CLEARPOINT

clearstead

DECEMBER 2021

TOM SEAY, SENIOR MANAGING DIRECTOR, RESEARCH

A CHALLENGING YEAR FOR INVESTORS

BY TOM SEAY, SENIOR MANAGING DIRECTOR, RESEARCH

What a strange and confusing year it has been. The COVID-19 pandemic continues to disrupt our lives and inhibits a return to a state of normalcy. Terms such as supply chain, labor shortages, and inflation are now common topics at dinner conversations. Yet throughout, consumers' balance sheets are sturdy, and they remain undeterred in their desire to spend. In the face of operational challenges due to COVID-19 and rising costs, corporate earnings continue to surprise and are projected to grow 45% for the full calendar year 2021.[1] Reflecting the strong earnings, the S&P 500 continues to march upwards and is on course to closing the year at a record high.

COVID-19

The year started with fanfare announcements of vaccinations and hopes of reaching "herd immunity" by mid-summer. Although the vaccination roll-out was hobbled by political infighting and differing state programs, by Labor Day, "About 52 percent of the U.S. population, or 174 million people, (were) fully vaccinated, according to Centers for Disease Control and Prevention (CDC) C.D.C. data. Among those who are over 12 years old and are eligible for the vaccine, 72.2 percent of the population, or 205 million people, have received at least one dose of the vaccine."[2] According to the CDC, as of November 29, 2021, 196.8 million people in the United States, or 59.3% of the population, are fully vaccinated.

CLEARSTEAD SCHOLARSHIP

We are pleased to announce that our Clearstead Scholarship has been awarded to a talented student of color in Northeast Ohio. We are thrilled to offer this support to students through our partnership with the Ohio Foundation of Independent Colleges (OFIC).

The Clearstead Scholarship will help talented students pay for their education and open the opportunity for internships and employment with donors such as Clearstead.

The criteria for the Clearstead Scholarship include:

- Attendance at one of the 33 OFIC member colleges
- Financial need
- Ohio and U.S. Resident
- Students of color
- GPA 3.0 or higher
- Major in Accounting, Finance, Economics, or Business Administration

In 2022, we plan to continue the scholarship to our current scholar and offer another scholarship to a second scholar. By 2023, we hope to have three students receiving the Clearstead Scholarship.

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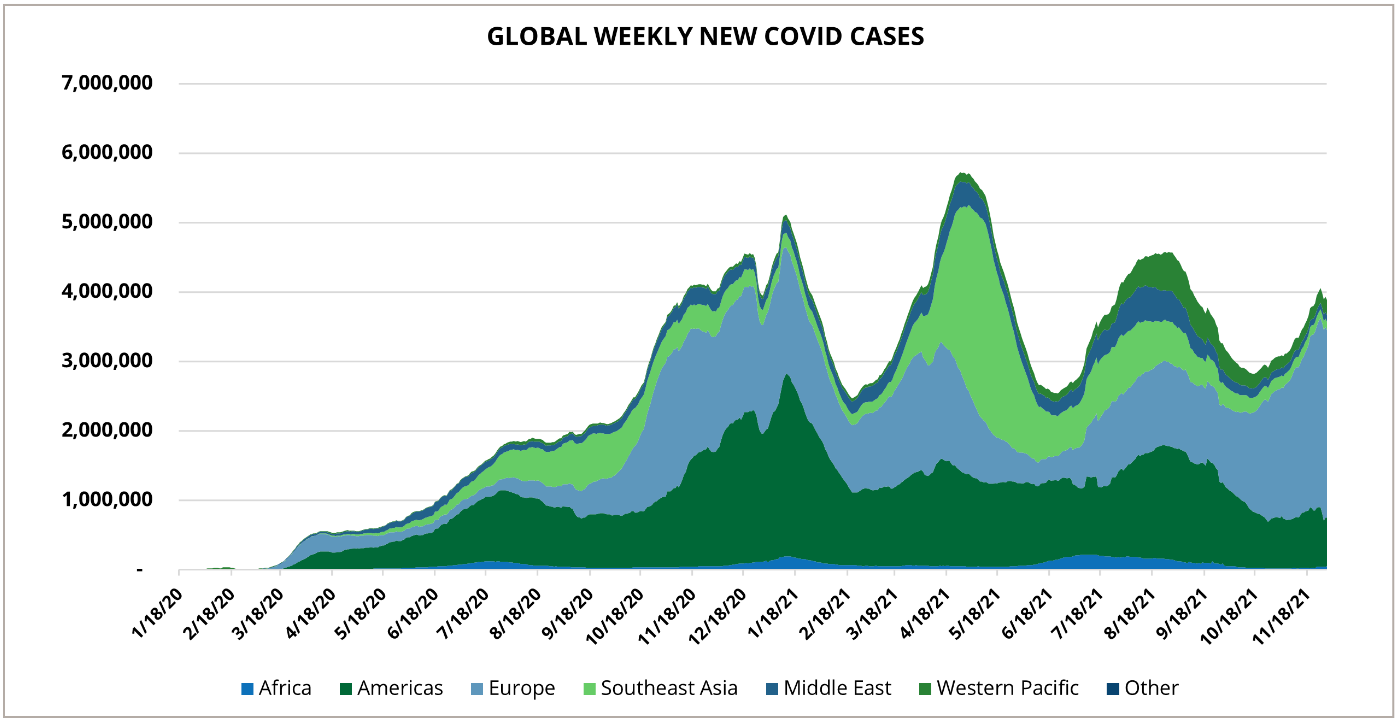
Unfortunately, COVID-19's demise does not appear to be happening anytime soon. As the following chart illustrates, after peaking early in January, there were surges in the spring and summer. As I write, Europe and Asia are again witnessing an uptick in new COVID-19 cases and on November 22 Austria entered full lockdown. On the Friday after Thanksgiving, we were introduced to a new COVID-19 variant, Omicron, and lockdowns are again spreading throughout the world.



