Palmetto Wealth Management

The Sunny Side of the Street

John M. Gustafson – 30 June 2021

Grab your coat and get your hat
Leave your worry on the doorstep
Just direct your feet
To the sunny side of the street

– Louis Armstrong

For the first time in several years, things in United States seem... Calm. Nothing is ever perfect, of course, but the temperature has certainly been lowered in Tribal-America and new grievances aren't fomented daily. Although there are competing voices in cable news that still seem to try to fight off ratings slumps by continuing to focus on open wounds, it's nice to not really pay attention minute-by-minute and not worry when you don't.

The markets across the globe have continued to strengthen as the global economy slowly comes back online. There are plenty of remaining supply disruptions – some COVID-related and some not (try to find a new car!) but nothing seems overly stretched in terms of valuation at this point.

The one issue that the screaming media like to harp on for a fear trigger is inflation. They love to breathlessly state how "historic" the jump was May 2021 vs May 2020 – yet seem to also forget to state that everything was basically shut down worldwide 12 months ago, so of course pent up demand and currency are chasing scarcity in the short term.

The usual (erroneous) straight line projections are being flung about like Chicken Little and as per usual, they are simply incorrect. A favorite I'd heard from the mouths of those fighting the current admin was "Lumber prices are through the roof!" Who knew so many people had building projects that simply had to be completed right now?!?

Not surprisingly, the prices, measured in "board feet," have dropped 41% since peaking in May, according to the *Wall Street Journal*. Other commodity prices across the board have also fallen from highs as China ramps up their production once again and the U.S. dollar gains strength versus the rest of the world.

It stands to reason that a growing economy will lift prices in the long run, but it's not a systemic, short term issue. Inflation can also be handled by the Fed if needed, but ask the Japanese how difficult it is to force growth if the capacity of your economy isn't driving forward because of demographics. Treasury yields across the board are moderating to reflect these expectations as well. There could be more spikes as wages rise, but it's something to monitor and not fear at this time.

"Say and do something positive that will help the situation; it doesn't take any brains to complain." - Robert A. Cook

Does all that mean we are out of problems? Hardly... If you look through these notes over the past decade I am clearly not a Pollyanna when it comes to the economy, the markets, etc. But it does mean that media outlets are working hard to find a bogeyman to fill their timeslots and clearly struggling to highlight real problems.

Are things fully back to "normal?" Of course not, but with all the COVID stimulus sloshing around in the economy, people being released into the wild after getting vaccinated, there is true, organic demand once again for goods and services. Anyone who has traveled in the past couple of months can easily see that. There is also an infrastructure deal that both sides seemingly want in the offing and the dirty little secret that all politicians understand is that deficit spending works to keep the economy rolling along.

"When a nation goes down, or a society perishes, one condition may always be found: they forgot where they came from. They lost sight of what had brought them along." - Carl Sandburg

We do have a bit of a governor on the potential growth because of our continued immigration problems. It has become such a politicized discussion the past decade or so – and really back into the early 20th century when different foreigners were frowned upon than what we see today- but the reality is that we need more people – period. Just as before the pandemic, there are currently more job openings than there are people on unemployment or looking for work. Finger-pointing at a few extra shekels each week explains some of the disconnect, but in many cases the people simply aren't located where the jobs are open and Americans just don't move for work the way we did in the past.

This also doesn't mean we need to fling open the doors and allow everyone in, but to act as if we can continue to grow the economy at a reasonable pace (or at all) with only the people currently in our country is simply not grounded in logic. This is a situation always on the radar because our current crop of politicians aren't really about solving problems, they are more into inciting grievances, pointing out perceived unfairness and generally complaining to get reelected by their respective teams.

“Some people don’t like change, but you need to embrace change if the alternative is disaster.” - Elon Musk

There are a few things from the pandemic that have changed global economies for the good and are where I’m currently searching for new opportunities. The first is that workers clearly learned and came to enjoy working from home or in a hybrid situation. It’s going to be interesting what new technologies or enhanced communications grow from this situation as many large corporations are looking at allowing at least a modified office / home schedule to continue for those jobs capable of functioning offsite.

Travel was clearly affected as well. The airlines had already been seeing a decline in business travel pre-COVID and that door has now been seemingly sealed shut with the explosion of video conferencing like Zoom, MS Teams and Google Meet that everyone learned to use flawlessly last year. The good news for the airlines is that passion for travel was clearly pent up and now that the doors have been flung open by Pfizer, Moderna and J&J, there is plenty of demand to fill those seats once again. It will be interesting to see if that continues once people are back to work more regularly and the stimulus money has all been spent.

Another area that looks promising going forward is in the medical fields – all across the board. Research and development of rapid treatment responses, enhanced ways in which we treat injuries and illness is something that was clearly on display last year with tremendous success.

Delivery systems, payments for service, manufacturing of the actual drugs was something that revealed critical weakness, especially in the U.S. The global economy has never been more efficient in the movement of goods and the integration of business across the globe... Until it failed and shut down because of the pandemic.

Regardless of your opinion on China and what type of threat they are to the U.S. position (strategically and/or economically) in the world, we clearly saw that we depend far too much on that part of the world for basic, raw materials for much of our durable goods manufacturing and especially the base compounds for drug production.

The failed tariffs were all placed on components and not finished goods and that clearly did little to remove our dependence – it simply made everything more expensive. Hopefully the disaster at the start of the pandemic and the clear realization that our most critical supplies are not controlled domestically in an emergency begins the permanent migration home. We grow plenty of food in America, but we clearly need to get back to making more of the base materials that run the rest of our lives. Once again, not ALL of the “guns and butter,” but certainly those to help protect us and keep citizens healthy.

I have a feeling that many smart corporations who were truly put into a bind are already lobbying for law changes and whatnot to help smooth that transition back to more onshore facilities and production. And hopefully the idiots in Washington D.C. are listening and aid in those efforts.

It’s good for American jobs but it’s clearly also good for our health & safety in a world where global travel is only going to grow and another pandemic is probably on the horizon in the not-too-distant future.

“The reason people find it so hard to be happy is that they always see the past better than it was, the present worse than it is, and the future less resolved that it will be.” - Marcel Pagnol

Finally, growth from the abyss was the driver over the past twelve months and value took a break. Now that we have accelerated away from the lockdowns, large, more value-oriented and stable companies look attractive to further bolster our cash flows and moderate volatility. Stable dividend payments remain at levels above any bonds with a similar risk profile for the issuer.

At this point you can expect a rebalance of the core portfolios soon to make sure we’re positioned for continued growth and maximized benefit from this evolving economic outlook. The title of the note last quarter was “The Pause that Refreshes” and thankfully that was the case. Now it is time to trim the sails and continue our journey on what feels like fair winds and following seas.

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!