

## OBSERVATIONS

- Corporate insider selling reached a weekly record during the week ended 14-Nov — nearly \$8.5 billion worth of shares were sold.<sup>1</sup>
- Choppiness in markets continues as the S&P 500 gained +3.8% last week to close out the week at a new record high.<sup>1</sup>
- While established tech companies have performed well this year (S&P 500 Information Technology sector +28.7% YTD as of 6-Dec), new publicly traded tech companies have seen dismal returns. Of the 55 tech companies that debuted in U.S. markets in 2021 by going public, all but one are down more than -20% from their peaks and 23 have lost more than half their value.<sup>1,2</sup>
- Europe now has 321 technology unicorns (companies with valuations in excess of \$1bn), overtaking China's 300, while the U.S. boasts 1,178 such private companies.<sup>3</sup>
- The U.S. labor market remains strong as the number of job openings increased to 11 million in October according to the most recent JOLTS report from the BLS, and 4.2 million Americans voluntarily quit their job during the month—both figures are near the record highs registered earlier in the year.<sup>4</sup> Meanwhile weekly initial unemployment claims declined to a seasonally adjusted 184k—the lowest level since 1969.<sup>5</sup>
- Evergrande shares hit a new low last week as China's second largest property developer defaulted on \$82.5 million interest payment as Chinese authorities oversee a slow-motion collapse of the firm.<sup>6</sup>
- The UN's Food and Agriculture Organization (FAO) reported world food prices are at the highest level since 2011, having now increased +27.3% from this time last year.<sup>7</sup>
- Inflation continued to move higher with topline inflation hitting 6.8% year-over-year (yoy) in November and core-CPI reaching 4.9% yoy—although in line with expectations these are the highest figures in 39 years.<sup>8</sup>

## EXPECTATIONS

- China's central bank, The People's Bank of China or the PBOC, moved to reduce the reserved requirement ratio (RRR) for banks for the second time this year in a bid to promote a decline in financing costs to simulate the economy as it continues to deal with property sector concerns. *The RRR is the regulatory level of cash that Chinese banks must set aside.*
- Olaf Scholz was sworn in as the new Prime Minister of Germany last week formally ending the 16-year tenure of Angela Merkel. The pro-business, center-left veteran politician has to balance Germany's goal to decarbonize its energy market, its current dependence on Russian natural gas and its desire to support Ukraine.<sup>9</sup>

## ONE MORE THOUGHT: PPP (not the Paycheck Protection Program)

As we start thinking about 2022, markets (particularly domestic equity markets) will enter the new year on very different ground as compared to 2021. Importantly, most of what we are about to touch on relates to longer term

<sup>1</sup> Bloomberg LP

<sup>2</sup> <https://www.cnn.com/2021/12/07/tech-ipo-a-bad-bet-in-2021-all-but-one-in-bear-market-territory.html>

<sup>3</sup> [https://www.wsj.com/articles/europe-tops-china-in-spawning-1-billion-tech-startups-11638869014?mod=markets\\_lead\\_pos6](https://www.wsj.com/articles/europe-tops-china-in-spawning-1-billion-tech-startups-11638869014?mod=markets_lead_pos6)