Source: World Health Organization - New confirmed cases as of 30-November-2021 https://covid19.who.int/WHO-COVID-19-global-data.csv.

The unpredictable nature of COVID-19 continues to disrupt daily life and presents challenges for those trying to plan: some schools are open while others are closed; some offices open while others work from home ("WFH"); some places require masks while others have eliminated the requirement.

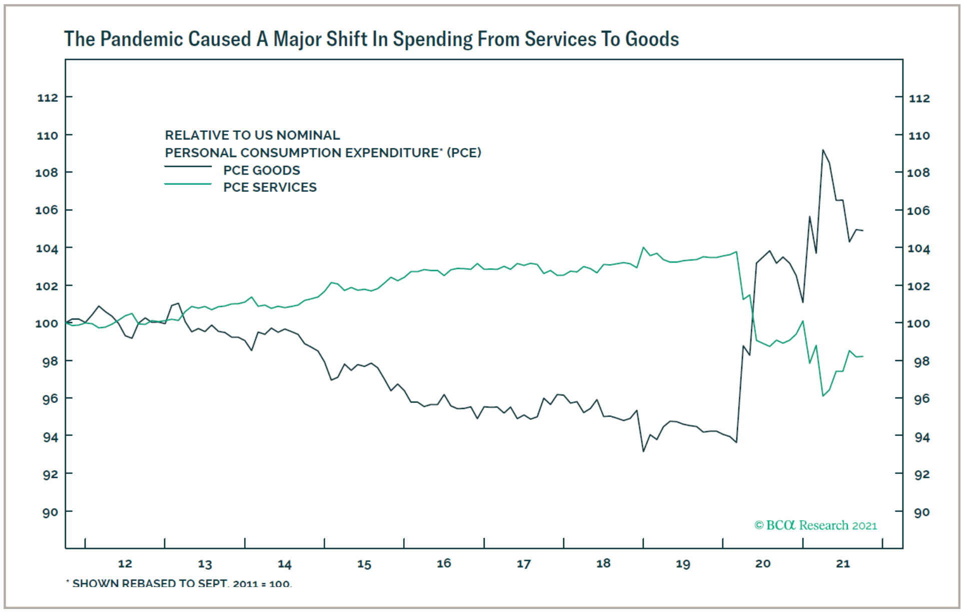
THE ECONOMY

It was much easier to shut down the economy and "shelter in place" than it has been to reopen and return to a pre-COVID-19 environment. Where you live, your industry of employment, or if you have school aged children often dictates your work environment. For example, Clearstead formally reopened offices June 1, 2021, while many of the investment managers with which we work remain WFH and hope to return to offices in Q1 2022.

The impact on the economy has exposed pitfalls never contemplated. As globalization became a normal business practice, global supply chains became integral in the manufacturing process. Although COVID-19 shut down economies worldwide, each country has come back online at a different pace. Southeast Asia has become a major player in the supply chain and, as the above chart shows, Southeast Asia has had multiple spikes in COVID-19 outbreaks. In other words, a final assembly plant in Ohio might be operating, but the chip plant in Vietnam is closed.

