PAPAMARKOU WELLNER
ASSET MANAGEMENT, INC.

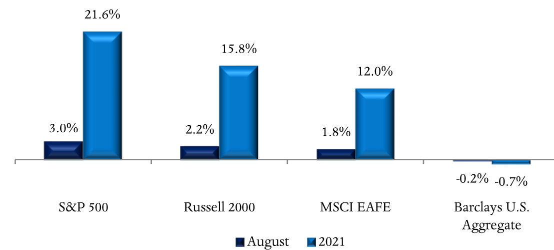
August / September 2021 Issue # 220

Markets

The global reopening continued in August, notwithstanding the continuing emergence of Covid-19's Delta variant, thanks to ongoing vaccination campaigns as well as the socio-economic need to further lift restrictions. Economic data remained strong, though much of the developed world appears to be reaching a near-term peak rate of growth, with inflation building up in the pipeline. The S&P 500 stock index posted its seventh consecutive monthly gain in August, advancing +3.0% (+21.6% ytd), supported by a well-received speech from Federal Reserve chairman Jerome Powell at the Jackson Hole symposium. The technology heavy Nasdaq Composite benefitted from continued low bond yields, adding +4.1% during the month (+18.9% ytd). Overseas equities also fared well but continue to lag, as seen by the MSCI EAFE index which rose +1.8% in August (+12.0% ytd). Asian stock markets have struggled thus far in 2021. While the Tokyo and Shanghai indexes both advanced in August, their 2021 returns are a meager +3.3% and +4.1%, respectively. Similarly, emerging market equities have faced ongoing challenges from the pandemic and have not benefitted from a surge in liquidity, delivering +2.6% in August (+2.9% ytd).

In fixed income markets, global bonds fell by -0.4% in August (-2.3% ytd), with investment grade credit spreads widening and sovereign yields rising moderately. In the same vein, the Barclays US Aggregate bond index declined -0.2% last month (-0.7% ytd). Meanwhile, equity-linked high yield corporate bonds saw positive returns (+0.6% in August; +4.6% ytd).

After rising in nine of the past ten months, energy prices declined by -2.1% in August, as a spike in the Delta variant of Covid-19 in many parts of the world threatened to slow the recovery in demand for fuel. WTI crude oil ended the month at $68.50 per barrel, down -7.4% from



a month earlier, but well above the $48.52 level at the start of the year.

Geopolitics

On the coronavirus front, the more contagious Delta variant continued to spread with global daily cases increasing. In the US, hospitalizations rose ahead of expectations, raising concern over lower vaccination rates in certain states. In Europe, robust inoculation programs have led to improved outcomes versus the last wave. Data released by the UK and Israel point to waning antibody protection (for those vaccinated) after six months, although protection against severe disease and hospitalization still remains high. In response, a number of countries have announced booster programs to deliver third doses to their populations. With regard to emerging economies, cases in India remain low even after a rebound in mobility. The same is true of China, which continues to rapidly vaccinate its citizens. Elsewhere however, the slow pace of emerging market vaccinations has left many countries vulnerable.

In US politics, the Senate passed a $1 trillion bipartisan infrastructure bill that contains $550 billion of incremental funding for transportation, broadband and utilities. Legislation has now moved to the House of Representatives where it faces a much tougher battle. Progressive House Democrats are reluctant to support the deal unless it is tied to a much larger $3.5 trillion spending bill that they hope to pass via the budget reconciliation process (relying only on Democrat votes).

United States

August economic data pointed to a strong but decelerating economy, while concerns around inflationary pressures continued to build. Both manufacturing and services PMI figures remain solidly in expansionary territory. The consumer price index (CPI) delivered another multi-decade high print of 5.4% year-over-year, while the producer price index (PPI) soared by 7.8%. However, pressures in a number of areas appear to be subsiding, with used car prices softening. While inflation may moderate in the near term, the significant year-over-year increase in home (+17.8%) and rental (+13.8%) prices will produce a strong lift to reported CPI figures over the next year and a half due to an embedded lag in the calculation.

The labor market remains imbalanced with 10.1 million job openings versus 8.4 million unemployed workers (5.2% unemployment rate). Yet a lower than expected 235,000 jobs were added in August. Wages rose 4.3% from the previous year, indicating that underlying longer-term labor cost pressures continue to build, a trend that is likely to continue. One caveat that bears mentioning is that certain enhanced unemployment benefits are set to expire in early September, which may lead to a short-term hiring spurt.

In other inflationary trends, President Biden, citing a "national emergency," recently granted two million members of the federal civilian workforce an ad hoc 2.7% salary raise. Further, his Administration approved the largest increase in history (more than 25% above pre-pandemic levels) in the SNAP food stamp assistance program. A qualifying family of four will receive up to $835 per month; this compares with the $537 per month spent by similar sized households in 2019. A federal student debt forgiveness process has begun (563,000 borrowers with debt of $9.5 billion), including 323,000 disabled people ($5.8 billion) and 115,000 former ITT Technical Institute students ($1.1 billion).

