Market Update

November 15, 2021

Record Inflation as Supply Chains are Under Significant Pressure

- Headline inflation was 6.2% in October, on a year-on-year basis, and core inflation wasn't too far behind at 4.6%.
- Energy prices were a big part of the story with a 4.8% month-on-month gain and up 30% versus a year ago. Food prices have also been climbing steadily, and were 5.3% higher than a year ago, the fastest pace since early 2009.
- The unemployment rate edged down to 4.6 percent in October. The number of unemployed persons, at 7.4 million, continued to trend down. Both measures are down considerably from their highs, at the end of the February-April 2020 recession. However, they remain above their levels prior to the coronavirus (COVID-19) pandemic (3.5 percent and 5.7 million, respectively, in February 2020).
- The number of job openings was little changed at 10.4 million on the last business day of September, the U.S. Bureau of Labor Statistics reported today. Hires and total separations were little changed at 6.5 million and 6.2 million, respectively. Within separations, the quits level and rate increased to a series high of 4.4 million and 3.0 percent, respectively.
- Central banks, already retreating from their view that inflation is "transitory," may be forced to counter rising prices with earlier-than-expected interest-rate hikes.
- Behind the logjams in the supply chain lies a mix of overloaded transportation networks, shortages of labor at key chokepoints, and demand in the U.S. that's been bolstered by pandemic stimulus and focused more on goods than services.

It is our opinion, that these price increases maybe here to stay until the economy slows because of them. Some inflation is healthy, however, the current rates we are seeing at 6%+ year on year are not sustainable, in our opinion, for longer periods of time.

Central Banks are starting to discuss inflation in a more cautious tone, and many are eliminating their view that it is transitory. A concern we have is that passing large spending packages by Washington will create the need to print more and more money. Politicians like to suggest that the currently debated spending packages are paid for and will not increase the national debt. Even if this doesn't increase the national debt, other issues and effects occur. Run away inflation is one of those and higher tax bills are another, to be mindful of. If we are not going to borrow money to fund these bills, the other two choices are higher taxes and increasing the money supply, which devalues our currency and leads to higher prices for the goods, labor and services needed. Getting used to having less in the face of high inflation and severe supply chain issues due to worker shortages is rhetoric that jawbones inflationary pressures, by creating a rush to hoard goods that are available for procurement.

We still believe a pull back is in the nearer future, for the markets. They are healthy and we hope to take advantage of them when they occur, even in the face of high inflation. As the cost of goods and services rise, the equities markets are designed to rise with them, as long as the rise is not hyper inflationary, which ultimately crushes demand. If earnings remain strong the markets can continue to rise. The concern is that we will see inflation destroy demand, at some point, and companies will start seeing earnings stress. We will discuss our

preference of asset classes toward the end, as we have shifted a bit of our thinking due to the inflationary environment, we are experiencing.