COVID-19 might have forced us to stay home, but since we could not travel, go to the movies, or out to dinner, it unleashed our desire to buy goods online. Flush with cash from Uncle Sam, and nowhere to go, Americans went shopping. As the chart on the following page shows, real spending on goods quickly snapped back and now far exceeds the pre-COVID-19 spending level.

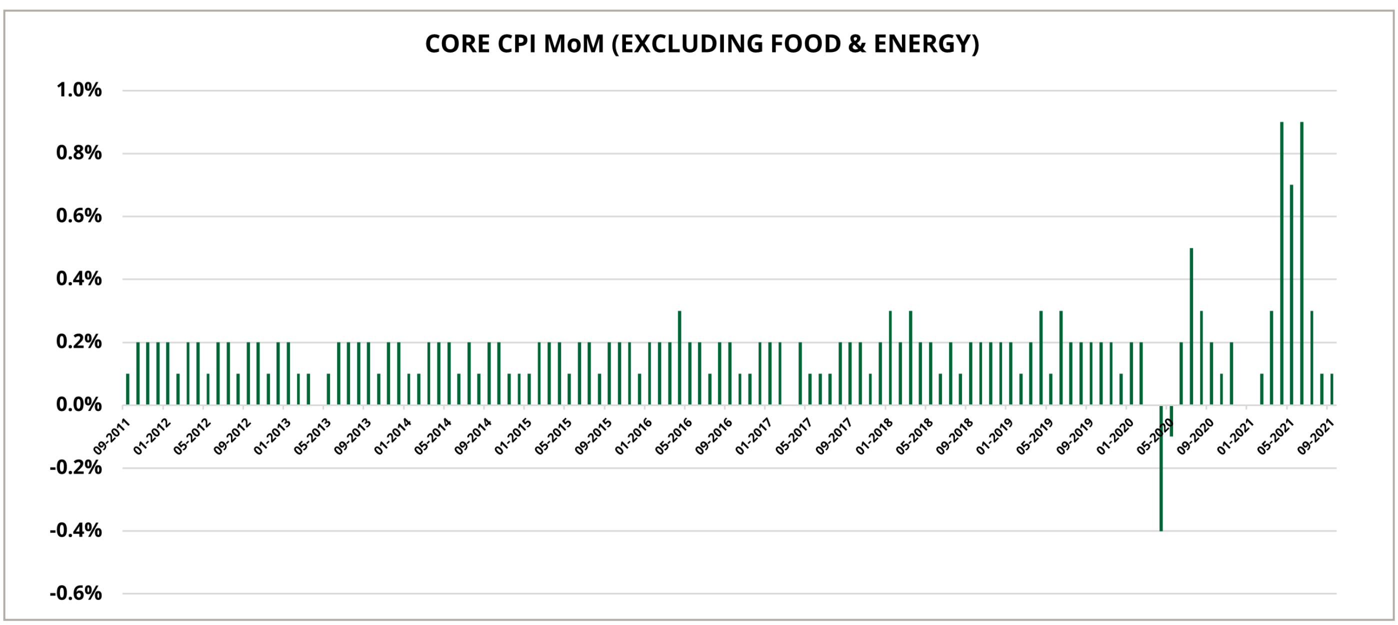
As also indicated by the chart, spending on services has yet to fully recover and numerous challenges need to be overcome to return to pre-COVID-19 spending levels. The fear of mingling in public, local government regulation, or the inability to hire support staff has caused service providers to come back online slowly. I cannot tell you how many restaurant owners I have talked to who cannot hire the staff needed to operate their business or to open new restaurants. We have all seen the proliferation of “Help Wanted” signs, heard stories of signing bonuses to work at McDonald’s, or airlines canceling flights due to lack of available crew. The bottom line is that COVID-19 has reduced labor supply at a time when labor demand has increased. Service industry challenges will be resolved but the solution—higher salaries—might require consumers to pay more.



Source: BCA Research, November 19, 2021.

