MINK WEALTH MANAGEMENT

LEGACY & RESPONSIBILITY TO FAMILY

MACRO MUSINGS

September 21, 2021

Pandemic Aftershocks

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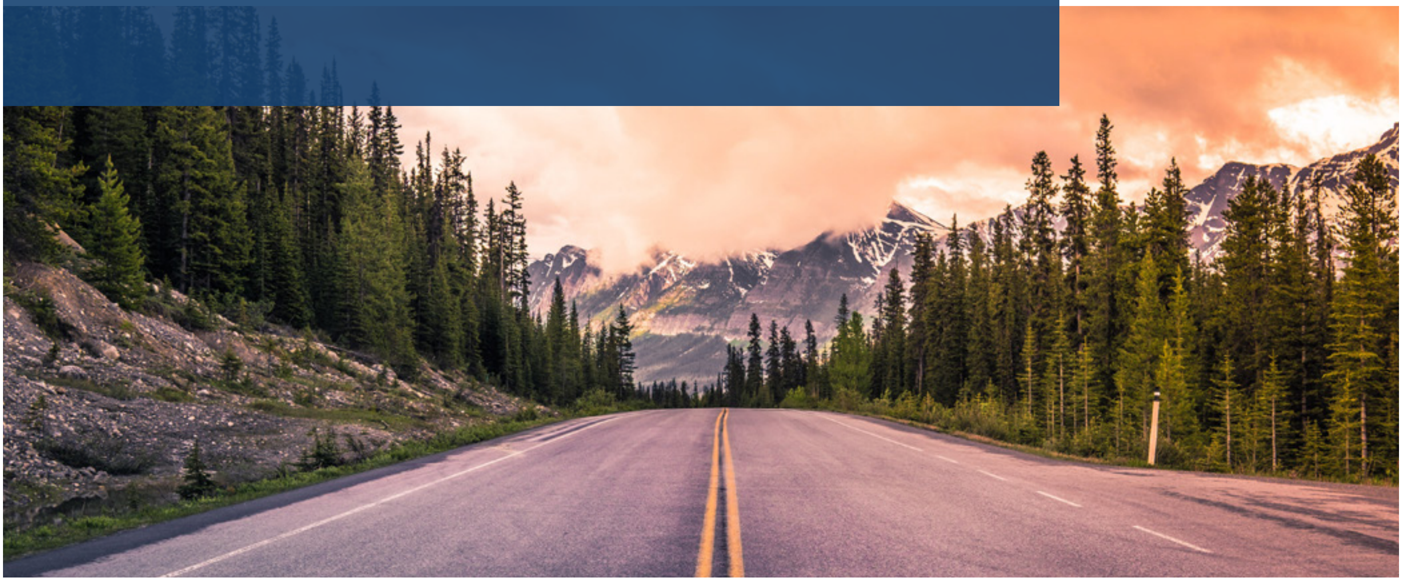


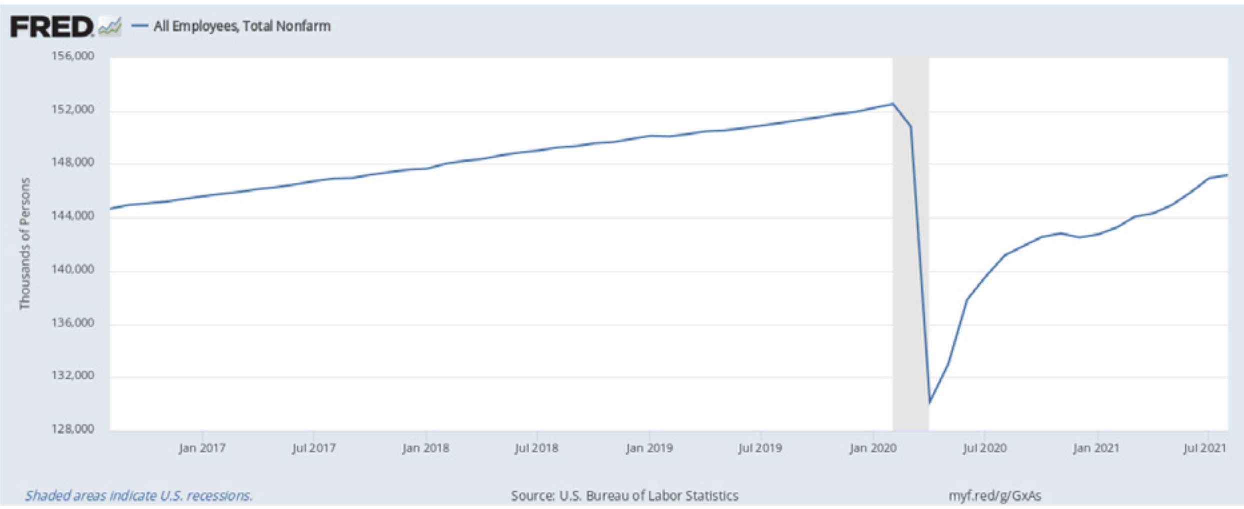
SUMMARY

- Job openings are at all-time highs, yet unemployment remains elevated. This conundrum is due to pandemic dislocations and government policy. We believe that these factors have either resolved or will do so in the coming months, leading to continued job growth.
- Inflation worries persist, but the pace of price increases seems to have peaked over the summer. Inflation related to the pandemic should continue to slow.
- Through August, year-to-date returns for the S&P 500 are the 6th highest since 1950. Historically, when the market was up at least 19% in the first eight months, it finished the year with a median gain of 5.4% and positive returns in 7 of 9 instances.