<sup>4</sup> <https://www.bls.gov/news.release/jolts.nr0.htm>

<sup>5</sup> <https://www.dol.gov/ui/data.pdf>

<sup>6</sup> <https://www.ft.com/content/a19d7092-1582-446e-98d7-b7db6f01d34d>

<sup>7</sup> <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

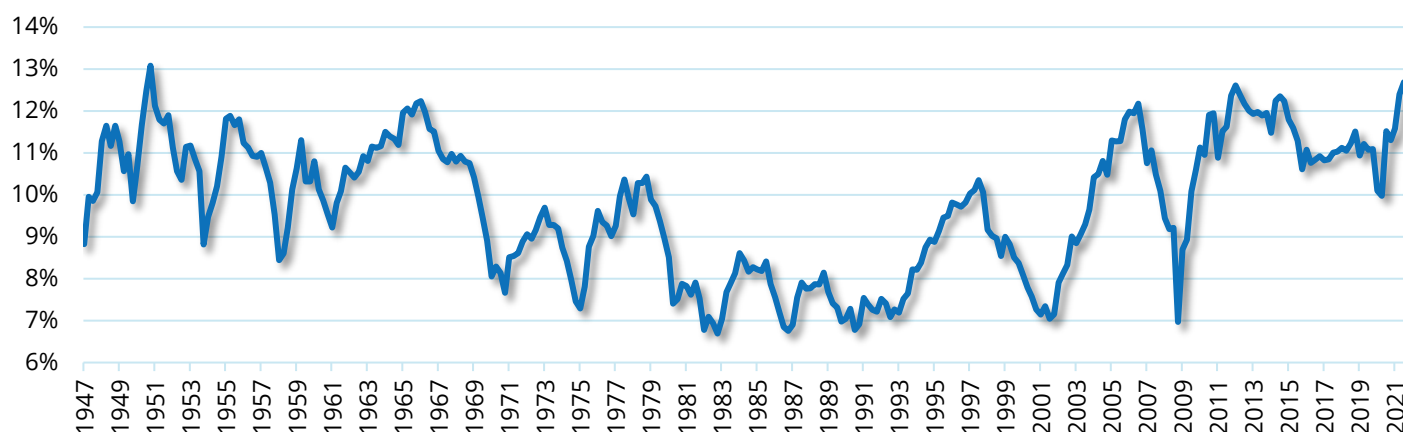
<sup>8</sup> [https://www.wsj.com/articles/us-inflation-consumer-price-index-november-2021-11639088867?mod=hp\\_lead\\_pos2&mod=hp\\_lead\\_pos1](https://www.wsj.com/articles/us-inflation-consumer-price-index-november-2021-11639088867?mod=hp_lead_pos2&mod=hp_lead_pos1)

<sup>9</sup> <https://www.wsj.com/articles/germanys-scholz-takes-power-after-merkels-16-year-rule-11638955183>

prospects as we remain constructive on the economy and in turn capital markets in the very near term, albeit with lesser conviction than when we started 2021. The tongue in cheek reference to 'PPP' we are referring to is related to three peaks: peak valuations, peak profit margins, and peak profits. We observe a set of conditions that, all else equal, should help form a more subdued set of long-term expectations for returns (broadly speaking). On valuations, while markets did in fact get 'cheaper' (lower price-to-earnings ratio) throughout the year, they remain high. Meanwhile, corporate profits — thanks in part to a few trillion dollars of fiscal stimulus and historically low interest rates — reached a fresh new calendar year high in 2021. Lastly, profitability is right back to all-time highs (chart of the week) as corporate America rebounded in the post pandemic economy. There are some near certainties for all three of these measures being at peak, as they tend to be governed by economic and social principles that tend to force them to revert to long run trends over time. Of course, we cannot predict how or when that will happen (something we call path dependency), though it seems logical that the central tendency for all three variables is likely lower from where we sit today. In the end, what that means for our clients is once again a focus on ensuring investment portfolios are aligned with goals, optimizing tax planning, and level setting expectations for what could be, in all likelihood, a lower than average 10-year period going forward.

## CHART OF THE WEEK

### Quarterly Pre-Tax Corporate Profit Margins



Source: St. Louis Federal Reserve - Corporate Profits w/ Inventory Valuation Adjustment & Capital Consumption Adjustment as % of GDP, 30-Jun-2021

U.S. corporate pre-tax profits as share of GDP hit 12.7% in Q2-2021 the second highest reading on record since WWII, and they are the highest on record ever on an after-tax basis. Meanwhile, analysts are no longer revising upwards earnings growth expectations for Q4-2021.

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