CLEARPOINT

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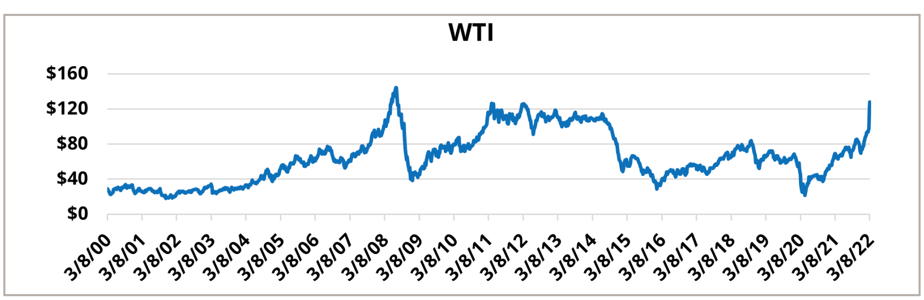
ADAM BLAKE, AIF®, SENIOR MANAGING DIRECTOR

OILS NOT WELL

BY ADAM BLAKE, AIF®, SENIOR MANAGING DIRECTOR

Since Russia invaded Ukraine on February 24th, oil prices have spiked over concerns of supply chain disruption. According to the U.S. Energy Information Administration, the world is producing and consuming around 100 million barrels of oil per day. So even a small disruption in supply from Russia can create an imbalance and send prices climbing. The price of oil started the year at $77.78 per WTI barrel and reached $127.98 on March 8th, an increase of over a $50 per barrel or 64.5%.[1] We have all come to learn over the last few years that there is a fragile balance of supply and demand for oil. When demand fell sharply from the global pandemic lockdown in March-April 2020, oil fell to $21 per barrel and subsequently experienced a strong rebound as the global economy recovered.[1] The latest price spike is clearly a supply side issue. Unfortunately, without any clear near-term resolution, higher oil prices may be felt for some time. Energy infrastructure projects are generally large scale in nature and capital intensive, and therefore, may take several years to have a meaningful impact. With many swift swings in oil prices during the last few years, we want to briefly explore how this is felt by consumers.



Source: Bloomberg.

CLEARSTEAD CONTINUES TO BOLSTER TEAM WITH NEW TALENT

We are pleased to announce that we have added talent to the Institutional Consulting Group with Bayley Miozzi and John Lenehan.

Bayley Miozzi joined Clearstead as an Associate ICG Consultant. She recently graduated from The Ohio State University with a Bachelor's degree in Finance.

John Lenehan has also joined Clearstead as an Associate ICG Consultant. Prior to joining Clearstead, John was an Analyst at Crawford United Corporation. He has a Bachelor's degree in Finance from the University of Dayton.

These changes underscore the firm's commitment to building its investment consulting practice, promoting the next generation of leadership, and maintaining a rigorous investment process.

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Although there is a global price of oil per barrel traded in U.S. Dollars, the price of gasoline globally has wide dispersion. The price of gasoline around the world is a factor of oil prices, cost of refining, transportation, marketing, and taxation. The table on the right shows the price per gallon of gasoline in a few countries around the world.

OCTANE-95 AS OF 3/14/2022	GASOLINE/GALLON (USD)
Kuwait	$1.31
Colombia	$2.37
Indonesia	$3.40
Mexico	$4.18
Kenya	$4.45
United States of America	**$4.69**
China	$5.14
Australia	$5.38
Japan	$5.50
Romania	$6.68
United Kingdom	$8.06
France	$8.23
Germany	$9.12
Hong Kong	$10.90

Source: globalpetrolprices.com.

The Consumer Price Index (CPI) was created 100 years ago in 1921 by the Bureau of Labor Statistics to show how food prices had doubled from 1913 to 1920. CPI is reported monthly and represents the price change of a basket of urban consumer goods and services. Large survey samples are collected to identify what consumers are purchasing, and the prices of hundreds of goods and services are then tracked.

The February CPI was released on March 10th and confirmed what many consumers were feeling: high inflation. The reported 7.9% CPI was the highest rate in 40 years.[2] If you are curious, the report is very detailed, and you can see the change in cost from a frankfurter to dog food. The table below pulls out a few data points from the February report. The weight percentage represents the portion of expenditures incurred by consumers. For example, food accounted for 13.39% of consumer expenditures. The cost of food items tracked increased 7.90% from a year earlier, which happens to be the same rate as overall CPI. We applied these rates to a family who spends $50,000 per year. This number is arbitrary but probably not far off from an average household. (According to the U.S. Census, the median household income in 2020 was $67,521.) Spending $50,000 per year in this example would not account for taxes or savings. Back to the food inflation example: Annual food cost increased to $6,695, up from $6,205 just 12 months earlier.

