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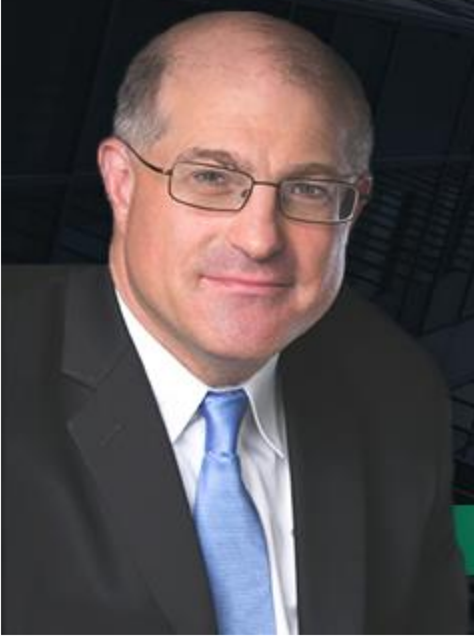


Mitch on the Markets

Portfolio Manager Investing Insights

WEEKLY CLIENT COMMENTARY September 17, 2021

3 Lessons for Investors from the Past Year

As we fast approach the end of 2021, I've been taking time to reflect on some of the lessons I've learned over the past year. In 20 months or so, the world has undergone a slew of rapid-fire changes, and it has resulted in significant – and I would argue, lasting – shifts in the way we work, how we live, and how we interact. I think this period in history will be remembered for how it catalyzed many of these changes.

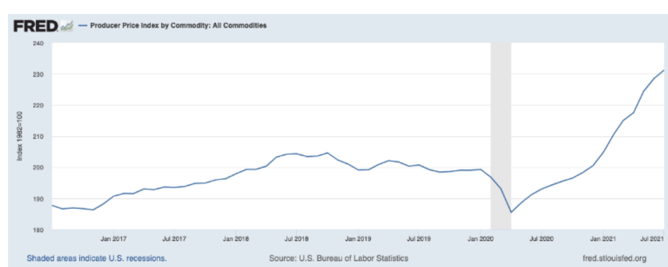
With that in mind, I'd like to use this week's column to memorialize four big takeaways I've had since the beginning of 2020.

Lesson #1: The Challenges of Global Synchronized Reopening

When the global economy shut down for weeks in the spring of 2020, the effects were largely obvious to most market-watchers – a sharp recession was inevitable. What many economists did not fully anticipate, however, was how challenging a globally synchronized reopening would be.

To this day, a semiconductor shortage continues to stall auto production, with orders backing up six months in some cases. I've written many times about supply chain entanglements, which have sources in many places – from factories in Malaysia to ports in Los Angeles. To boot, many service sector businesses are having difficulty finding workers, which only adds to delays and price pressures.

Perhaps the most visible and tangible effects of the globally synchronized reopening have been in commodity prices, which many readers know has hit everything from nickel to copper, to lumber and aluminum. All told, the producer price index for all commodities has soared past pre-pandemic levels – a trend that is squeezing profit margins for producers and resulting in higher costs for consumers.



Source: Federal Reserve Bank of St. Louis[1]

I continue to believe the current imbalances in the global economy – where demand firmly outweighs supply – is a temporary issue that will resolve itself in time. But truth be told, it's taking longer than I expected.

Lesson #2: Hybrid Work is Here to Stay

I would argue that the 'old normal' of commuting to the office five days a week was slowly, but surely, changing even before the pandemic hit. Many large companies offered 'work from home' days and exceptions could be made for employees who needed to work remotely for special situations. A hybrid work model was developing – but the pandemic catalyzed it into being the new normal.

Studies are starting to emerge that may help corporations navigate the issue. A recent study of 30,000 U.S. workers found that working from home around one day a week would boost productivity by 4.8%, with a significant part of the one-off increase coming from reduced commuting time. The relief of not having to go to the office may also provide a boost of happiness and energy to more vigorously and creatively work on the day's tasks.

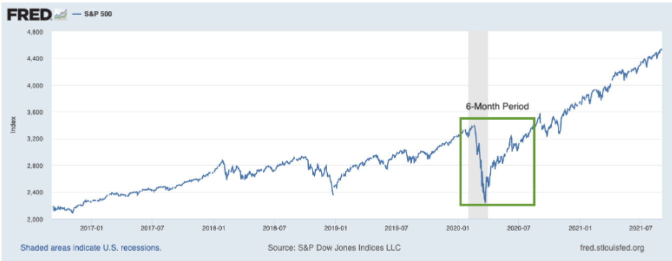
Another study from the University of Chicago's Michael Gibbs, however, found that workers at home were more susceptible to domestic distractions like childcare and errands, and the report also noted that people working from home may exaggerate productivity in an effort to maintain the privilege.[2]

The hybrid model appears to be the happy medium, and corporations will likely spend the next few years gathering data on how to best structure the new approach. For a company like Google, for example, the early idea is to have employees in the office three days a week, with the ability to spend two days "wherever employees work best."

Lesson #3: Remember How Fast the Market and Economy Can Move

A few months ago, the Bureau of Economic Analysis officially confirmed that the 2020 pandemic-induced recession ended in April 2020. Since the recession started in February of that year, it meant the economic downturn lasted all of *two months*. As it were, when the recession was officially declared in June 2020, it was already over!

