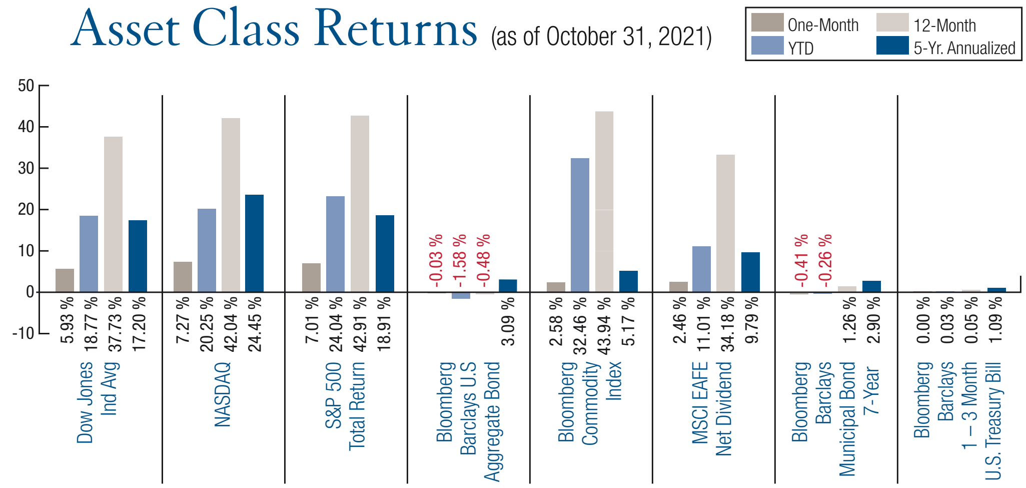
RAYMOND JAMES®

market update

From the Office of Jeff Sgroi, CFP®

"Make yourself do a lot of things that you'll be happy to look back on. And make sure you've got plans for more of those things in the future."
– *Steven Rinella*

Asset Class Returns (as of October 31, 2021)



Material prepared by Raymond James for use by its Financial Advisors

Market & Economic Synopsis

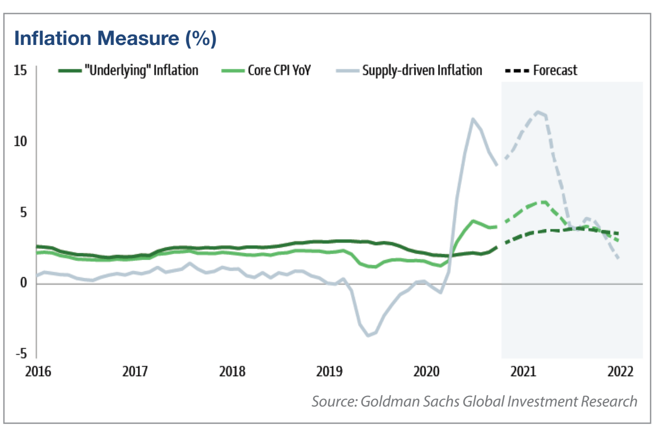
- The U.S. dollar continues to strengthen, keying in on statements from the Federal Reserve highlighting its transitory view of inflation and intention to slow its balance sheet expansion.
- Unprecedented workforce dynamics evolve, as a record 4.4 million Americans quit their jobs in September.
- With President Biden's proposed tax reform agenda still unclear, Democrats debate key components.
- Long-time U.S. bellwether firms General Electric and Johnson & Johnson announce respective breakups.
- Consumer Price Index jumps 6.2% in October, reaching 31-year high.
- After a short-term slip in September, U.S. equity markets touch all-time highs in November, driven by robust 3Q earnings results.
- As the Pfizer COVID vaccine receives approval for use in children ages 5–11, expectations for fully-vaccinated Americans further expand.
- Crude oil and natural gas prices spike since summer as global demand increases and OPEC denies requests for additional supply releases.

Market Update

There are two questions our office is hearing with increased frequency: "When is this market run going to end?" and "Should we expect current inflationary pressures to continue for the long run?"

