

February 7, 2022 – Weekly Notes

Economic Commentary:

Last week's extremely robust jobs numbers – January non-farm payrolls coming in at almost 500,000 net new jobs created, more than twice the expected number, and non-farm payrolls for the end of 2021 revised upwards by approx. 700,000 – reassured investors concerned about US economic growth and the impact of Omicron. However, these same numbers serve to focus investor attention this week on the inflation numbers for January, which will be reported on Thursday. In fact, any preliminary information indicating that supply chain bottlenecks might be easing (inventory increases and import/export growth) is now being overlooked as attention is increasingly focused on labor markets and the wage increases that are spreading throughout the economy. Despite business optimism fueled in no small part by the perceived ability to easily pass along price increases in this inflationary environment, it may be that a necessary adjustment to margin pressures will ultimately lead to an aggressive reduction of inventories and management of labor costs. Going from GDP growth of 6.9% in the fourth quarter of 2021 (5.7% for the year as a whole) to a currently estimated 1-2% in the first quarter of 2022 (before settling in to a forecast 3-4% for the entirety of 2022) is not an easy thing for many businesses. In this sense, much of 2022 will be an ongoing adjustment to the pandemic, irrespective of the trajectory of COVID itself.

Data to Watch:

- US Imports and Exports for December, released Tuesday, February 8
- US Inflation for January, released Thursday, February 10
- US Initial Claims for Unemployment, released Thursday, February 10
- Michigan Consumer Sentiment Survey (including Consumer Inflation Expectations), Preliminary for February, released Friday, February 11

Suggested Reading:

- <https://www.wsj.com/articles/green-startups-stumble-accelerating-selloff-of-risky-stocks-11644171872>
- <https://www.nytimes.com/2022/02/07/technology/computer-chips-errors.html>
- <https://www.theguardian.com/business/2022/feb/04/bank-of-england-boss-calls-for-wage-restraint-to-help-control-inflation>

Investment Commentary:

Fears about tech and inflation elevated market volatility while the S&P 500 index ended the week 1.6% higher. Overseas, the non-U.S. developed markets outperformed the U.S. increasing 2.7% while EM tied the US at 1.6% appreciation. The 10-year Treasury at 1.9%, achieved its highest level since January 2020, and oil rose 3.3% to \$91.10.

Questions the Risk Markets Are asking...

Are central bank officials prepared to go hiking?

Inflation expectations and pending central bank decisions are the critical variables impacting markets beyond fundamentals. Some market expectations believe January will mark the peak for year-on-year inflation in the U.S. and anticipate 4-5 rate hikes over the next several months. Although Federal Reserve members reportedly favor a rate hike in March, a 25 bps increase is seen as more likely than a 50 bps increase, which could prove disruptive for markets. The Bank of England raised its policy rate for a second straight meeting—something it hasn't done since 2004—amid high inflation, a tight labor market and rising energy prices. Conversely, the European Central Bank kept rates on hold, citing the potential for transient inflation and a weak economic recovery. The ECB will continue to buy Eurozone bonds through October.

Will fourth quarter earnings and guidance be supportive of risk assets?

The Investment Office believes higher inflationary readings over the intermediate-term should support stronger nominal profit growth. At the same time, forecasts for moderating future inflation should leave Fed policy and discount rates supportive of equity valuations. The US reporting season has been notable for some high-profile disappointments. This has detracted from an overall positive outcome, so far. As the last wave of companies reports over the coming weeks, investors will be looking for guidance that companies will continue to maintain profit margins through price increases and productivity gains. Thus far, 56% of S&P 500 companies have reported 4Q earnings, with a blended growth rate of 29%; about 76% have surpassed analyst expectations.

Will progress on the Ukraine issue weaken energy prices?

Brent's increase hit a high above \$91 a barrel last week, after six consecutive weeks of higher prices. Rising tensions over Ukraine have contributed to higher prices, so investors will be carefully monitoring developments. Regardless, there are certain near-term structural elements that help support fossil fuel energy prices in the medium term including (i) pre covid demand with energy transition headwinds limiting supply, (ii) low inventories, and (iii) low capital expenditure investment levels.

Wealth Planning Commentary:

Including the next generation in wealth discussions

A Donor Advised Fund (DAF) may provide an opportunity for you to include the next generation in charitable giving and select wealth decisions. DAFs are relatively simple to setup and maintain, cost effective and are a great alternative to a Private Foundation.

The family may work together to develop a philanthropic vision, we are happy to help, and name the DAF anything you wish, it's the family's foundation!

Donations to the DAF are immediately tax deductible and may accumulate and grow tax free. Additional funds may be added over time, new contributions are also tax deductible. Donating appreciated assets will save you from paying capital gains tax.

The family decides how the DAF are assets invested. An option might be one of the Robertson Stephens ESG models which may align with the next generation's values. The family can choose how much, when and which charitable organizations receive the funds.

Your heirs may be named as successors of the DAF and help maintain your legacy.

Please reach out to us if you are interested in learning more about DAF planning.

Short term uncertainty and the long-term plan

We are experiencing volatility and uncertainty in the market these days and it's likely to continue for some time. Short term ups and downs may give us anxiety. Now is a good opportunity to understand how the current environment will impact your long-term Wealth plan and to confirm that you are track.

Our interactive wealth planning tool takes your current assets and cashflows and projects them over your expected lifespan. We will test the resilience of your plan against adverse economic and market scenarios such as: high transitory inflation, increased long term inflation and interest rates, a short-term market correction or lengthy bear market, and long-term performance returns that are less than historic averages.

By reviewing your long-term wealth plan, we may find that it is resilient against adverse conditions. If not it's best to know sooner rather than latter so we may take actions now to improve your likelihood of success.

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