CPI suggests that motor fuel accounts for 3.79% of consumer expenditures. The price increased by 38.1% from a year earlier. In annualized dollar terms, that's a $523 increase. While fuel costs represent a relatively smaller portion of a household's expenses, the sharp increase over the last 12 months is having an outsized impact, about 14% of the total CPI growth over the last 12 months.

CPI - Feb 2022			Applied to Expenditures		12 Months Earlier	
	Weight	YoY Change	$50,000 Per Month (1/12)		Annual	Difference
Food	**13.39%**	**7.90%**	**$6,695.00**	**$557.92**	**$6,204.82**	**$490.18**
Energy	**7.41%**	**25.60%**	**$3,705.00**	**$308.75**	**$2,949.84**	**$755.16**
Motor Fuel	3.79%	38.10%	$1,895.00	$157.92	$1,372.19	$522.81
Electricity	2.54%	9.00%	$1,270.00	$105.83	$1,165.14	$104.86
Commodities less Food and Energy	**21.80%**	**12.30%**	**$10,900.00**	**$908.33**	**$9,706.14**	**$1,193.86**
Household Furnishings	3.98%	10.30%	$1,990.00	$165.83	$1,804.17	$185.83
Apparel	2.50%	6.60%	$1,250.00	$104.17	$1,172.61	$77.39
Transportation less Motor Fuel	8.78%	23.90%	$4,390.00	$365.83	$3,543.18	$846.82
New Cars and Trucks	4.09%	12.40%	$2,045.00	$170.42	$1,819.40	$225.60
Used Cars and Trucks	4.17%	41.20%	$2,085.00	$173.75	$1,476.63	$608.37
Services Less Energy Services	**57.40%**	**4.40%**	**$28,700.00**	**$2,391.67**	**$27,490.42**	**$1,209.58**
Shelter	32.80%	4.70%	$16,400.00	$1,366.67	$15,663.80	$736.20
Total CPI-U	**100.0%**	**7.9%**	**$50,000.00**	**$4,166.67**	**$46,339.20**	**$3,660.80**

Source: Bureau of Labor Statistics.

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It is somewhat easy to quantify the cost of increased oil prices from what we see at the pump; however, the broader impact is far greater than the simple calculation above suggests. Most products and services, to varying degrees, are affected by the price of oil. There are several indirect costs related to higher oil prices too; products made from petroleum, such as plastic, cost more with higher oil prices. The cost of transporting products is meaningfully higher, and companies will pass along shipping costs to consumers.

By most accounts, the U.S. economy is performing well with historically low unemployment and solid wage growth. Up to this point in our economic recovery, consumers have been willing and able to accept price increases. The portion of living expense directly tied to motor fuel is relatively small, but the dramatic increase could have an immense impact to the consumer psyche. Just like there is a fragile balance between global supply and demand of oil, there is a balance of income and expense for the consumer. A prolonged disruption in global oil supply may cause higher inflation and potentially slower economic growth. On the flipside, a reprieve from the current high oil prices would be well received by consumers and a boost in confidence.

Sources:
(1) Bloomberg
(2) Bureau of Labor Statistics

MARKET BENCHMARK RETURNS

March 31, 2022		1M	3M	12M	YTD
US Large Cap	S&P 500	3.7%	-4.6%	15.6%	-4.6%
US Small Cap	Russell 2000	1.2%	-7.5%	-5.8%	-7.5%
Developed Intl	MSCI EAFE	0.6%	-5.9%	1.2%	-5.9%
Emerging Intl	MSCI Em Mkt	-2.3%	-7.0%	-11.4%	-7.0%
Real Estate	NAREIT	6.8%	-5.3%	22.1%	-5.3%
Core Fixed	BarCap Agg	-2.8%	-5.9%	-4.2%	-5.9%
Short Fixed	BarCap 1-3Yr	-1.4%	-2.5%	-2.9%	-2.5%
Long Fixed	BarCap LT G/C	-3.9%	-11.0%	-3.1%	-11.0%
Corp Debt	BarCap Corp	-2.5%	-7.4%	-4.2%	-7.4%

Source: Bloomberg

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