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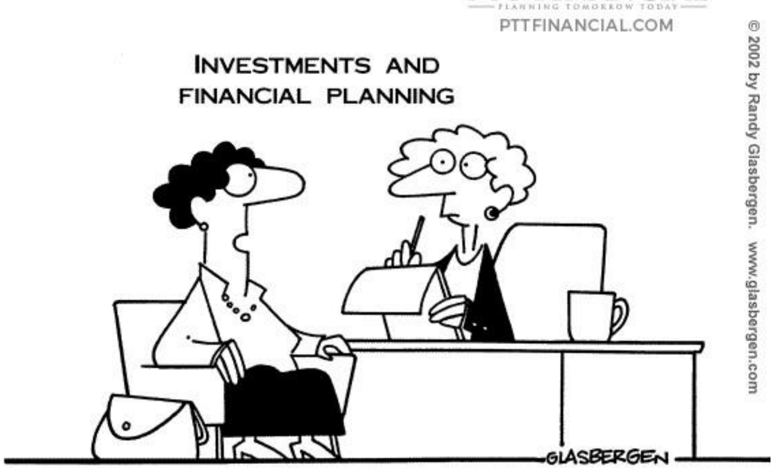

"My investing club has been meeting for four years. So far we've invested $500 in stocks, $100 in bonds and $3000 in coffee and cake."

NOVEMBER 2021

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INSIDE THIS NEWSLETTER

- NOVEMBER COMMENTARY: THAT'S GOING TO LEAVE A MARK
- WASATCH TEAM UPDATE

That's Going to Leave a Mark -Article by Mark Lazar

***It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest.* Adam Smith**

Item	YTD Change
Dow Jones Ind Avg	17.03%
S&P 500 Index	22.61%
EAFE Foreign Index	8.75%
Barclays Agg Bond Index	-1.58%
10-Year Inflation Forecast	2.51%
2021 GDP Growth Forecast	6.7%
Unemployment Rate	4.8%

**Market index data as of 10/31/2021*

Since this month's commentary is lengthier than normal, let's get right to the point; *Inflation*, which occurs when price levels broadly rise. Deflation is just the opposite, and generally associated with periods of severe economic contraction. Simple enough. There are many measures of inflation, but the two most common being the Consumer Price Index (CPI), released by the BLS, and the Personal Consumption Expenditures Price Index (PCE), tracked by the BEA. Of the two, the CPI probably gets more press, as it is used to adjust Social Security payments.

Inflation is calculated by adding up the prices of thousands of different things and comparing them to the prices for the same items in the prior period. The CPI currently includes 200 categories, arranged into eight major groups; food/beverages, housing, apparel, transportation, medical, recreation, education, and *other* goods and services.

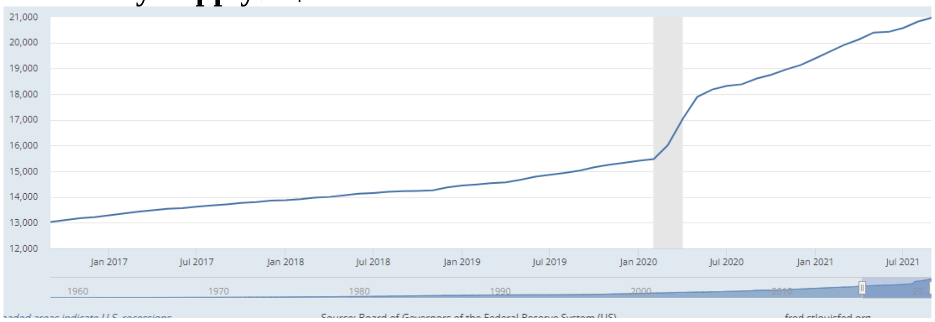
Those of us who live in the real-world focus on headline inflation measures, like CPI, constructed to reflect the typical consumer's expenditures. However, the Fed's preferred gauge is core inflation, which *excludes* food and energy. Why, you might ask? Because food and energy prices are subject to wild short-term swings, which can skew the data. Examples include oil shocks, weather events, geopolitical flare-ups, etc.

