



WASATCH

CAPITAL MANAGEMENT OF

RAYMOND JAMES®



OCTOBER 2021

INSIDE THIS NEWSLETTER

- ❖ OCTOBER COMMENTARY: TEMPEST IN A TEAPOT
- ❖ WASATCH TEAM UPDATE

Tempest in a Teapot -Article by Mark Lazar

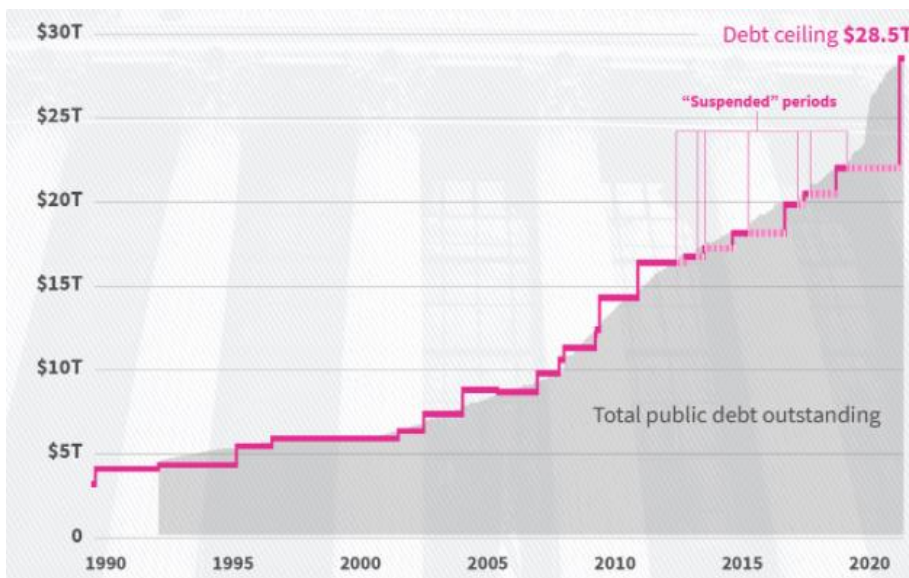
I wish it were possible to obtain a single amendment to our Constitution—I mean an additional article, taking from the federal government the power of borrowing. Thomas Jefferson

September was a busy month. Oil prices jumped [9%](#), domestic stocks dipped [5%](#), the US economy expanded at [6.7%](#), home prices rose [20% YoY](#), a [Chinese real estate company](#) with \$300B in debt teetered on the verge of default spooking the credit markets, and Senator Manchin derailed the \$3.5 trillion spending bill. Much of the prior month's price volatility, however, could be attributed to the Fed signaling its intention to reduce bond purchases ([quantitative easing](#)) as early as November if the economy continues on its current track. Predictably, there was a corresponding selloff in Treasury securities, resulting in the 10-year note jumping from 1.30% to 1.52%, or a 17% increase. The jump in interest rates strengthened the US dollar [~2%](#), but compressed stock, bond, and commodity prices.

Item	YTD Change
Dow Jones Ind Avg	10.58%
S&P 500 Index	14.68%
EAFE Foreign Index	6.23%
Barclays Agg Bond Index	-2.13%
10-Year Inflation Forecast	2.38%
2021 GDP Growth Forecast	6.7%
Unemployment Rate	5.2%

**Market index data as of 9/30/2021*

The debt ceiling is once again in the spotlight. In a nutshell, the debt ceiling imposes a cap on how much debt the federal government can possess at any given time. The amount is set by law and once reached, the Treasury Department must halt issuance of debt securities and, instead, limit spending to the amount of tax revenues collected. The current cap is \$28.5T, and the chart below illustrates three decades of history.



Source: [US Treasury](#)

Not surprisingly, the debt ceiling is a political football that allows out-of-power parties to attack the folks holding the reigns as being fiscally irresponsible. In 2006 junior senator Barack Obama made the following impassioned speech in response to the Republican’s request to raise the debt ceiling: “Increasing America’s debt weakens us domestically and internationally. Leadership means that ‘the buck stops here.’ Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better. I therefore intend to oppose the effort to increase America’s debt limit.”