The stock market also moved with extraordinary quickness. Before most people even had time to wrap their heads around what the pandemic even was, and what it would mean for the future, the stock market had already posted a bear market and a V-shaped recovery. In six months, the market priced in the recession and the economic recovery that followed.



Source: Federal Reserve Bank of St. Louis[3]

I have written before that event-driven recessions and bear markets tend to be sharper on the downside and shorter in duration than cyclical or structural recessions. But the Covid-19 recession and bear happened with unparalleled speed, and I think it's fair to say that any investor who tried to time it likely got it wrong. To me, this is a good reminder that the economy and markets often work faster than many expect, and trying to time investment decisions over such short horizons can be a flawed approach.

Bottom Line for Investors

The global pandemic is far from over, and the U.S. economy is far from running smoothly again. But I think the three lessons detailed above will be lasting takeaways from this period of economic history – they are observations we can remember and learn from, and perhaps apply in the future to understand change while avoiding mistakes.

ABOUT MITCH ZACKS

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] Fred Economic Data. August 12, 2021.
https://fred.stlouisfed.org/series/PPIACO

[2] Bloomberg. August 25, 2021.
https://www.bloomberg.com/news/features/2021-08-26/will-remote-work-become-the-norm-hybrid-offices-are-transforming-economies#:~:text=Working%20from%20home%20around%20one,Aut%C3%B3nomo%20de%20M%C3%A9xico%20and%20others

[3] Fred Economic Data. September 9, 2021.
https://fred.stlouisfed.org/series/SP500

Weekly Market Update

Important Market News We Think Worth Considering

IN FOCUS THIS WEEK

- **Resilient U.S. consumers**
- **Plans for raising taxes**
- **Global effects due to economic restrictions in Asia**

U.S. Consumers Prove Resilient

The Delta variant threatened to stall the U.S. economic recovery in July, as consumer spending ticked lower while inflation kept moving higher. But U.S. consumers proved resilient – in August, retail sales rose 0.7%, according to the Commerce Department, as spending rose in categories like groceries and merchandise at big box stores. The uptick in spending was fueled in part by schools and college campuses reopening, with steady spending in furniture and hardware. The tight car market saw purchases ease, as consumers may have been turned off by rising prices and limited supply. Some of the U.S.'s largest retailers are anticipating more issues with supply chains heading into the holiday shopping season, and some like Best Buy and Target are working to amass large amounts of inventory compared to previous years and marking double-digit increases from 2020. Inventory re-builds can carry a significant impact on GDP numbers, which will be worth noting for Q3.[1]

Are Taxes Set to Move Higher?

Plans for raising taxes are starting to be released by Democrats as part of a $3.5 trillion budget reconciliation bill planned alongside the $1 trillion infrastructure bill. According to early reports from staffers, the plan would increase the corporate tax rate from 21% to 26.5%, which is lower than President Biden's goal of 28%. Investors should note, importantly, that the conversation is no longer centered around the previous 35% tax rate, which could arguably mean corporate taxes could more permanently settle under 30%. The Democrats plan would also place a 3% surtax for households with income over $5 million while also raising capital gains taxes for households earning over $400,000. According to early reports, the plan appears to scrap changes to estate taxes. These figures are by no means the final rates in the budget deal, and we expect quite a bit of debate in the weeks ahead. Meanwhile, the U.S. budget deficit narrowed to $2.7 trillion in the first 11 months of the fiscal year, as both spending and federal tax receipts hit new records.[2]

Economic Restrictions in Asia Ripple Through the Global Economy

Countries critical to the global supply chain continue to wrestle labor and productivity issues tied to the spread of the Delta variant. Southeast Asia still largely relies on heavy-handed restrictions to contain the spread, and it is leading to factory closures, lower production levels, and ultimately higher prices. Malaysia's restrictions are crimping the production of palm oil, which is a key ingredient in everything from candy bars to chips and shampoo. A survey of manufacturing purchasing managers found that Vietnam, along with Malaysia and Indonesia, has seen factory activity move into contraction territory. Lockdowns in Vietnam – which is the world's second-biggest coffee exporter – have delayed the processing and shipment of coffee beans. That has left many Western brands that rely on Vietnamese factories to see a rise in costs. The issues extend to an array of industries. Companies like Adidas, Crocs, and Steve Madden rely heavily on Vietnamese manufacturing, which delivers over 30% of U.S. shoe imports. Taken together, economic restrictions in Vietnam and elsewhere in Asia can add to an already long list of supply chain issues, from delays at ports to rising raw-material prices, and ultimately, to higher costs for consumers.[3]

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[1] Wall Street Journal. September 16, 2021. https://www.wsj.com/articles/us-economy-august-2021-retail-sales-delta-variant-11631736808?mod=djemRTE_h

[2] Wall Street Journal. September 13, 2021. https://www.wsj.com/articles/u-s-budget-deficit-narrowed-to-2-7-trillion-in-first-11-months-of-fiscal-year-11631556001

[3] Wall Street Journal. August 25, 2021. https://www.wsj.com/articles/delta-variant-outbreaks-in-sparsely-vaccinated-asian-countries-disrupt-production-11629807725

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