Economists commonly debate the cause of inflation. However, Milton Friedman explained it best, "Inflation is always and everywhere a monetary phenomenon," meaning at the end of the day, central banks are the culprit. But increasing the money supply only causes inflation if output doesn't increase at the same or greater pace. If the Fed increases the money supply 25%, as it did in 2020, but output—the ability to produce goods and service—increased by 30% (e.g., due to a leap in technology and innovation), prices would fall; deflation. In sharp contrast to the high inflation of the 70s and early 80s, the past decade witnessed below-trend inflation. Between 2010–2020 inflation averaged just 1.75%, whereas since 1913 the rate has averaged 3.10%, which includes the Great Depression, a period of secular deflation.

What's causing the inflation rate, currently 5.4%, to spike 300% compared to the previous decade? Two things; unprecedented money printing and pandemic restrictions, which led to the current supply chain dilemma. Industrial production is still 9% below 2019/pre-COVID levels, yet during that same period the money supply increased a whopping 41%. To put it simply, the Fed printed money to boost spending and inflate asset prices while, at the same time, output collapsed 24% (April 2020).

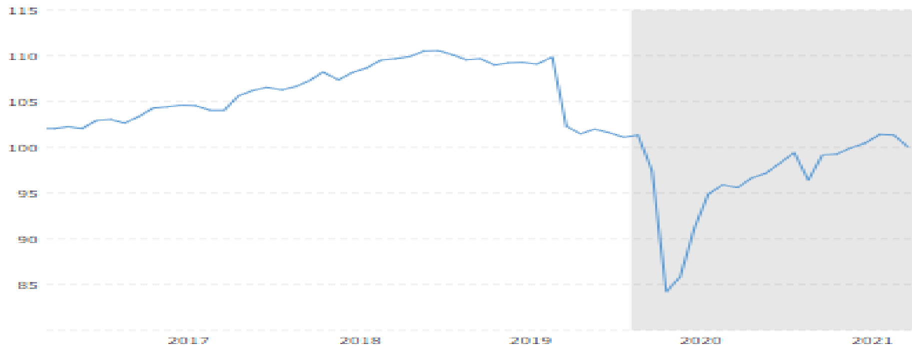
The charts below, money supply and industrial production, are both five-year snapshots. Notice the divergence that occurs in early 2020.

M2 Money Supply: ~$21 Trillion



M2 Money Supply-FRED

US Industrial Production Index: 109



Industrial Production-Macrotrends

The term *transitory* became policymakers' favorite adjective in 2021, virtually always preceding the word *inflation*. Over the past year, neither the Treasury secretary nor the Fed chair can seemingly issue a statement without uttering the word as if it had some kind of magical power, and if spoken enough would become true. But Washington politicians (and US monetary institution appointees) have never built a company or created anything. They simply can't fathom that a business doesn't work in the manner as a political bureaucrat; that they can turn off the light switch one day, then turn it on the next without resulting in massive disruptions. The supply chain issues today are the direct result from business decisions made 12–18 months ago. Hiring, CAPEX (investing in new equipment, land acquisition, plant construction, etc.), expansion plans, mergers, acquisitions, R&D projects, vendor agreements, etc., were either cancelled or put on hold due to uncertainty. The market is many things; a price mechanism, an efficient allocator of resources, a feedback mechanism, etc., but it's also a signaling mechanism. Business leaders continually read the tea leaves to, hopefully, make better decisions today that allow them to better serve their customers tomorrow—not out of some misplaced sense of virtue or for the greater good, but for a profit motive.

