TINGEY ADVISORS
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Fall 2021 Newsletter **www.tingeyadvisors.com** **801-352-8166**

Benchmarks

	30 Sept 2021	30 June 2021	30 Sept 2020
S&P 500	4,307	4,298	3,363
DJIA	33,844	34,503	27,782
NASDAQ	14,449	14,504	11,168
6-mo US Treasury Yield	0.05%	0.05%	0.11%
30-yr US Treasury Yield	2.08%	2.06%	1.46%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Target Rate	0.00%	0.00%	0.00%
30yr Mortgage	3.21%	3.15%	3.03%
Gold – per oz	$1,755	$1,770	$1,888
Oil - WTI / bbl	$75	$73	$40

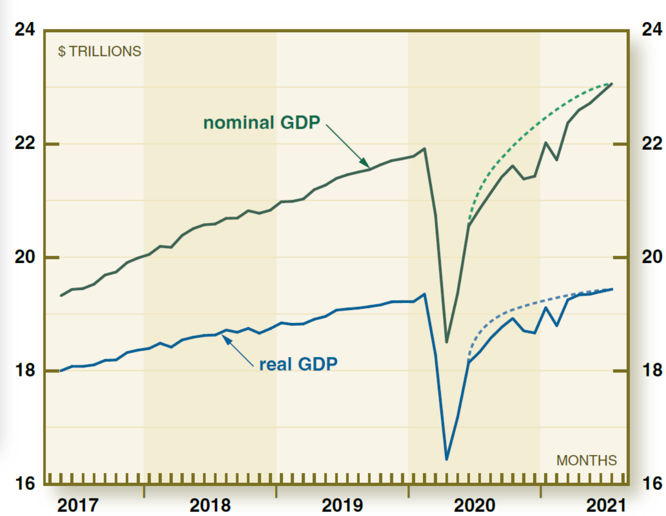
Sources for Newsletter: WSJ, Barron's, Bloomberg, NBER, Blackrock, US Treasury, HCWE, Ned Davis Research

Economic reflation to price inflation? …

Investor enthusiasm hit a speed bump in the third quarter. Coronavirus delta variant, persistently sticky inflation, geopolitical chaos, and mixed economic signals have dampened investor spirits. While the economic recovery must still be considered nothing short of remarkable, there are some signs that it is leveling off in real (inflation adjusted) terms. The Fed's 'GDP Now' estimates show that real Q3 GDP growth was closer to 2.0 percent -- solid, but much lower than the blistering growth of 6.7 percent for Q2 and 6.4 percent for Q1.

The Path of Monthly GDP Through the Pandemic

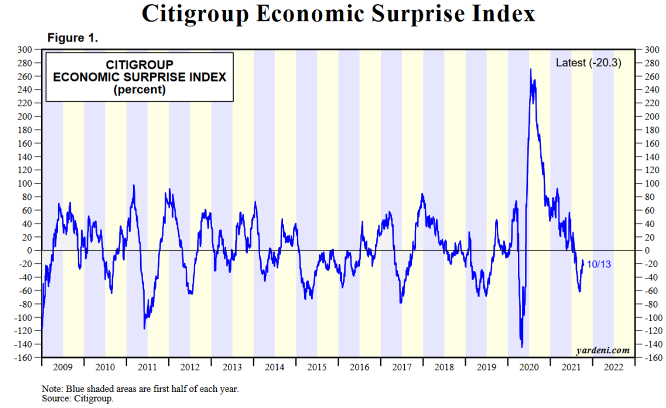
monthly data from May 2017



Data: Seasonally adjusted gross domestic product (Markit).

Economists who had predicted another strong quarter of economic growth are cutting estimates because of the supply-chain bottlenecks and the impact of the delta variant subduing economic activity. Citigroup's Economic Surprise Index, which tracks how much U.S. economic reports have exceeded or fallen short of expectations, fell this month to the lowest level since June 2020.

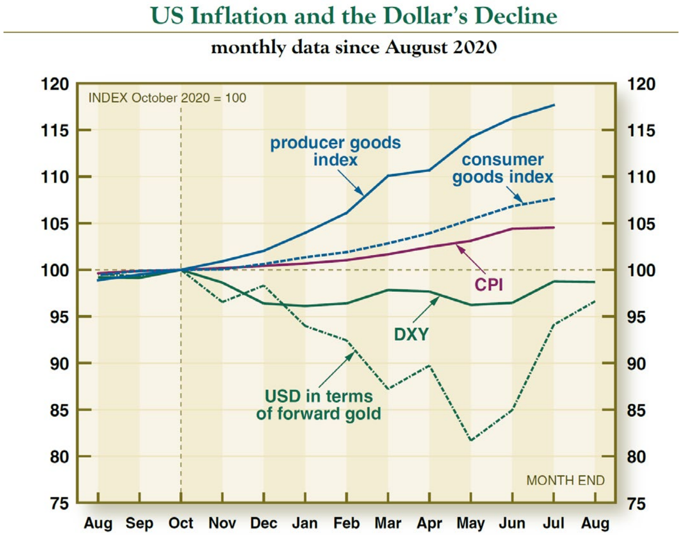
Citigroup Economic Surprise Index



Investors were hit with a confluence of many variables to navigate: concern about aforementioned virus variants and supply constraints; massive fiscal spending bills; tax increases, debt ceiling; mixed economic data; inflationary pressures; and the prospects of a change in the direction of monetary policy. Added to this anxiety was the unsettling and chaotic process of a poorly executed U.S. exit from Afghanistan. However, the constant throughout the pandemic's economic revival has been corporate earnings. Companies have been able to post robust earnings despite rising labor and materials costs. Earnings are expected to rise 27 percent during Q3 on 14 percent higher revenues. The concern for investors going forward is whether these strong earnings will persist.

