



**WASATCH**  
CAPITAL MANAGEMENT OF  
**RAYMOND JAMES®**



**“The stock market is like a roller coaster, except I never throw up my hands and go wheeeeeeeeeeeeeeeee!”**

**SEPTEMBER 2021**

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THE ROAD TO HELL**
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**The Road to Hell** -Article by Mark Lazar

***The four most dangerous words, ‘this time is different.’ Sir John Templeton***

The delta variant continues to hinder domestic economic recovery. TSA recently announced that traveler screenings dropped to the lowest levels since May, and ADP employment numbers for August were a big miss; [374K](#) vs the forecast of 610K. However, manufacturing numbers for August were mostly in-line at (61.1 vs.61.2 est.) and ISM manufacturing beat, [59.9](#) vs 58.5 est. Construction spending [MoM](#) for July was in-line at 0.30%, and the benchmark 10-year Treasury yield finished the month at [1.30%](#), signaling waning inflation fears.

Now for some good news; historically, when the S&P 500 return is > 20% through August—and it was—then 86% of the time the index finished 3.25% higher by year-end. While some of the market’s stellar returns can likely be attributed to both FOMO (fear of missing out) and TINA (there is no alternative),

record earnings and low interest rates make a good argument in favor of market fundamentals, particularly relative to bonds and cash.

Item	YTD Change
Dow Jones Ind Avg	<a href="#">15.38%</a>
S&P 500 Index	<a href="#">20.45%</a>
EAFE Foreign Index	<a href="#">9.73%</a>
Barclays Agg Bond Index	<a href="#">-.69%</a>
10-Year Inflation Forecast	<a href="#">2.34%</a>
2021 GDP Growth Forecast	<a href="#">6.7%</a>
Unemployment Rate	<a href="#">5.2%</a>

*\*Market index data as of 8/31/2021*

The term [stagflation](#), first coined in the 60s by Iain Macleod, was used to describe the then-prevailing state of the UK economy, which was experiencing a period of both stagnant economic growth and high inflation—a condition [Keynesian](#) economic theory suggested were mutually exclusive. Across the pond, however, the US was enjoying the strongest economic expansion in recent [history](#) due to President Kennedy's [supply-side economic policies](#), which promoted a [strong dollar](#), [free markets](#), [free trade](#), slashed tax rates, and decreased regulatory burden. Kennedy's plan doubled economic growth from the previous Administration, led to massive increases in employment, capital investment, and increased federal tax revenues a whopping [63%](#) between 1961–1968.

In sharp contrast to the previous Administration, Nixon's policies promoted a weak dollar, [price controls](#), [wage controls](#), [trade embargoes](#), and [closed the gold window](#). Failed policies—[fiscal](#), [monetary](#), and social, led to a slowdown in industry, manufacturing, [output](#), and [earnings](#), and were responsible for the [1973 oil crisis](#). At the same time, the price of gold rose increased nearly [threefold](#). While Jimmy Carter was culpable for much of the double-digit inflation experienced during the late 70s/early 80s, the previous Administration's policies were already baked into the cake, and Carter simply maintained the economic trajectory of those imprudent policies.

The [Federal Reserve](#), a non-government, independent entity, tasked with running US monetary policy, is generally considered apolitical. While the Fed's Board of Governors are appointed by the sitting president, their appointments run 14-years, which typically means they serve two or more Administrations. History has laid much of the blame for the misguided monetary policy of the 70s on Arthur Burns, the Fed chair appointed by Nixon. Burns tenure led many to question his/the Fed's independence, going as far as [accusing](#) the Burns-led central bank of promoting politically motivated monetary policy in pursuit of short-term political gain.

History is a wonderful teacher; at least for those who pay attention. The clearly foreseeable but unintended consequences of public policy aimed to reduce the spread of COVID resulted in global supply chain shortages by hobbling, or shutting down, mining, manufacturing, transportation, warehousing, and retail. To further exacerbate matters, well-intended government stimulus checks combined with prolonged unemployment benefits that, in many cases, exceeded working wages, created labor shortages in virtually every employment sector. Currently there are [10.9 million](#) unfilled jobs in the US; the [highest on record](#).

Unprecedented [money printing](#) and borrowing, federal spending, and public policy have led to the [CPI](#) increasing to [5.4%](#), more than [doubling](#) the five year average, the [PPI](#) jumped to [8.3%](#) over the past year, and oil prices have surged [57%](#). The Fed's official position is that the current rate of inflation is transitory, and will abate in the near future as the wounded supply chain heals. Perhaps. But as the iron fist of government swats away the [invisible hand](#) of the free market, the less incentive there is for

investment, entrepreneurship, risk-taking, innovation, and hard work; all of the things that produce wealth creation.

If history is any indicator, we know how this story ends. [Demand-side economics](#) don't create wealth; they merely redistribute it and pull forward economic growth and prosperity. As the old saying goes, good intentions oftentimes result in the worst outcomes. Sorry policymakers; this time isn't different. But don't despair; the economic pain caused the bad policies of the 70s ultimately led to the pro-growth, free market policies of the 80s, and paved the way for two decades of robust economic expansion and prosperity. The same can happen again, and the future can be better than we dare to dream; if we're willing to learn the lessons from the past.

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# Wasatch Team Updates



## Mark

Mark & Savina at a recent concert at USANA



## Stan

Stan with his family in Huntington Beach over Labor Day



## Rees

Rees sailing off coast of Newport Beach

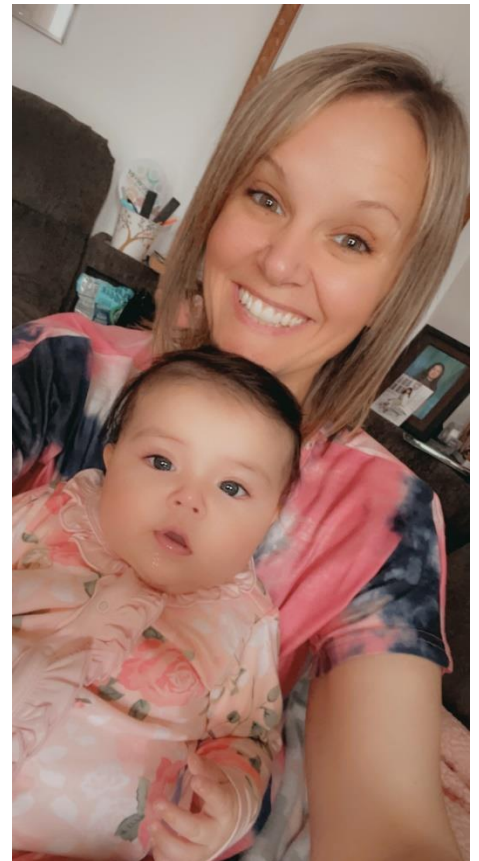
## John

John at a recent Pirate Party for a friend's birthday!



## Kendall

Kendall and her sister-in-law



## Nicola

Nicola meeting her niece for the first time!

## Matt

Matt and Samie at the Empire State Building on recent NYC trip.



## Jon

Jon and his son, Tainui enjoying clean air and good weather!



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