Nominal US GDP is actually *higher* (real GDP, net of inflation, is lower, however) today than it would have been absent the COVID pandemic. Record scratch! How is that possible? Answer; Keynesian, demand-side economic policies; historic borrowing and money printing, allowed Uncle Sam to issue record stimulus checks to individuals and businesses, bail out indebted states and pension plans, and provide excess unemployment benefits, all of which put dollars in consumers' and investors' hands—and they did not disappoint. Both real estate and the stock market are hitting record highs. Stocks and residential real estate are up 40% and 18%, respectively. This is fantastic for the wealthy, who typically own both. But what about real wages, meaning wages after inflation, which is what matters to the average worker, most of whom don't have stock and real estate portfolios? Over the twelve-month period ending in September 2021, real wages were *down* ~1%.

Washington policymakers are literally taking a victory lap for higher fuel costs (up 58% YOY), supply chain disruptions, the shipping container debacle, increased food costs (up 27% YOY), and empty shelves, pointing to a successful recovery plan as the reason. Poppycock! Demand creates supply, and the market gladly produces enough widgets to meet demand if the government doesn't prevent it from doing so. For the wealthy, life is good! Their net worth has never been higher. But for working-class, blue-collar Americans, who have few, if any, investments and rely instead on their wages to live, their standard of living is lower today than it was a year ago. That's going to leave a mark.

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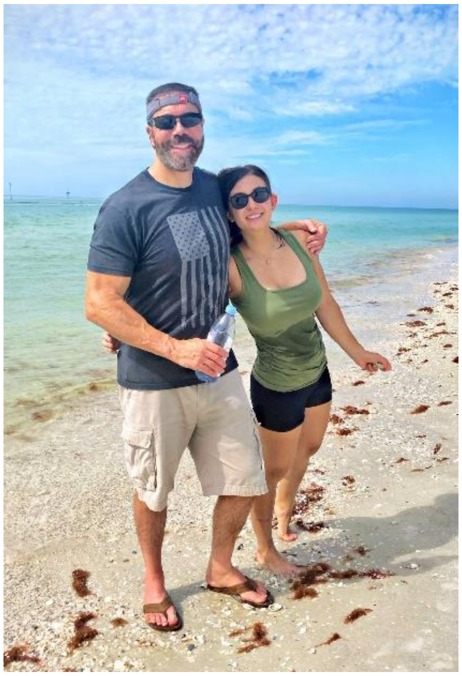
Wasatch Team Updates