JOB GROWTH SHOULD REMAIN **STRONG FOR A WHILE**

There are now more jobs available in the US than at any other point in history. Total job openings are just under 11 million:

Despite this, employment is still below the peak levels of February 2020:



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What is going on? There are several theories, which we highlighted in the May Macro Musings. At this stage of the recovery, we believe the following three issues have been the biggest contributors, and we surmise that at least two of them are in the process of resolving.

1. **Unemployment benefits.** For at least some workers, unemployment benefits either matched or exceeded their previous income, so the incentive to return to work was significantly reduced. These benefits have now expired across the country, and, in fact, several states discontinued these benefits months ago. The difference in job growth between those states and the ones that kept the benefits in place is minimal, at least based on the initial data. Either way, this should no longer be an issue.

2. **Uncertainty around schools.** While almost all schools and daycares in the United States are running at full capacity, uncertainty around closures remains. Several school systems have already had to quarantine thousands of students due to covid outbreaks. We believe this concern will become less of a factor as schools figure out the best approach to keeping kids in the buildings and vaccines are approved for children ages 5-11, with younger children following soon after.

3. **Accelerated retirement of Baby Boomers.** It's estimated that as many as 2.5 million seniors have left the workforce since last year. Although some may choose to return, we think the vast majority will stay retired. Many of these individuals were planning on leaving the workforce already, but the pandemic may have accelerated those retirements.

Given the anticipated resolution of these issues, we expect job growth to remain robust and potentially accelerate in early 2022.

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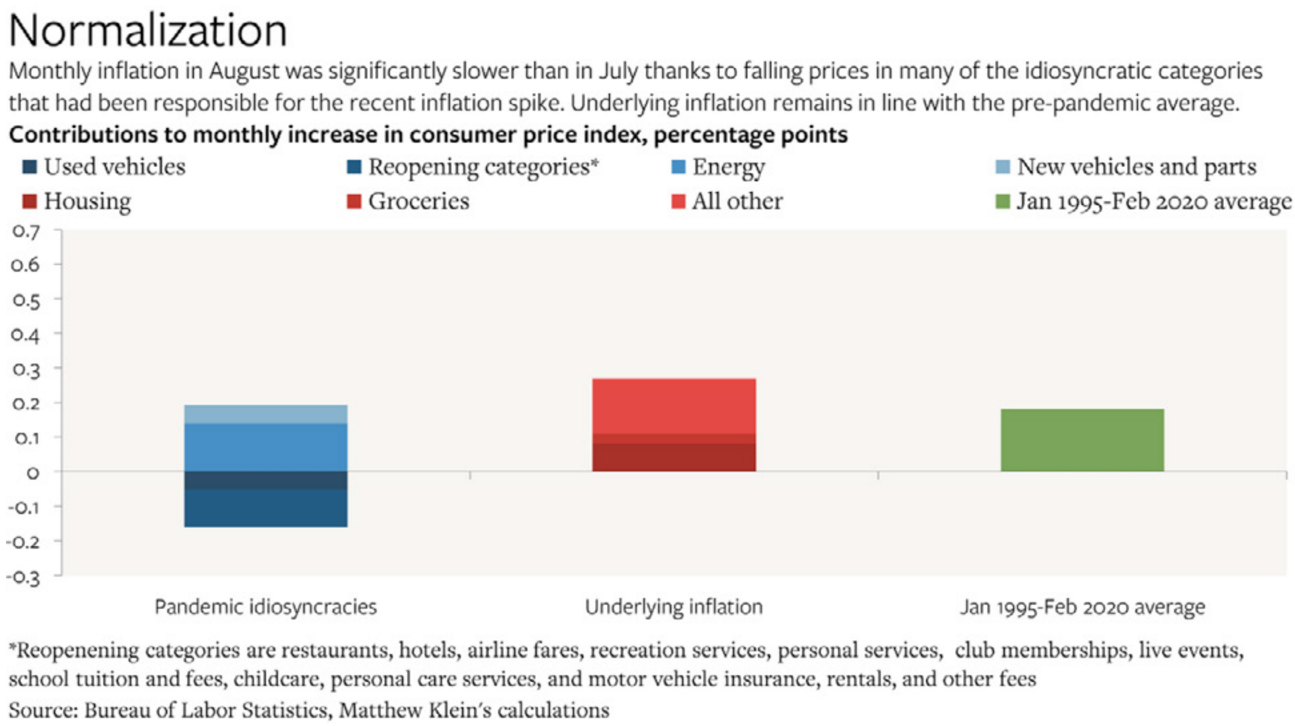
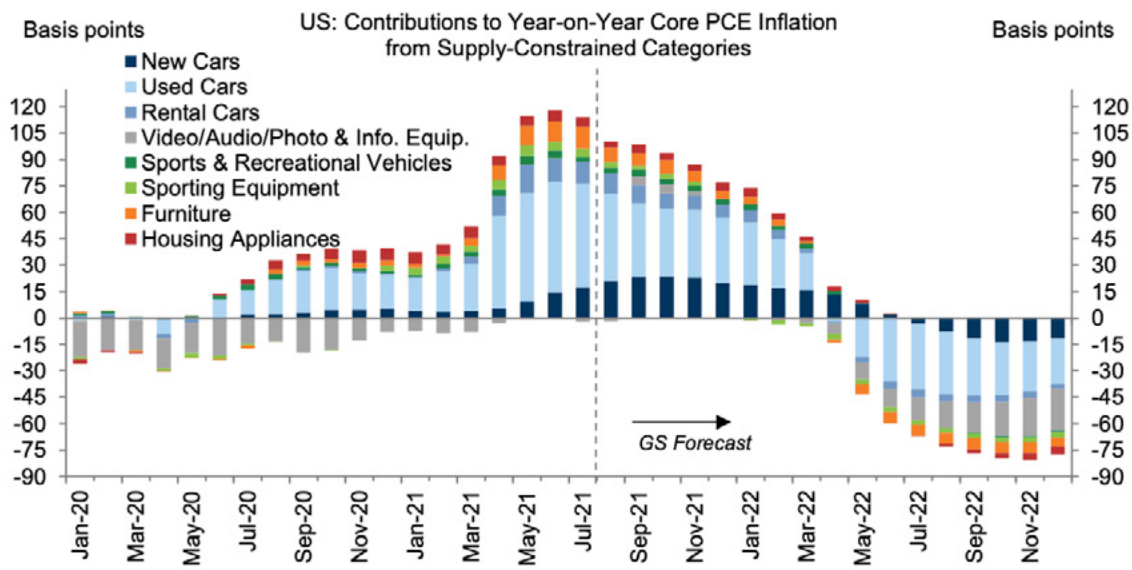
INFLATION WORRIES REMAIN, **BUT WE ARE LIKELY PAST PEAK**