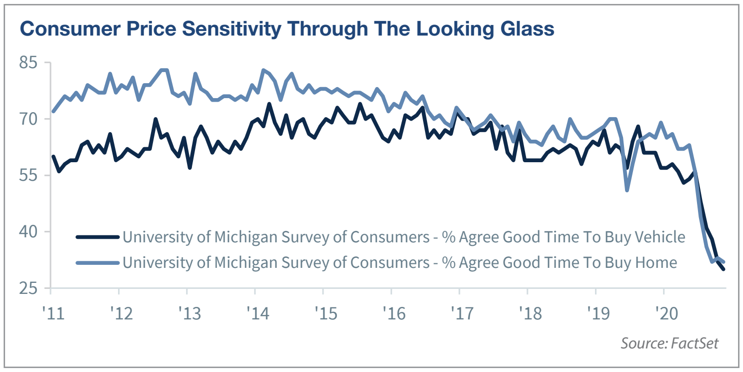
I am going to punt on the first question. With that being said, we are overdue for a short-term pullback. As noted in the May *Market Update*, twenty years of historical data tells us to expect a 9.2% dip, on average in U.S. equity markets, from peak to trough during a calendar year. We have yet to come close to that in 2021. Furthermore, the year-end tends to be a strong stretch for the markets, as the "Santa Claus rally" often rears its head beginning around Thanksgiving. In the intermediate and longer term, we believe the decade-long bull market is still intact. A 10% or 20% pullback may still occur without derailing the upward trend.

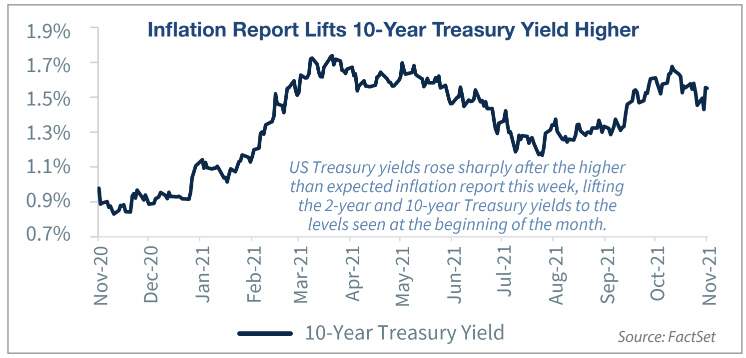
The second question is intriguing in that we have not experienced inflationary pressures, like those we are currently facing, in decades. We are living through a classic textbook case study that many of us have yet to actually experience (or at least remember), until now. Spiking fuel costs, higher grocery bills, and skyrocketing real estate prices are evident to all of us. As such, the conversation within Wall Street has centered on outlooks and prognostications for future inflation trends. To provide context, below is a six-year chart (including projections for next year) that offers interesting inflationary data. If nothing else is evident, the fact that inflation has spiked the past 12 months is clear.



Larry Adam, Raymond James' Chief Investment Officer, recently provided such outlook, which we find to be the most plausible trajectory for inflation. Mr. Adam, in short, believes that high inflation will be a wrinkle in time. He offers five talking points to support his thesis:

1. **Goodnight Goods—** The pace of "goods" spending has increased by $1.7 trillion since the bottom of the 2020 economic decline. It's simply a case of many dollars chasing the same goods, at the same time, fighting a limited supply, which is a classic case of why prices rise. As the economy continues to reopen, however, spending should shift from "goods" to 'services,' thus alleviating price pressure on goods (e.g., cars, furniture, etc.).
2. **The Chronicles of Supply Chain Capacity—** We have all seen the photos of cargo ships at sea off of Long Beach waiting to unload. The story is real. However, as Mr. Adam notes, increases in container volumes processed at U.S. ports, increases in air cargo freight capability, additional warehouse storage, and companies pivoting to address their own bottlenecks should alleviate these issues in due time.
3. **Consumer Price Sensitivity Through the Looking Glass—** We believe that consumers will continue to be cost-conscious shoppers. As the saying goes, the best solution to high prices is high prices. The University of Michigan Consumer Survey found that only ~30% of people think now is a "good time" to purchase a home or car. High prices have a naturally selective way of reducing demand, and therefore reducing prices.

