions slid 34.5% and 24.5%, respectively in Q3.

Small Cap Composite

The Small Cap Value Composite returned 14.38% for Q3 versus 22.92% for the Russell 2000 Value index. For the last 12 months, the composite return is 43.08% vs benchmark return of 63.92%.

Murphy USA Inc. (MUSA)
7/1/2021 – 9/30/2021

One top contributing holding in the Composite during Q3 was Murphy USA Inc. (MUSA: +26%, +82 bps), one of the largest convenience store chains in the United States. MUSA achieved impressive Q2 results in the face of challenging market conditions and a very difficult year-over-year comparison. Adjusted EBITDA fell just -2.5% year over year and was +164% versus Q2 2019 as recovering fuel volumes, improving merchandise contribution, and the QuickChek acquisition more than offset staffing and logistics headwinds and supply chain fuel shortages caused by a cyberattack on the Colonial Pipeline. We maintained the position as it still trades at a discount to our assessed value. Another top contributor during the quarter was BJ's Wholesale Club Holdings Inc. (BJ: +15%, +52 bps), a warehouse club retailer with more than 200 stores primarily located in the eastern United States. BJ's Q2 2021 results featured strong top-line performance against tough year-over-year comps, which was supported by continued above-average membership trends. We trimmed the position during the quarter. Another positive contributor was Atkore Inc. (ATKR: +22%, +42 bps), a manufacturer of branded products that protect and frame electrical circuitry. ATKR continued its recent string of blowout quarters with net sales +122% year over year in Q3 2021. Strong demand for PVC and metal conduit, coupled with ATKR's ability to manage supply and inflation constraints led to favorable pricing (+89%) and volume (+24%) growth. We trimmed the position during the quarter.

One of the largest negative contributing holding in Q3 was Avaya Holdings Corp. (AVYA: -26%, -87 bps), a provider of communications networks for companies in on-premise, cloud, and hybrid formats. Shares lagged despite reporting fiscal Q3 2021 EBITDA that exceeded consensus plus management slightly increased full-year EBITDA guidance. We maintained the position during the quarter. Another bottom contributor during the quarter was GoHealth Inc. (Cl A) (GOCO: -55%, -68 bps), a distribution platform primarily selling Medicare Advantage plans to senior citizens. Shares dropped sharply as Q2 EBITDA declined -47% year over year and full-year EBITDA guidance was cut -14% largely due to rising agent costs. We trimmed the position in accordance with our sell discipline. Another poor performer was NCR Corp. (NCR: -15%, -53 bps), a provider of transaction software, services, and hardware largely to banks, retailers, restaurants, and the hospitality industry. The stock fell despite 2021 EBITDA and free cash flow guidance above RRAM expectations. We maintained the position.

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities rose to $1.08 billion from $941 million in the previous quarter. Competitively awarded deals were $627 million with negotiated deals of $454 million. Cash management issuance by Louisville/Jefferson Metro Sewer inflated the competitive amount by a $226 million, with a single one-year maturity yielding only 0.1%. Deal size was reasonably strong, averaging $23 million with 47 new issues in total. Non-BQ issuance was the majority coming in at $642 million or 59% with bank-qualified (BQ) issuance of only $59 million or 5%. The remaining $341 million (35%) were “federally” taxable municipal issues. Nationally, taxable muni issuance remains a significant portion of supply as borrowers “advance” refund existing debt at a lower cost. Visible KY supply is very reasonable with $329 million on the current calendar and issuers should continue to benefit from extremely low interest rates.

Issuers of note included the KY Turnpike Authority that issued a total of $157 million in various refunding bonds. This included $86 million in taxable issuance to advance refund other outstanding debt and $58 million in a “Forward Delivery” tax-exempt bond. The forward delivery date in April 2022 is a technique to “advance” refund with a tax-exempt offering, as it technically becomes a “current” refunding at settlement. The remaining $13 million in tax-exempt issuance here was current refunding. Both tax-exempts priced with historically dated 5% coupons and huge premiums, so we found no value in either one.