INFLATION

The speed and depth of the COVID-19-induced economic recession was, in my opinion, only surpassed by the incredible recovery we are witnessing. Credit must be given to both the fiscal stimulus and monetary accommodations that kept consumers afloat in the early days of the pandemic; however, because of the supply side stimulus, we are now amid the highest inflationary environment since the early 1990’s. Let’s not panic and fear we are entering the days of the Weimar Republic hyperinflation where a loaf of bread went from 0.50 deutsche marks in December 1918 to 201,000,000,000 deutsche marks by November 1923.[3] The problem is that we have become accustomed to a low and stable inflation environment.



Source: Bloomberg LP.

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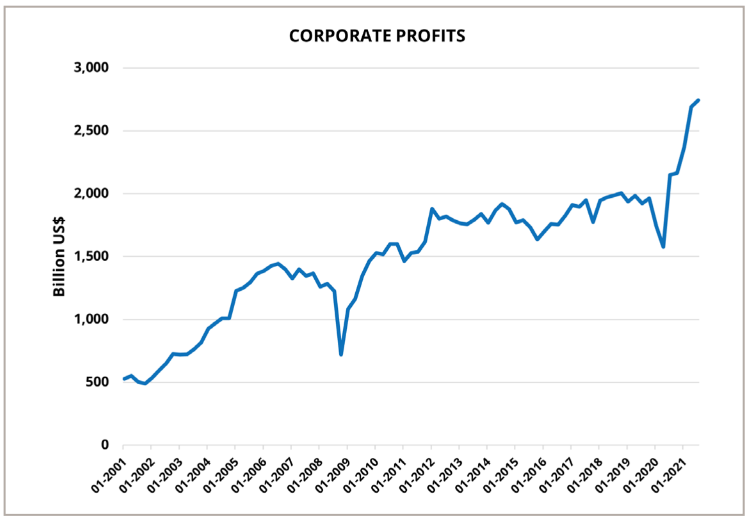
It is likely that, in time, supply chain disruptions and labor shortages will be resolved, and we will revert to a 2+% inflation environment, but it will be challenging for financial market investors to navigate in conditions most participants have only read about in textbooks.

THE MARKETS

The stunning economic improvement since the depths of the pandemic lows in March 2020 has equity markets behaving as if COVID-19 never happened. Equity markets have shrugged off rising interest rates, higher inflation, and labor shortages interspersed with recurring bouts of COVID-19. The S&P 500 returned 18.4% in 2020 and, as of November 30, is up 23.2%.[4]

The low inflation of the pre-COVID-19 years allowed interest rates to drift lower, improved corporate balance sheets, kept input costs low and predictable, and resulted in a boom in corporate profits in the United States.

Strong corporate earnings and low interest rates have driven investors to equities. Maybe it is “FOMO” (the fear of missing out) that has investors implementing a “TINA” (there is no alternative) investment strategy. No matter the reasoning, U.S. equity markets appear to be fully valued.



Source: St. Louis Fed Reserve – Corporate Profits After Tax.

This year has been challenging, but investors with well-diversified and balanced portfolios should have investment performance that puts a smile on their faces as we close the year. My colleague and Clearstead’s Chief Investment Strategist, Aneet Deshpande, will be next month’s ClearPoint author and will offer his views on the outlook for financial markets for 2022 and beyond.

As the holiday season is upon us, we find ourselves reflecting on the past year and those who have helped to shape our business. It has been quite a year for us all! We appreciate working with you and hope that the holidays and the coming year will bring you happiness and success.

Sources:

(1) Factset Earnings Insight 5-Nov-2021
(2) New York Times, September 1, 2021
(3) https://www.johndclare.net/Weimar_hyperinflation.htm
(4) Bloomberg LP

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MARKET BENCHMARK RETURNS

November 30, 2021		1M	3M	12M	YTD
US Large Cap	S&P 500	7.0%	5.1%	42.9%	24.0%
US Small Cap	Russell 2000	4.3%	3.4%	50.8%	17.2%
Developed Intl	MSCI EAFE	2.5%	1.2%	34.2%	11.0%
Emerging Intl	MSCI Em Mkt	1.0%	-0.5%	17.0%	-0.3%
Real Estate	NAREIT	6.9%	3.0%	46.3%	29.8%
Core Fixed	BarCap Agg	0.0%	-1.1%	-0.5%	-1.6%
Short Fixed	BarCap 1-3Yr	-0.3%	-0.4%	0.0%	-0.2%
Long Fixed	BarCap LT G/C	1.6%	-1.0%	0.2%	-3.0%
Corp Debt	BarCap Corp	0.2%	-1.1%	1.9%	-1.1%

Source: Bloomberg

The performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.