But where did the debt ceiling come from and what purpose does it serve? In 1917 the [Second Liberty Bond Act](#) created a debt ceiling which empowered Congress to control the federal purse. Furthermore, a limit on federal debt imposes a form a fiscal accountability that compels both Congress and the President to take visible action in order to increase the federal government’s ability to borrow/spend more.

What options do policymakers currently have? There are five possible scenarios:

1. Reduce federal spending
2. Increase tax revenues

3. Halt payments of interest and/or principle on government bonds. In other words, default
4. Undertake extraordinary measures; in other words, cash management techniques that delay a technical default for weeks and perhaps even several months, but not indefinitely
5. Raise the debt ceiling

Since 1976 there have been [21 government shutdowns](#), ranging between 1–34 days, during which government agencies were required to furlough non-essential personnel and stop or limit their activities. And each time the presiding party along with the media issued grave warnings that if the budget wasn't passed Uncle Sam would default, Social Security checks would be halted, interest rates would skyrocket, and the markets would collapse. None of which happened, of course, but both campaign contributions and viewership increased dramatically.

Debt negotiations are always a game of brinksmanship. But at the end of the day, neither party has the political will to die on the hill, which is why shutdowns are generally averted or resolved within a handful of days. Washington bureaucrats and the media know that fear sells, so they both paint an apocalyptic picture of what would happen if non-essential government agency personnel are either furloughed, or temporarily work without pay until an agreement is reached.

This isn't to say we shouldn't have an honest, objective, civil discussion about the role of government, what it should and shouldn't do, and how it ought to pay the bills; we should. But government shutdowns have historically been a blip in terms of the markets and the economy. Debt showdowns may make good political fodder, but if history is any indicator, the sky isn't falling, and government shutdowns have been more akin to a tempest in a teapot.

Mark Lazar, MBA

Senior Vice President—Investments

CERTIFIED FINANCIAL PLANNER™

Wasatch Team Updates



Mark

Mark & Savina golfing in Hayden



Stan

Stan with his family on a fall hike this month



Rees

Rees & Lisa enjoying fall leaves in the Uinta Mountains

John

John and 4 friends on a biking/camping trip in Canyonlands!



Kendall

Kendall and Bracken in Costa Maya

Nicola

Nicola out to breakfast with her grand babies!



Matt

Matt and Sam with friends in Montauk, NY.



Jon

Jon and his family at his birthday dinner this month



Mark Lazar, CFP®, MBA, Vice President - Investments | 385-275-3609

Stan Goodell, CFP®, Vice President - Investments | 385-275-3792

Rees Petersen CFA®, Vice President - Investments | 385-275-3607

John Bergerson, CFA®, MBA, Investment Portfolio Associate | 385-275-3608

Matt Brunner, Financial Advisor | 385-275-3795

Jon Metcalfe, MBA, Senior Client Service Associate | 385-275-3793

Kendall Jackson, Client Service Associate | 385-275-3799

Nicola Palomo, Registered Client Service Associate | 503-944-5382

2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121

1389 Center Drive, Suite 200, Park City, UT 84098

Raymond James & Associates, Inc. member New York Stock Exchange/SIPC

Views expressed in this newsletter are the current opinion of the author, but not necessarily those of Raymond James & Associates. The author's opinions are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. There is no assurance these trends will continue or that forecasts mentioned will occur. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. It is not possible to invest directly in an index. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The information in this article is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members. Raymond James is not affiliated with any of the organizations listed above. Neither Raymond James Financial Services nor any Raymond James Financial Advisor renders advice on tax issues, these matters should be discussed with the appropriate professional. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The prominent underlying risk of using bitcoin as a medium of exchange is that it is not authorized or regulated by any central bank. Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Bitcoin and other crypto currencies are a very speculative investment and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment, and a potential total loss of their investment. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.