SULLIVAN & ASSOCIATES

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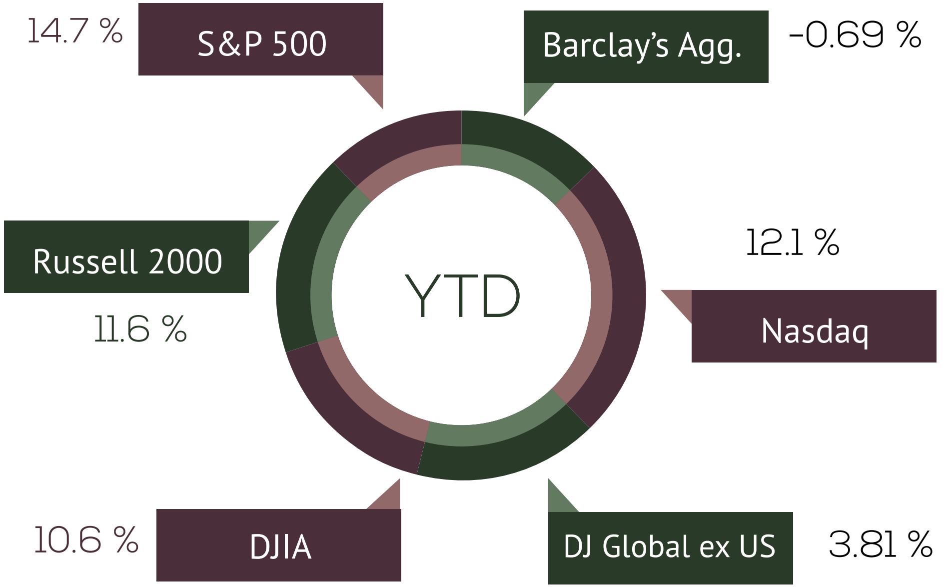
The Financial Advisor Newsletter

CONTENT

Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, October 1, 2021. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S. The Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

KEVIN'S **VIEW**

THREE QUESTIONS ABOUT THE WORLD TODAY

It's hard to believe that 2021 is entering its final three innings, while 2020 still looms large in many peoples' minds. 2021 certainly has had a fair share of celebrations and challenges not to be too outdone by its predecessor. However, it seems the first three quarters have left most folks with more questions than answers. So, let's examine some of the questions I often get and see where we stand.

Where do we stand with COVID-19?

The Delta variant of the Coronavirus seems to have started to level off and decline in the United States. After a summer of spiking cases and stretched emergency rooms, this is a welcome relief. Questions remain regarding other variants, but at least for now there seems to be some (literal) breathing room. Unlike the original strain, the Delta variant had little overall economic impact. Unless a future strain mutates to the point of rendering vaccines and previous immunities impotent, we see the future economic impact of the Coronavirus to continue to decline in the United States. As vaccinations spread it will further curtain the impact in the wider global community as well.

Why does nobody want to work anymore?

It seems you can't leave the house today without running into a 'Help Wanted' sign. In fact, the United States has the largest number of job openings in history at almost 11 million available jobs in September. A couple of months ago there was discussion of enhanced unemployment benefits causing this issue, but those have ended without the problem mitigating. When one looks at the labor force participation rate[1] you can see a drop during the initial months of the pandemic, and while there has been some recovery, participation is still down. When we look at age groups, we see the biggest drops in those workers 55 years of age and over and those 20-24 years old. We think older workers decided they've had enough, and with 401(k)s at or near all-time highs, have decided to retire. Also don't forget that the 55 and over crowd includes the largest generation in history, the Baby Boomers. As for the college age crowd, we think after seeing what happened to service workers during the pandemic, they are refocused on building their skills through education. Finally, only one age group is participating more in the workforce than there were in February

1. A statistic that includes those who are currently working or are actively looking for a job.

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of 2020, the 16-19 year old's; maybe kids these days really do want to work.

Why do things cost so much more?
Every time I go to buy groceries, I know two things for certain. First, it's likely to cost more than my last trip even if that trip was last week, and more importantly, that I should avoid the cookie aisle unless I want to really test my self-control. Food, cars, rent, houses, timber, gas, and a myriad of other things cost more today than they did a year ago. The Federal Reserve has pointed out that these price increases are "transitory" or temporary and things will return to normal soon. With all respect to that fine institution, but that's not likely in some cases. Two things are causing price increases and while one is temporary the other is likely secular. The first is post COVID supply chains are, in short, a disaster. We told everyone to put down whatever they were doing and head home. This means that cargo containers are languishing unused in some places while in others they are going to the highest bidder. Large retail firms in the United States are leasing their own shipping vessels to make sure they have goods for the Christmas season. Many people who used to work in the transportation industries found other work during the pandemic (or retired as mentioned earlier). Uncertain supply combined with increased demand is a fool-proof recipe for higher prices. Although this is where we find ourselves today, eventually things will return to 'normal' as supply chains become more efficient.