In its ratings report of KY Turnpike, Moody’s rationale cited “The Aa3 rating considers the credit quality of the Commonwealth of Kentucky, which has $8.8 billion in net tax-supported debt. Repayment of the bonds is subject to legislative appropriation from the road fund and biennial renewal of leases with the Commonwealth’s Transportation Cabinet, whose lease payments are derived solely from road fund revenues. Road fund revenues are partially supported by a statutory minimum price for motor fuel taxes and provide healthy coverage of debt service despite some volatility. The transportation cabinet has a history of full and timely lease rental payments, successful management of the road fund, and legislative support for the highway program.”

During the quarter, the S&P Municipal Bond Kentucky Total Return Index returned -0.05% vs. -0.27% for the Bloomberg Barclays Muni Index. For 2021 through September, the S&P KY bond index returned +1.41 vs. +0.79%. According to S&P, its yield-to-worst (YTW) fell to 1.1%, vs. 1.2% to start the year, and its yield hit a record low of 0.89% on July 27. S&P KY’s yield level is now just below the Bloomberg Barclays Municipal Index, so the state’s historical yield advantage is gone. This suggests the market is comfortable with KY’s credit fundamentals in general.

Like the national market, the S&P KY Municipal Index declined over 10% in March 2020 during the pandemic induced selloff. A peak yield of 3.87% demonstrates the significant buying opportunity last year during the height of the stress.

KyPolicy (Aug. 24 - Jason Bailey, Op-Ed)— Record Surplus Creates Opportunity to Reinvest in Kentucky (excerpt)

Our budget hit bottom, but it does not have to stay there. Kentucky ended the 2021 fiscal year with receipts that were 10.9% higher than the prior year’s revenues, a staggering $1.1 billion above the official forecast — all of which went into the rainy day fund. According to the preliminary estimate adopted last week by the Consensus Forecasting Group, we’re on track for another $1.1 billion surplus in June of 2022. The actual and anticipated surpluses would bring the rainy day fund to an enormous $3 billion, or 24% of the state budget, far surpassing anything we’ve seen.

The overwhelming driver of these positive results is higher sales, income and corporate tax receipts resulting from federal pandemic relief provided through the American Rescue Plan Act (ARPA), CARES Act and other measures. Those monies have increased Kentuckians’ incomes directly, such as through supplemental unemployment benefits and boosted SNAP food assistance, kept businesses afloat, spurred a faster recovery and boosted sales tax revenues as dollars were spent in the economy.

Despite the positive impact of federal COVID relief on state revenues, the General Assembly enacted an austere budget in the 2021 legislative session that again froze base funding for public schools, left out across-the-board raises for state and school employees, and didn’t include funding for badly needed new social workers, textbooks and libraries. Increases were limited to a few areas, including pension costs, full-day kindergarten and a 2% increase in funding for universities and community colleges. But on the whole, it was another austere budget for Kentucky despite the passage at the same time of over $100 million annually in new tax breaks.

Some parts of Kentucky’s budget are helped by the direct influx of resources from ARPA and other federal relief packages, including monies for P-12 education and childcare along with funding for infrastructure and relief efforts. However, that money is time-limited and intended primarily to address the harms of the pandemic. We need reinvestment of state dollars as well.

When legislators begin crafting the new budget this January, they have the opportunity to chart a better course for our state. While a healthy rainy day fund is an important part of a sound state budget, it shouldn’t be overfunded at the expense of the broader economy. Kentucky can and should allocate a substantial portion of these one-time monies as seed dollars for budget reinvestment while still leaving ample resources in the rainy day fund to prepare for the next recession.