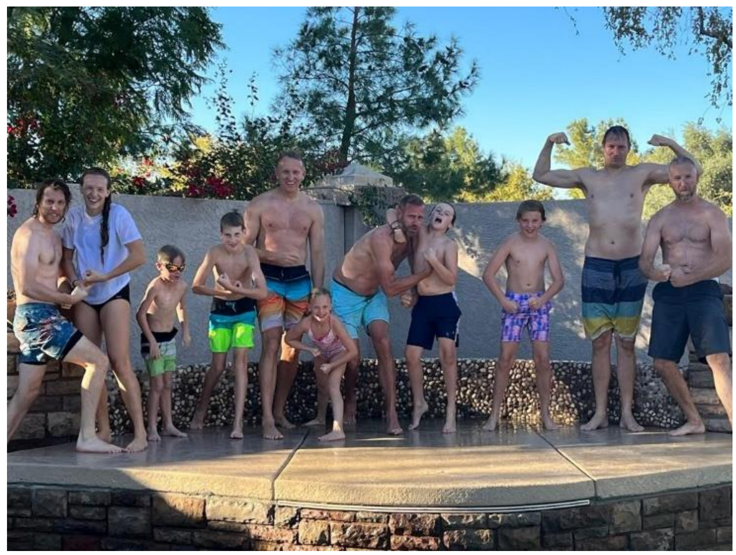


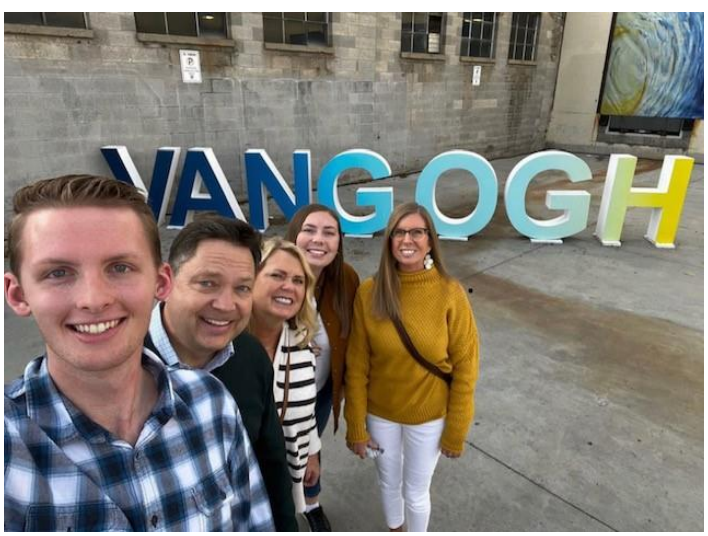
Mark

Mark & Savina in Naples, FL

Stan

Stan with his family in AZ for a long weekend and a serious game of king of the mountain in the pool!



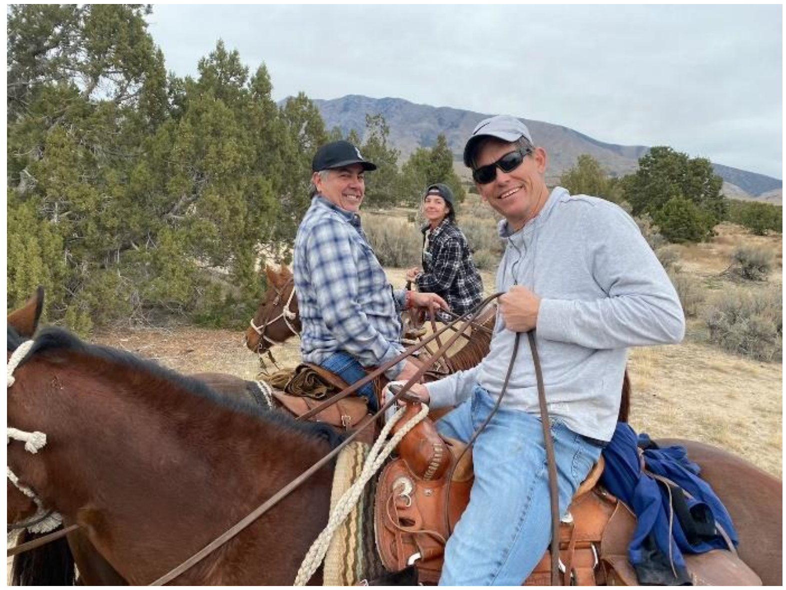


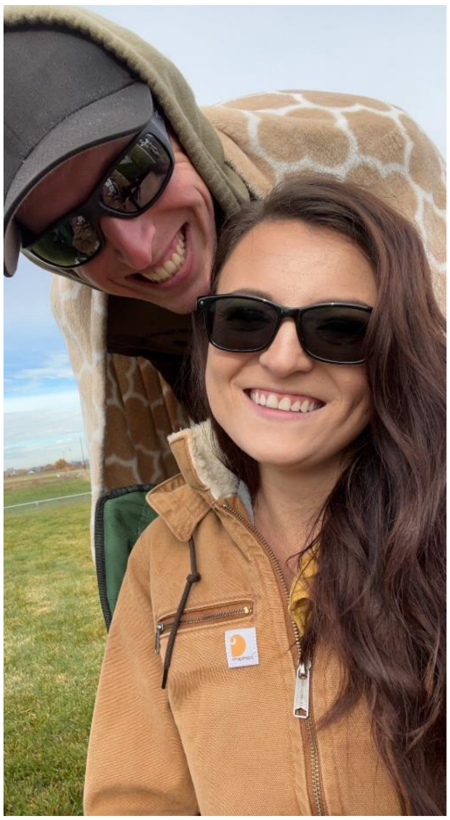
Rees

Rees & family out on the town for a recent art exhibit

John

John horseback riding in Skull Valley in the West Desert!