The other reason, and perhaps the one that is likely to stay with us for a longer time, is the dropping power of the dollar. Another question I get often is "where is all this money the government is spending going to come from?" The answer seems to be we are going to inflate it away. During the pandemic the United States (and just about every other country) spent enormous amounts of money to keep its economy from disintegrating. To do this the U.S. borrowed money at a staggering pace that has not been seen since World War II. So how are we going to pay it back? One answer could be we cut back on government spending and increase taxes to create a surplus we can then use to pay back our debt. Maybe it's just me, but I doubt "Less Spending / More Taxes" is a winning slogan at any level of government. The other answer is we devalue the debt and pay it back in cheaper dollars. This is the path of least resistance for governments as it causes the least electoral heartburn. In simple terms, the government starts by borrowing a dollar. The government then spends that

dollar buying one dollar's worth of goods. However, and here's the trick, the government pays back the dollar years later but by then the dollar will only buy 50 cents worth of goods. If that sounds confusing, I understand. The investor take-a-way is that higher inflation may be here to stay and we should plan appropriately.

As always, we thank you for you continued trust and confidence. If you have any questions about this newsletter or anything else, please don't hesitate to reach out to us.

DID YOU KNOW

Added protection for your financial information

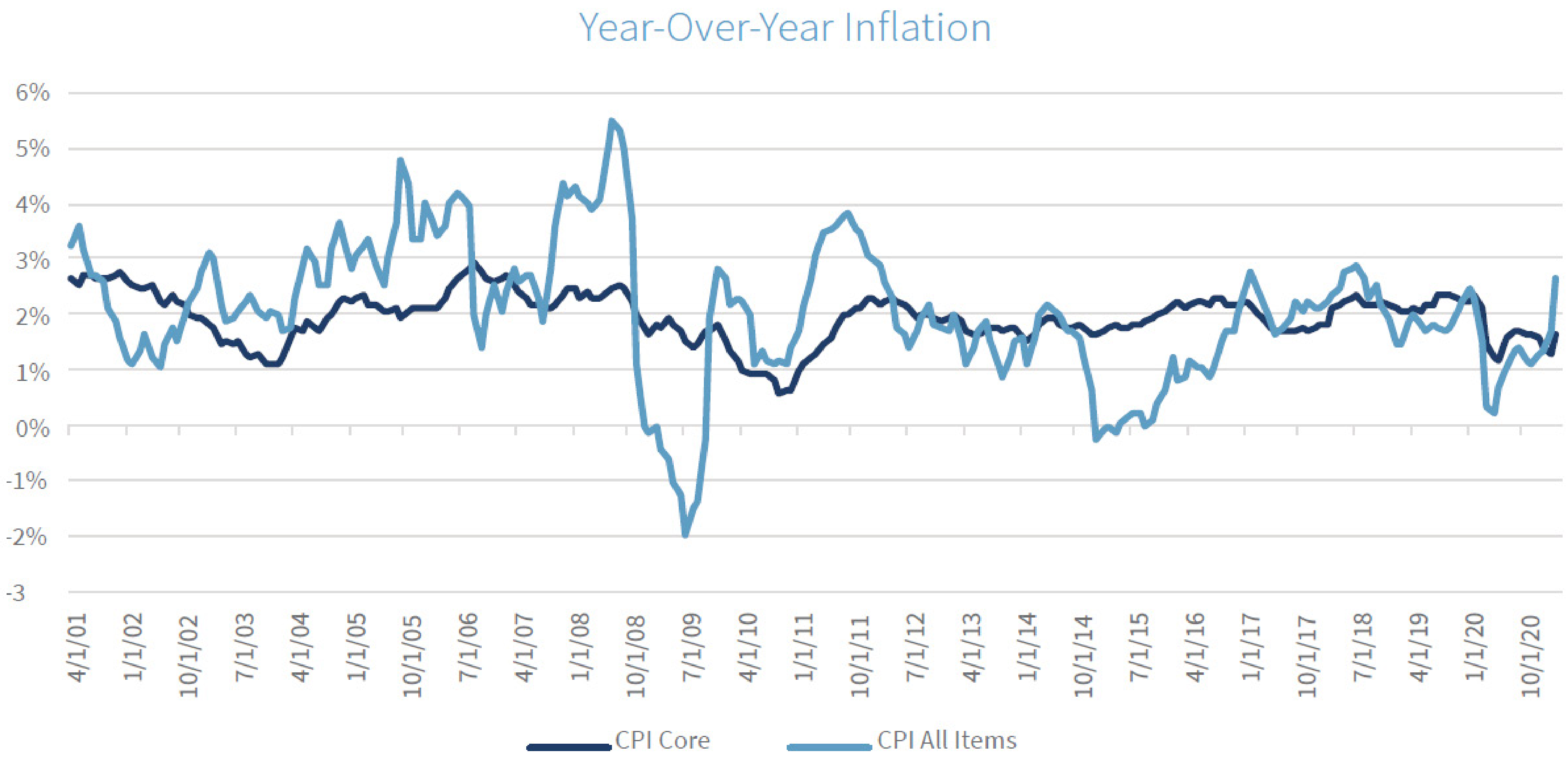
Enhanced Authentication, commonly referred to as two-factor authentication, adds an extra layer of security to your Client Access account and is an easy, effective way to help keep your data safe. This common security feature provides a one-time code via text message or voice call, which you simply enter in the field provided to confirm your identity and log in to your account.