Federal Reserve (Fed) Chairman Jerome Powell's Jackson Hole speech was well received by the markets. The

August 2021 Economic Statistics

	Aug-21	Dec-20	Dec-19
Federal Funds Target Rate	***0 - 0.25%***	0 - 0.25%	1.50-1.75%
Consumer Confidence Index	***113.8***	88.6	126.5
Manufacturing PMI Index	***59.9%***	60.7%	*47.2%*
Unemployment Rate	***5.2%***	6.7%	*3.5%*
JPY/USD	***110.02***	103.24	*108.61*
USD/EUR	***1.1807***	1.2213	*1.1210*
Gold/oz.	***$1,813.43***	$1,896.49	*$1,517.01*
Oil (WTI)/bbl	***$68.50***	$48.52	*$61.06*

Fed indicated that the current inflationary impulse is acceptable, because the effects will be transitory, and it expects the labor market to make progress sufficient so that the central bank can begin tapering its asset purchases shortly, perhaps towards the end of the year. Importantly, Chairman Powell emphasized that the timeline for tapering is separate to that for interest rate increases.

Europe

August was a quiet month for continental Europe with the European Parliament in recess and no announcements from the European Central Bank. Nevertheless, economic data was strong with PMI's coming in at 61.4% and 59.0% for manufacturing and services, respectively, with the CPI estimated at 2.7% year-over-year. However, momentum has softened slightly and the EU is now probably at its peak rate of growth. The spread of the Delta variant has caused cases in Europe to rise rapidly, denting consumer confidence, which fell in August.

UK August PMI's suggested that the economy may be slowing down, continuing the global trend. Manufacturing ticked down to 60.3% while services softened to 55.0%, with supply chain and labor constraints continuing to limit activity. UK employment data was strong: the economy added 182,000 jobs in July and the employment component of August's PMI was the highest in history. The impending end of the furlough scheme in September should alleviate some of the labor market tightness. With inflation concerns rising (CPI 2.0%),

the Bank of England indicated it will cease to reinvest proceeds from bonds that mature once interest rates reach 0.5%. They will then consider actively selling bonds once interest rates reach 1.0%.

Asia

Chinese regulatory changes continued through August with a widening number of industries and sectors impacted. In this regard, the Commission recently declared "China has achieved initial results in preventing unbridled expansion of capital and improving fair competition." It may be that this softening in tone is an indication that the worst is over, similar to past cycles we have seen, the last one being the anti-corruption campaign. There were reports that China is suffering from a worker shortage, but in their case it appears to be due to longer-term demographics, specifically a shrinking labor pool in an aging society. This will eventually weigh on global inflation. China has also had to grapple with the arrival of the Delta variant. It has responded with its proven strategy of mass testing and mobility controls, which thus far appear to have contained the outbreak at the cost of reduced traffic and economic activity.

Outlook

Recent data has served as a confirmation that global economic growth has room to run, thanks to ongoing aggressive fiscal and monetary policy. The US and China have recovered fastest, while Europe, the UK and Japan are lagging. Looking ahead, the most significant transition that investors will likely have to contend with is tightening monetary liquidity. However, given the unique circumstances surrounding the pandemic, coupled with a looser central bank perception of inflation, and the disinclination to raise interest rates, any reduction in monetary support is likely to occur later than usual. A rise in interest rates on the back of ongoing inflation and strong economies should not (initially) negatively affect equity markets. The real risk of a financial market pause would be if there was a large and sustained move higher in inflation (in a self-reinforcing fashion), likely to occur at a much later date, which would trigger a true tightening of monetary conditions. Future coronavirus variants pose an exogenous risk to the global outlook, but for developed economies, this is more likely to be in the form of supply constraints than further lockdowns. While uncertainty has increased, it is unlikely to derail the recovery.

Overall, the environment remains positive for risk assets which should benefit from growth and associated inflation (while interest rates remain suppressed for an extended period). Notably, over the past twenty months, M2 money supply growth has leaped by 34% (from $15.3 to $20.5 trillion). This larger pool of money, chasing too few goods (as a result of Covid-related supply disruptions and worker shortages), is spurring inflation. Aided by the current low level of interest rates, this bodes well for our favored large capitalization global equities which boast pricing power, resilient supply chains, and automation.

With regard to fixed income, we continue to suggest prudence given the ongoing erosion of purchasing power due to the differential between interest rates (held artificially low) and inflation (on the rise), which has led to negative real returns for debt holders. Nominal bond yields have trended lower for 40 years, having reached extremely low, and in some cases negative levels. As such, long dated debt should be avoided, in favor of short maturities and floating rate securities which are likely to fare better, especially in a rising interest rate environment.

Given the strong, steady-state, of economies, growing corporate profits, and relatively narrow equity market breadth, we believe that actively managed strategies will be able to add alpha versus broad indexes going forward. Should interest rates rise on the back of sustained inflation, bondholders will be faced with a difficult investment environment, which would play into the hands of several of our select alternative strategies. We retain a positive view of hedged credit, as well as inflation protected investments such as real estate, energy exploration, and water infrastructure. Further, as long-term investors with the belief that technology will advance secularly, we continue to favor select venture investments as well as our recently-launched proprietary Nordic Technology and Innovation Fund.

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Sources: Barclays, Bloomberg, Bureau of Labor Statistics, Conference Board, Department of Agriculture, Federal Reserve, Financial Times, IMF, Institute for Supply Management, MSCI, Reuters, Russell, Standard & Poor's, and the Wall Street Journal.

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