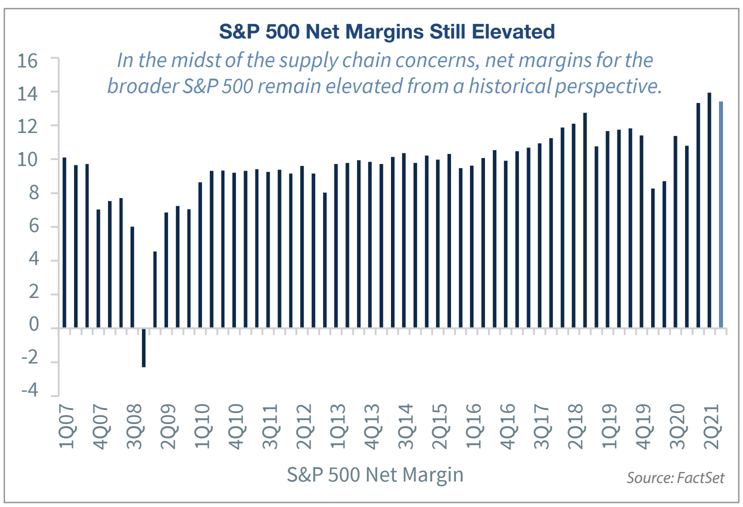




4. **The Globalization Giving Tree—**Globalization is alive and well. Although we may see modification to the just-in-time inventory plan, or reshoring of manufacturing away from Asia back to the United States, cost and efficiency is still the name of the game.

5. **The Technology Engine that Could—**Technological advancements continue to drive down prices. We are all aware of examples—whether it be faster computers, more efficient ways to complete financial transactions, or innovation in travel—all at lower costs. Add to that efficiencies brought on by those now telecommuting, working remotely, and reducing business travel, and price pressures are likely to continue to wane.

Importantly, how does this all affect your investments? Two charts below reflect metrics critical in assessing market movement in both the equities and fixed income.



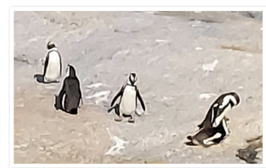
The above chart demonstrates that businesses have been able to adapt, pivot, and arguably thrive coming out of the recent pandemic. Corporate earnings and margins are elevated—translating to positive equity market returns for investors.

Interest rate movement is critical in developing a fixed-income investment strategy. Since mid-summer, interest rates have risen, driven by a number of factors, including inflationary pressures. As inflation subsides, we may likely see interest rates follow suit.

In short, prolonged, high inflation does have detrimental effects on an economy and investment portfolios. However, short-term inflationary pressures should be expected given global economic activity over the past 20 months due to the pandemic. Although concerns about short-term price increases are warranted, we do not expect this to be a prolonged, debilitating issue.

From the Homefront

My father and I took the trip of a lifetime to South Africa for two and a half weeks this autumn. It was a guided birdwatching tour that took us throughout different regions in the country—the coastal region surrounding Cape Town, north along the Western Cape, inland through vineyards and olive groves, and finally through the Kruger National Park game reserve. We certainly accomplished our mission, viewing 350 bird species (only three of which are found in the United States), along with the "Big Five" (lion, leopard, elephant, rhinoceros, and Cape buffalo). For those of you interested in birding, seeing the secretarybird, hamerkop, and numerous species endemic to microhabitats in the region were personal highlights.



Having never been to Africa, I didn't have any preconceived notions or expectations. What we discovered were incredibly friendly and hospitable people, a beautiful natural environment, unique flora and fauna, and hopes to return in the future. With that being said, it was wonderful returning back to the states. Although we aren't without problems in the U.S., we have so much more than many in that corner of the world—opportunities, jobs, resources, and more.

With the seasons turning, we are now well into hockey season! The Roaring Fork Valley has a couple of great opportunities for young skaters, which include programs providing full gear, ice time, and coaching. Lily and Hannah are pictured below at the Lewis Ice Arena in Aspen.

Listening to one of their coaches speak last weekend, he offered three traits of top athletes—time and dedication to the sport, elite coaching, and an inspirational spark at some point during the athlete's youth. Part of the local program includes tickets to visit the Colorado Avalanche this season, so if nothing else, we have inspirational motivation and a great lineup of coaches covered! We'll leave the rest up to the kids!

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