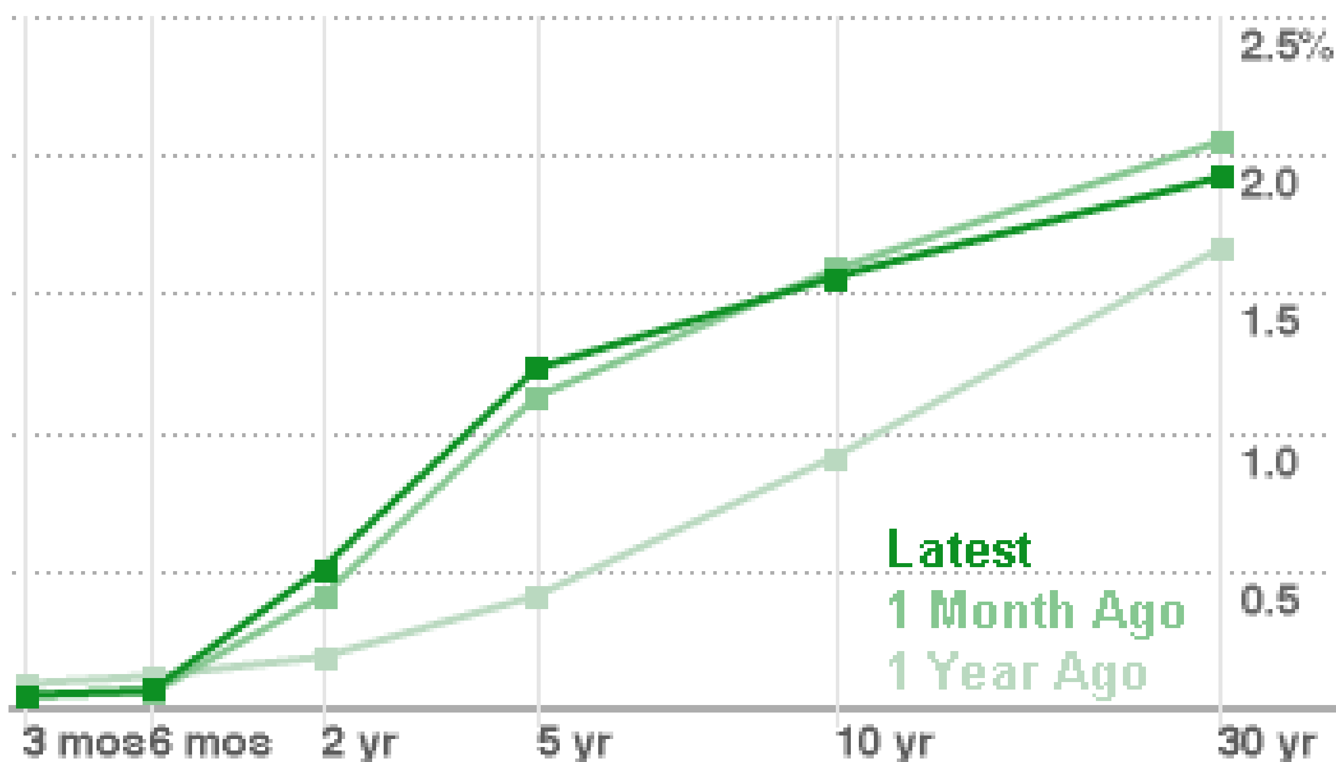
S&P 500 Level % Change
iShares 20+ Year Treasury Bond ETF Price % Change
SPDR® Gold Shares Price % Change
Dow Jones US Real Estate Index Level % Change
50.11%
26.08%
17.60%
5.95%
0.00%
-25.00%
Jan '20
May '20
Sep '20
Jan '21
May '21
Sep '21
Nov 15 2021, 1:34PM EST. Powered by YCHARTS

Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. Date Range start 11/15/2019.

Long term treasury yields moved down since last month. The shape of the yield curve remains positively sloped, with some flattening occurring, at the longer end of the curve. The trend in rates over the past two months has flattened out the yield curve a bit. This could be signaling that there are some structural issues in the economy that need to be addressed should a further significant flattening occur. However, a positive sloping curve overall is suggesting investors have not yet abandoned the economies riskier asset classes, as longer-term investments for the safety of treasuries. We are watching this relationship closely.

Market Update

November 15, 2021



Treasury Curve Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. Information provided by TD Ameritrade Institutional.

Our overall strategy is not to raise cash, but rather to wait for more of a pull back in the markets to take large scale actions. Should this occur, we will look at rebalancing portfolios to take advantage of the shifts occurring, in the directions of investor capital flows. We do not see this current environment as one where raising cash is currently needed to protect portfolios, from a necessary pullback. Please keep in mind as the data comes in, we may change that opinion. As stated, we do have concerns regarding inflation.

Having a disciplined investment and risk management process, regardless of market action, is the foundational elements to our portfolio designs. It is this portion of the approach of portfolio management, that helps consistently reduce the long run risk taken in a portfolio of investments. Speculating about near-term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks for longer term growth, as we still see growth stocks as more fully valued. However, high quality growth stocks are likely to continue to outperform the market. We are more bearish to neutral on fixed-income, due to inflation concerns. Two other areas we are becoming more bullish on are small cap stocks, especially those that produce income and income producing real estate. The incomes that these investments produce may

act as a hedge, to a degree, should inflation continue to move at its current pace. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-433-5378.

James M. Liotta, CFP®, CPWA®, AIF®, NSSA®, MBA
President
Prominence Capital GP, LLC.
jliotta@prominencecapital.com
www.prominencecapital.com