Palmetto Wealth Management

# Déjà vu – All over again!

**John M. Gustafson – 31 December 2021**

*"Half the lies they tell about me aren't true."* - *Yogi Berra*

As 2021 comes to a close we seem to remain in a very similar situation to last year, although depending on which side of the media aisle you consume, perception can be very different.

The economic recovery from the initial COVID recession continues to be strong, unemployment is at levels not seen since before I was born, inflation has ticked-up, but nowhere near the doomsday scenario regularly trumpeted by some of the media and the supply chain issues at American ports have been mostly resolved. (Side note: There is a cool app called "Marine Traffic" you can download for free that will show you what's going on at almost any port in the world. Back in late summer you could see dozens of boats sitting at anchor up and down the east and west coasts. Now? Almost none...)

One of the strange things that has caught my attention lately is that the same people who want to do their own research along epidemiological lines seem more than happy to simply swallow whatever economic message is pitched by their team, regardless of personal experience and observations. It is life in the post-truth, alternative facts era where any angle of desired outcome can be found to be "true" and all opinions / sources are supposed to matter equally. Weird...

*"You have to be very careful if you don't know where you're going, because you might not get there."* - *Yogi Berra*

As everyone likes to proclaim, "The stock market isn't the economy," and that is true... *But*, the global capital markets are excellent future discounting mechanisms for economic expectations. If investors on the global scale didn't think the U.S. Economy was heading onward and upward despite ongoing pandemic headwinds, there is zero chance the stock market would continue to reach new highs month after month. There is no irrational exuberance in our markets, our society or clearly in our politics right now. Everything is doom and gloom and the market continues to climb the wall of worry. It is why I remain cautiously bullish going into 2022.

*"The future ain't what it used to be."* - *Yogi Berra*

One of the real issues worth watching is what is causing some of the inflation we're experiencing. There has been a flood of monetary stimulus that is still sloshing through our economic veins, but a severe lack of capital expenditure on infrastructure over the years has left a lot of dollars chasing a scarcity of product. We'll see if the bill finally passed in October can bring about any change along those lines – I'm confident it will, but not quickly for sure.

Another issue that is constantly cited as doom and gloom is actually a positive indicator for our economy – tight labor and large numbers of people quitting their jobs. Yes, it will hold back growth in the near term, but it shows that despite (again) media reports, Americans are mostly in a good spot financially. Nobody quits their job if they aren't sure they can get something better to pay the bills. And as of mid-November, there were 7 people unemployed for every 10 job openings - and not all of them on the lower end of the wage scale.

There have, however, been almost 5 million people who have left the workforce during the pandemic - coupled with near zero legal immigration has created much of this deficit. Higher wages are unlikely to change that quickly – we simply don't have enough people. (Something discussed in these notes over the past few years.) One key anomaly to the current shortage is that 70% of the 5 million are over 55 years old and simply decided to retire rather than return to work. Likely another consequence of the rising capital markets and partially for health concerns.

*"You can observe a lot by watching." - Yogi Berra*

Another good sign for the economy was the worry over the Federal Reserve backing away from their easy money policies. Recently they announced that there will likely be three interest rate increases in 2022 and the markets rose on that release. Why? Because that shows confidence in the sustainability of our current growth path.

My firm has been in business for over 12 ½ years and for the vast majority of that time, generic savers have been punished by earning literally nothing on their cash holdings. We had just begun to creep into the positives in late 2019, the pandemic arrived and we were quickly moved back to zero to fight the flash-recession.

Giving savers a little boost in 2022 may actually help to further de-risk the equity markets. I know our significant cash-cushion will feel better earning something. In my opinion, there are a significant number of people who hold far too many risky securities for their individual profile in order to generate returns they need to live. Even if those funds are moved back into more traditional fixed-return items there remains plenty of liquidity to soak up the equity supply as they transition. Healthy, long-term holders who won't panic quite as easily is a stabilizing force for all of us.

*"He hits from both sides of the plate. He's amphibious" - Yogi Berra*

As we all witness daily, the amazing hypocrisy of Washington D.C. continues and has risen to such a level of ridiculousness that if presented with a generic statement you would have to also be told of the issue at hand in order to determine the party. Both sides seem to use the same language to argue opposite positions on multiple issues and switch sides of the stadium at will. As if their comments can't easily be found on video from the not-so-distant past. It is completely performative in nature by those on the extremes. But as we all can also see, small dollar donors on the margins have become the engine that drives political causes. Makes you almost miss the corporate pandering for tax break of old.

The good news along this front is that we are unlikely to get any new and crazily partisan legislation passed – especially in a midterm election year where retirements and recent gerrymandered election maps will almost certainly swing control of the House. The bad news is that this continued infighting and anger fomenting is a weakening distraction that our enemies will continue to use against us.

One thing for sure is that America's Overton Window has had an enormous shift over the past several years and is unlikely to swing back with the current players in the game.

*"You don't have to swing hard to hit a home run. If you got the timing, it will go." - Yogi Berra*

Finally, the pandemic... I think one thing the strong markets are showing us is that the pandemic is likely to morph into an endemic situation in the not-too-distant future. With three vaccines that keep people from getting very ill when exposed and several treatments that have proven successful for those who do get sick, it seems like this is something we'll just have to deal with for the next few years.

As for our portfolio plans, because 2021 was a strong year in certain sectors we will be running a rebalancing action sometime in January. Just to make sure our allocations are back in line with the environment and scenarios outlined here. Strong U.S. exposure, flexible bond exposure and just enough foreign holdings to bring about balance without adding too much risk. At this point, no major changes, but the final evaluations could alter things slightly. Stay tuned for that note in a couple of weeks...

*"When you come to a fork in the road, take it." - Yogi Berra*

At the end of last year, we all kind of hoped more "normal" times lay ahead. I'm bringing that positive thought with me at the end of this year. I wish you all a healthy, happy and prosperous 2022 – we'll work on the third part over here and you can concentrate on the first two.

Thank you as always for your business, trust and friendships. If you have any questions or need anything in the interim, please reach out via phone, text or email. Cheers!