While, in the past, Enhanced Authentication has been an optional feature, in an effort to better protect your account from fraud and unauthorized use, it will soon become a required step when logging in. However, you can choose to have Client Access remember your machine so that you'll only be prompted to receive a code occasionally.

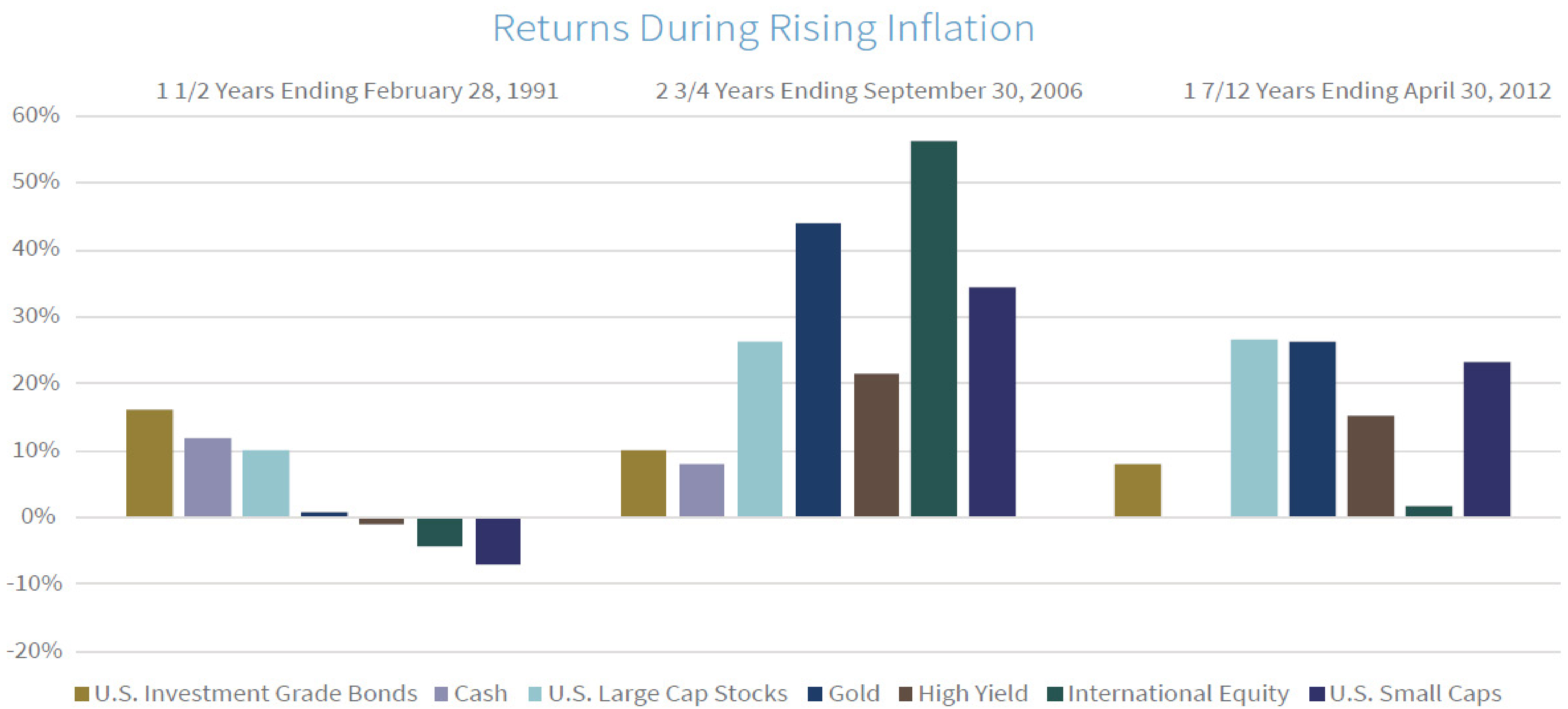
To learn more about Enhanced Authentication, or for help setting it up, please contact us anytime.