Central bankers who had thought this years' rise in inflation would be a short-term phenomenon aren't sure how long transitory pressures will persist, but Chairman Powell's definition of transitory has been lengthening. As the economy revives the problem is not the demand side of the equation as consumers are flush with cash (excess savings eclipsed $2.5 Trillion); rather, the issues are supply related. Logistic chains are being weaved back together leaving gaps in the supply side of the economy. Additional demand on the economy only exacerbates the supply issues. Consumer spending has remained at double digit levels throughout the year as businesses reopened and trillions of federal dollars in federal aid coursed through the economy.

Inflation remained elevated with the September CPI rising 5.4 percent over the past year according to the Labor Department. This is basically the same rate that we have seen throughout the summer months but a slight acceleration from August. The core price index (excluding food and energy) accelerated to 4 percent on an annual basis.



The jobs market continues to rebound from the historic job losses we experienced in the first half of 2020 but at a slower pace. Notably, jobs are being created but they are not being filled. The number of job openings exceeded 10 million according to the US Bureau of Labor Statistics. Employers are having a hard time finding workers to fill the jobs created. Fast food chains are turning to technology to take the place of labor.

Stocks:

Investors witnessed the end of two remarkable stock market streaks. First the S&P 500 fell 4.8 percent in September, stopping the number of consecutive monthly gains at seven. Additionally, the S&P 500 closed 5.1 percent below its September 2nd record high, ending the streak without a 5 percent pullback to 211 days. While stocks gave up a little ground in the third quarter, they still represent double digit gains for the full year. The S&P 500 rose a scant 0.2 percent while the Dow Jones Industrial Average fell 1.9 percent and the NASDAQ Composite slid 0.4 percent in the quarter.

Stock market investors are focused on corporate earnings which should show strong growth for Q3 given an easy comparison from 2020. However, stock investors are also weighing whether a recent jump in inflation will prove transitory or will be persistent. The rotation of money from growth to value stocks that was evident in the first quarter paused in Q3. Strong corporate earnings have resulted in equity valuations multiples dropping to a more realistic level.

Commodities:

Gold prices slid slightly in the quarter, but oil continued to trend higher with West Texas Intermediate Crude closing well above the psychologically important $70 per barrel level.

Bonds / Interest Rates:

The bond market also caught many investors off guard. The yield on the 10-year US Treasury note moved in a narrow range for much of the quarter only to stage a six day rise above 1.5 percent in mid-September. The move came after the Federal Reserve indicated it was ready to begin reversing its pandemic stimulus programs as early as November and signaled that rate may begin to move higher as a response to higher inflation numbers.

Forecast

Pandemic remediation, tax reform, corporate earnings, interest rate strategy, and inflation still on center stage.

1. ***U.S. Economic rebound.*** A successful vaccine rollout and the re-opening economy will keep the economy growing through 2021 albeit at a slower pace.
2. ***Fiscal Spending and Tax reform.*** The Biden Administration's "Go Big" government spending packages is being followed up with "Gotta pay for it" messaging which signals significant tax increases. Democrats will pass the infrastructure bill and a reduced but still massive social spending bill with tax increases.
3. ***Federal Reserve starts to turn:*** Chairman Powell resolute at staying accommodative throughout the pandemic will begin to unwind pandemic stimulus programs
4. ***Corporate earnings growth will decelerate following the pandemic bounce-back.*** Labor and material inflation will slow corporate earnings, but overall earnings growth will stay impressive.
5. ***Interest rates moving gradually higher.*** We anticipate long term interest rates to rise.
6. ***Inflation moves higher.*** We are moving our longer-term inflation expectation higher. We expect a significant increase in 2021 compared to 2020 then settling into a rate that will exceed the Federal's 2.0 percent objective.
7. ***Employment will lag.*** Robust economic growth will continue job gains, but jobs may disappoint.
8. ***Geopolitical risks rise.*** Erosion of relationship with China, Russia and middle east countries means risks are rising.
9. ***Stock market will generate positive returns for 2021.*** While we expect a typical correction, we believe the market will be positive for 2021. Supply chain dislocations will gradually subside. And volatility will be modest.

In Summary

We reiterate that the capital markets are anchored in the greatest asset in the world – the U.S. economy. Investors who believed this have been well rewarded over the past year and a half. Even with the pandemic plunge, investors are far better off today than they were two years ago. Nowhere is there a place that can combine financial and human capital with an innovative culture and spirit to fight a global pandemic. This is the place where investments succeed. This is the place where freedom begets innovation which begets better standard of living and lifts people. There are forces that try to divide us for their own political gain. Politicians talk, we wish they would listen. Certainly, we are a more polarized nation, but if Americans want to continue to win, they will reinforce the principles of the country and its institutions. We still feel that this is the time for Americans to listen to each other. We would do well to watch the not-so-silent vote of confidence the stock market is making in the institutions and principles of this country.

Our investment strategies change with market conditions, but our principles do not. Our long-term optimism remains intact. We recognize that during complex market times, communication is important. It is a privilege working for you. We appreciate your confidence in us.