Related News –

Frankfort, Ky. (AP- Sept. 28) -- Ford’s selection of Kentucky to build twin battery plants will vault the state into a global leadership role in the electric vehicle market, Gov. Andy Beshear said Tuesday in celebrating the state’s single largest-ever economic development project. A day after the $5.8 billion Glendale project was unveiled, Beshear said the state already is hearing from prospective suppliers that could create more jobs in the state’s burgeoning automotive sector. Beshear joined Ford Executive Chairman Bill Ford and the automaker’s CEO, Jim Farley, to celebrate the mega-project that will create 5,000 jobs. State lawmakers and other state officials gathered for the event in front of the Kentucky Capitol.

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
We thought small and mid-cap stocks would continue to outperform large cap stocks in the next 6 - 12 months as earnings recovered and rates started to rise.	We maintained a slightly overweight allocation to small and mid-cap stocks set in 4Q20.	**Large Cap -4.7% fell more than small -2.4% and mid-cap -4.0%. Small and mid-cap indices outperformed the S&P 500 for the last 12 months rising 57.6% and 43.7% vs. 30.0%, respectively.**	We think small and mid-cap stocks will continue to outperform large cap stocks in the next 6 - 12 months as rates continue to rise and the economy continues to recover.	We are maintaining a slightly overweight allocation to small and mid-cap stocks set in 4Q20.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
We expected the EM index to see softness due to China market regulatory issues and the Delta Variant surge. We expected a period of catch up for developed Int'l, starting later in the year. We expected active managers to add value.	We maintained a slight overweight allocation to international stocks set in 4Q20.	**International equities (-2.9%) and EM (-4.0%) both outperformed U.S. large cap (-4.7%) as higher rates and a sell off in Tech weighed most acutely on the largest US companies. Our developed international factor basket and EM selections outperformed the peer group.**	We believe that Emerging Markets may remain under pressure near-term on lingering lockdowns in Asia and China regulatory issues, but represent value over the next year+. Developed international will contiue to catch-up, but it may be choppy quarter to quarter. We expect active managment to add value.	We are a slight combined overweight allocation to international and EM, even though there may be short run issues with specific EM markets.
FIXED INCOME			FIXED INCOME	
The Fed would keep rates low until 2023. We thought the 10-year treasury would rise, eventually to a level between 1.5% and 2.0%. We expected full year returns between 1% - 2% for core investment grade bonds in 2021.	We further reduced duration in portfolios when the 10-yr treasury dipped below 1.25%, prior to rising above 1.50% to finish the quarter.	**The BBG Aggregate lost -0.9%. Local currency international and emerging market bonds fell -1.78% and -4.1%, respectively. Rates spiked in September on Fed discussion of "taper", our porfolios posted positive returns.**	The Fed will continue to keep rates low until 2023, and the 1 0-yr Treasury will continue to rise and settle into a range between 1.5% and 2.0%. We expect the Fed to communicate plans to begin reducing bond purchases by year-end.	We are maintaining reduced durations within fixed income portfolios. We are selectively harvesting tax losses across international bonds with positive total returns but capital losses as bond prices fall.
We thought munis were about equally attractive as investment grade bonds.	We further reduced tactical overweight allocations to munis started in 2Q20, now that the investments qualify for long-term capital gains.	**Munis fell but slightly outperformed core taxable bonds in the quarter (-0.7% vs. -0.9%).**	We continue to see munis as about as attractive as investment grade bonds, considering the risks.	We are further exiting or reducing overweight positions started in 2Q20 that qualify for long-term capital gains.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We believed volatility would remain elevated as investor concern about the Delta surge, inflation, Fed Policy and Fiscal policy results in greater uncertainty and potential volatility.	We maintained a 10% allocation to alternative strategies.	**Our alternatives funds, designed to mitigate risk and have zero directional market risk, generated returns of 8% to 11% during 3Q21, beating a benchmark 1%.**	We believe volatility will remain elevated as headline concerns over, inflation, Fed Policy and Fiscal policy (including another possible debt celing showdown) acutely shift sentiment.	We are maintaining a 10% allocation to alternative strategies.

For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.

Our wealth advisors can guide you on the track to success.

In Kentucky, Commonwealth Bank & Trust sets the pace.

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