Source, Raymond James

A GLANCE AT INFLATION



Source: FactSet



Source, Raymond James

SHOULD YOU BE CONCERNED ABOUT INFLATION?

If you pay attention to financial news, you are probably seeing a lot of discussion about inflation, which has reared its head in the U.S. economy after being mostly dormant for the last decade. Inflation is typically caused by two factors. When the cost to produce something rises, companies will pass the increased expense along to the consumer by raising prices – this is called cost-push inflation. Companies can also raise prices when demand for something is high and people are willing to pay more to get it – this is called demand-pull inflation.

The most common measurement for inflation is the Consumer Price Index (CPI). The CPI is a basket of goods and services from several categories such as apparel, food, transportation, housing and medical care. Prices are gathered, weighted and averaged to determine whether the same basket of goods costs consumers more or less over time.

You have likely seen price increases in some of the goods and services you purchase, and if so it's natural to be concerned. The larger question is whether these price increases are temporary, caused by factors such as supply-chain issues and labor shortages that will be resolved as the economy continues to emerge from the pandemic, or whether they indicate a fundamental imbalance that could cause widespread long-term inflation and hold back economic growth.

Most economists — including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen — believe the current spike is primarily due to transitory factors that will fade in the coming months. One example of this, cited by Powell in a recent press conference, is the price of lumber.

Supply and Demand

Early in the pandemic, many lumber mills shut down or cut back on production because they expected a major slowdown in building. In fact, demand for housing and home renovation increased during the pandemic, as many people who worked from home wanted more space, a different location, or improvements to their current homes. Low supply and high demand sent lumber prices soaring. Sawmills geared up as quickly as they could and were reaching full capacity just as demand began to ebb, with builders cutting back due to high prices and homeowners using their discretionary income to buy other goods and services. Suddenly the supply exceeded demand, and prices began to drop. Wholesale lumber prices are still higher than before the pandemic, and it takes time for price drops to filter down to the retail level, but it's clear that the extreme inflation was transitory and has been reversed. The lumber story also suggests that consumers and businesses will cut back on spending for a product that becomes too expensive rather than spend at any price and feed an inflationary spiral.

Chips and Cars

Another example of pandemic-driven imbalance between supply and demand is used car and truck prices, which have skyrocketed almost 30% over the last 12 months and represent a substantial portion of the overall increase in CPI. Used vehicles are hard to find in large part because fewer new cars are being built — and fewer new cars are being built because there is a shortage of computer chips. A single new car can require more than 1,000 chips, and when auto manufacturers were forced to close their factories early in the pandemic and new vehicle sales plummeted due to lack of demand, chip manufacturers shifted from producing chips for cars to producing chips for high-demand consumer electronics such as webcams, phones, and laptops.

Fundamental Forces

Imbalances between supply and demand are to be expected as the economy reopens, and most such imbalances should work themselves out in the marketplace. But other forces could fuel more extensive inflation. Massive federal stimulus packages have provided consumers with more money to spend, while ongoing stimulus from the Federal Reserve has increased the money supply and made it easier to borrow. Although unemployment is still relatively high at 5.9%[1], millions of jobs remain open as workers are

1 CNBC, June 8, 2021

hesitant to return to positions they consider unsafe in light of the pandemic, are unable to work due to lack of child care, and/or are rethinking their careers in a post-pandemic world. This may change in September as extended unemployment benefits expire and children return to school, but the current imbalance is forcing many businesses to raise wages, especially in lower-paying jobs.

The increases so far are primarily "catching up" after many years of low wages and should be absorbed by businesses or passed on to consumers with moderate price increases. However, if wages and prices increase too quickly and consumers earning higher wages are willing to spend regardless of rising prices — because they expect prices to rise even higher — the wage-price inflation spiral could be difficult to control.

For now, it may be helpful to remember that "headline inflation" does not always represent the larger economy. And with interest rates near zero, the Federal Reserve has plenty of room to make any necessary adjustments to monetary policy. The next few months may indicate whether inflation is

SULLIVAN & ASSOCIATES NEWS

We want to bid a kind farewell to Kristine who has been a valued part of the Sullivan & Associates team for three years. We wish her the best of luck in her future endeavors as she begins a new chapter in her life.

Please join us in welcoming back to the Sullivan & Associates team, Mikayla White as a Client Service Manager.

Mikayla brings more than 10 years of experience in the administrative and customer service industry to Sullivan & Associates. She is responsible for all aspects of client care and relationship management as well as assisting with client meetings and preparing client reports.

Mikayla is a Colorado native, but has also lived in Texas, Alaska and Pennsylvania. She enjoys traveling, history and spending time with her two daughters, Rhiannon and Fallon.

Medicare
Open
Enrollment

October 15 - December 7

Make the most of Medicare's **open enrollment period**

Source, Raymond James

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