Inflation in the United States likely peaked in June or July. The chart below shows that while underlying inflation remains higher than the last 25 years, pandemic related price increases have come down from earlier this summer (from Matthew Klein):



These trends are expected to continue. Contributions to inflation from supply-constrained areas of the economy are projected to continue falling through year-end and have a negative impact on inflation by mid-2022 (from Goldman Sachs):

Exhibit 4: A Bigger Overshoot Now Implies a Bigger Drag on Spot Inflation Down the Road



Source: Department of Commerce, Goldman Sachs Global Investment Research

While concerns over inflation have dominated company earnings calls and generated some anxiety among consumers, the fear may be overhyped. Each month, the National Federation of Independent Business (NFIB) surveys business owners on what the "most important problem" they are facing is. While inflation worries have unquestionably risen, the percentage of business owners who say inflation is the biggest worry is well below the high inflation period of the 1970s. In fact, it is even below the levels seen in 2008!

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STRONG STARTS **TEND TO FINISH STRONG**

2021 ranks as the sixth-best year for the market through August. Strong returns through August typically resolve bullishly. Of the top ten best starts to a year, eight were positive from September through year-end, with a median gain of 5% (chart from LPL):

A Good Start To 2021 Could Mean A Strong Finish

10 Best Starts To A Year Ever For The S&P 500 Index

	As Of End Of August		S&P 500 Returns	
Year	YTD Return	All-Time Highs	September	Rest of Year
1987	36.2%	47	-2.4%	-25.1%
1975	26.7%	0	-3.5%	3.8%
1989	26.5%	7	-0.7%	0.6%
1995	22.3%	51	4.0%	9.6%
1997	21.4%	40	5.3%	7.9%
1954	20.2%	0	8.3%	20.6%
1955	20.0%	37	1.1%	5.3%
1991	19.7%	20	-1.9%	5.5%
1986	19.7%	29	-8.5%	-4.3%
1958	19.4%	0	4.8%	15.6%
2021 (6th Best Start Ever)	20.4%	53	?	?
	Average		0.7%	4.0%
	Median		0.2%	5.4%
	% Positive		50.0%	80.0%

Source: LPL Research, FactSet 09/01/21

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Interestingly, September returns were only higher half the time, with median gains barely above zero. This September seems to be following that playbook, with negative returns month to date (as of Monday, September 20th).

In addition, the only two negative finishes occurred back to back, in 1986 and 1987. In 1987, the market was off to its best start ever, only to crash in October. We view the likelihood of another crash as minimal. There is a reason that 1987 sticks out in investing history. Price action like that is a rare occurrence!

In summary, we expect robust job growth to continue as pandemic-related factors subside, inflation remains high but is slowly heading in the right direction, and despite the recent sell off, the market is having one of the best performances ever to start the year, which historically bodes well for the rest of the year.

Thank you for taking the time to read our latest thoughts and for your continued trust in Corbett Road.

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