630 Business Center Drive, Third Floor, King of Prussia, PA 19406 • www.tp-advisory.com
Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

Pause

Global Markets and Regions

	3rd QTR	2021 YTD
US	0.40%	15.30%
Developed Europe	-1.50%	10.60%
Asia	-4.50%	0.00%
Emerging Markets	-8.00%	-1.00%

US Markets

	3rd QTR	2021 YTD
Dow 30	-1.50%	12.90%
Large Cap Cos.	0.60%	15.90%
Mid. Cap Cos.	-1.80%	15.03%
Small Cap Cos.	-2.91%	23.50%
Bonds	-0.04%	-1.25%

Markets delivered strong return performance through the first half of this year. The same can't be said of fixed income, which produced modestly negative returns. The third quarter has could be described as a pause. US markets have marked time while generally holding their earlier gains. The other global markets are showing the strains of Covid and the post Covid economy.

The global economy remains stressed as Covid slowly and haltingly recedes. Many countries are maintaining or re-imposing shutdowns and restrictions in the face of Covid resurgences. Non-US entities have been more restrictive in their response. The world's largest economies are struggling to regain their growth trajectories. China, the world's second largest economy, is facing an additional economic crisis on par with the 2008 financial crisis in the US. Evergrande, a massive $300 billion real estate funding entity is facing possible bankruptcy. Their economy may already be in recession. The fallout to countries and companies doing business with China has not made dealing with Covid any easier.

While the US is still in recovery mode, we are not quite back to where we were pre-Covid in terms of employment and Gross Domestic Product (GDP) growth. There is still a gap between where the US economy might have been without Covid and where the economy has recovered to post Covid. The US economy is the relative bright spot in an ambiguous global economy.

One of the unforeseen benefits of the Covid disruptions has been an increase in corporate productivity. Working from home has been a big contributor to this and, consequently, to company's profits, the number one driver of stock prices. The benefits have clearly been uneven. Some businesses, especially small businesses, have closed permanently while others have adapted and thrived.

Supply chain disruptions continue to be problematic. Early in the pandemic there were shortages of just about everything from masks to cleaning supplies to hardware and component parts. China/Asia, as ground zero for Covid, is where a majority of these items are manufactured. Some of the early shortages have resolved as others emerge, such as the global shortage of microchips used in just about every machine and device.

Supply chains are complex, having been developed over decades. They just can't be turned on and off. Think back to the Fukushima nuclear plant disaster in Japan in 2011. It sent the global economy and markets into turmoil as companies scrambled to replace key components sourced in Japan. Adjustments were made fairly quickly, but the impact of breaking one link in the global supply chain was significant. Covid disrupted the entire global chain. We are living with the results as those chains are being reconstructed.

This reset, if you will, is being blamed as one of the key drivers of the current surge in inflation. Shortages of goods and key components contributes to rising prices. Couple that with the shortage of labor, from port workers to truck drivers, and we have more reasons for rising prices.

Large parts of the world are experiencing energy shortages and the resulting price surges. Some of it is policy driven as energy producers generally profit from higher prices. But a large contributor is transportation and supply chain issues. For instance, China is having difficulty getting sufficient supplies of coal from Australia due to a combination of policy decisions and Covid disruptions.

A less obvious pricing pressure is the increasing displacement of fossil fuels with Green Energy. For better or worse, Green Energy is not yet ready for prime time. Weather events such as the severe winter weather in Texas earlier this year and the summer time lack of wind in Northern Europe emphasized the power grid's need for on demand reliable energy. When it's not available, prices go up.

Another assist to inflation concerns has been the fiscal and monetary responses to the Covid shut downs. Stimulus and extended benefits have kept the economy afloat for the last year and a half. Personal savings rates have gone up dramatically and household balances sheets (debt) have been repaired. But the huge expansion of the money supply has created the conditions to enhance inflation as re-openings increase overall demand while supply is restricted. For instance, new car prices are up 10%, home prices are up 20% and rents are up 12%. On top of this the new Administration is proposing massive spending, which would boost demand even more. If or when Central Banks have to respond to rising inflation, the markets may not respond well.

In spite of all this, corporate America (stocks) has proven remarkably adept at making money (earnings). We are just starting the third quarter earnings announcement season and it should be quite robust. Strong and rising earnings justify high stock prices. The US economy and markets, for all their volatility, are still far more attractive to investors than the other markets. US markets remain the premier investment choice globally. Besides, all that excess money created by Central Banks worldwide would still rather be in US stocks. Let's hope they can still justify the choice.