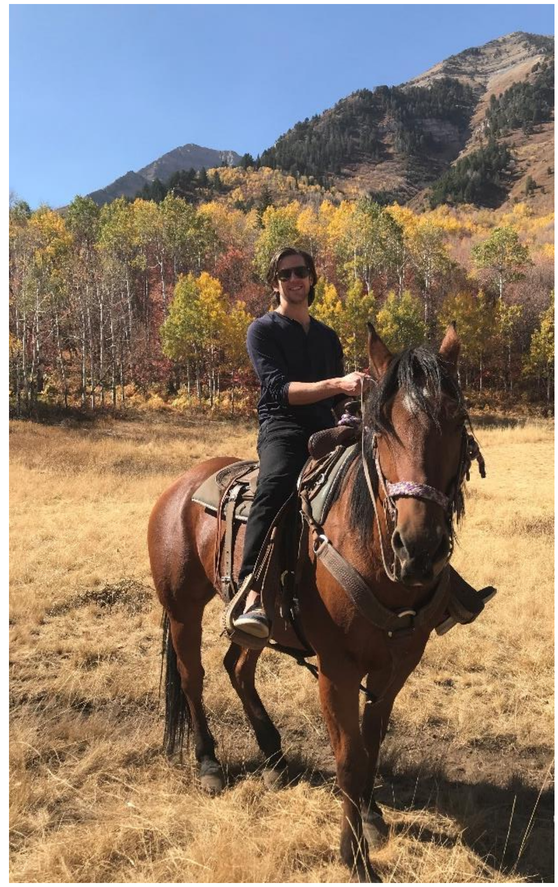


Kendall

Kendall and Bracken enjoying a fall day!

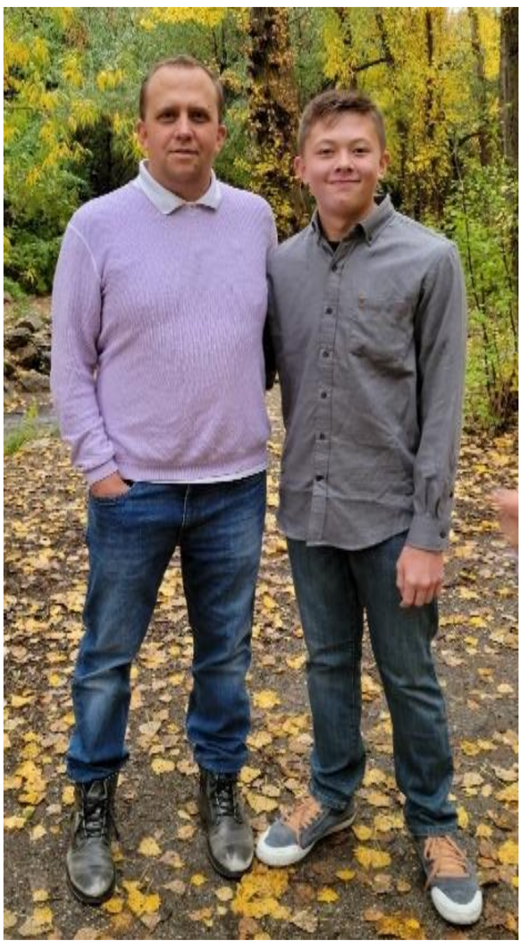
Nicola

Nicola with her siblings!



Matt

Matt riding in Sundance this fall!



Jon

Jon and son enjoying the fall colors!

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