October 7th, 2021

Volume 24, Issue 4

Too Much Demand, Not Enough Supply

By Robert Sokolowski

The global economy continues to face major supply chain issues. As we have previously written, the pandemic caused a massive shift from spending on services to spending on physical goods. Many suppliers and retailers predicted that spending on physical goods would fall at the beginning of the pandemic and they slashed orders in response. As it turned out, the federal government and the federal reserve instead injected trillions of dollars into the economy which helped support spending. These businesses quickly realized their prediction was inaccurate and started increasing orders again- flooding supply chains with freight.

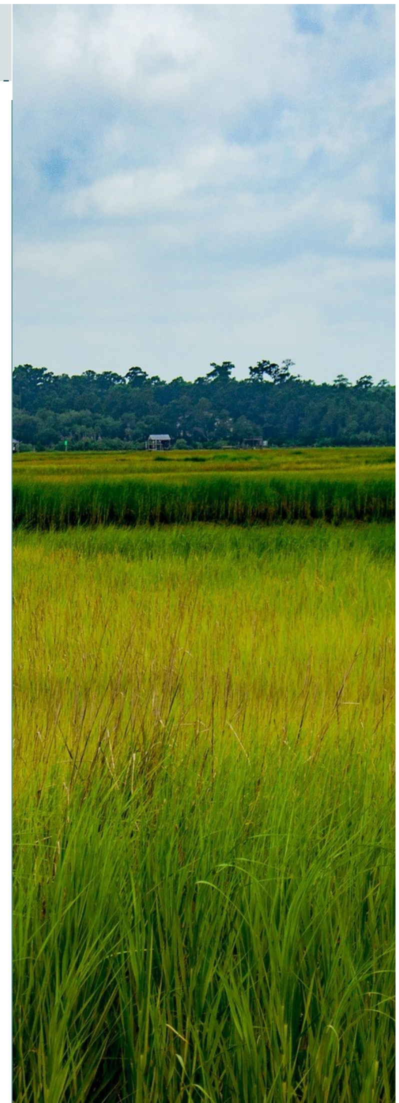
Foreign ports and manufacturing hubs continue to face issues with COVID outbreaks and lockdowns and many developing countries are making slow progress on vaccinations. Ho Chi Minh City in Vietnam (a major manufacturing hub) just ended an almost three-month long shutdown last week. Earlier in the year, ports in China shut down due to outbreaks and they have been unable to catch up. This has caused acute shortages for specific goods despite supply chains being flush with freight broadly.

Prior to the pandemic, supply chains had been focused on making their operations more lean- operating more efficiently with less labor and less inventory. "Just in time" logistics – ensuring freight arrived just when it was needed and not allowing it to age in a warehouse – was the gameplan for almost every company. The pandemic fully exposed the main risk in this strategy (out of stock goods due to supply chain disruptions) and companies are increasingly moving to a "just in case" strategy- ordering and warehousing excess inventory to hedge against future supply chain issues. *Barron's* reported this week that despite the issues in foreign manufacturing hubs and ports, trans-Pacific freight shipments are up 30% so far this year.

Stateside, this shift in strategy has run up against a long-term issue in logistics- a shortage of truckers. Many markets simply don't have enough drivers to pull freight out of the ports or warehouses. Furthermore, companies are facing issues with warehouse capacity due to the shift to the "just in case strategy." This means that they don't have the physical space in their warehouses to store the freight coming off trailers. The short-term response to this has been for warehouses to leave freight on the trailer in their yard (the parking lot at the warehouse for trailers) rather than bringing it into the building. This created another ripple- a shortage of the specialized trailers necessary to transport containers out of the ports- exacerbating the supply issues for the goods stuck in the ports.

<u>There's also the other supply issue: the supply of labor.</u> Businesses have had a very difficult time hiring after a wave of layoffs during the spring of 2020.

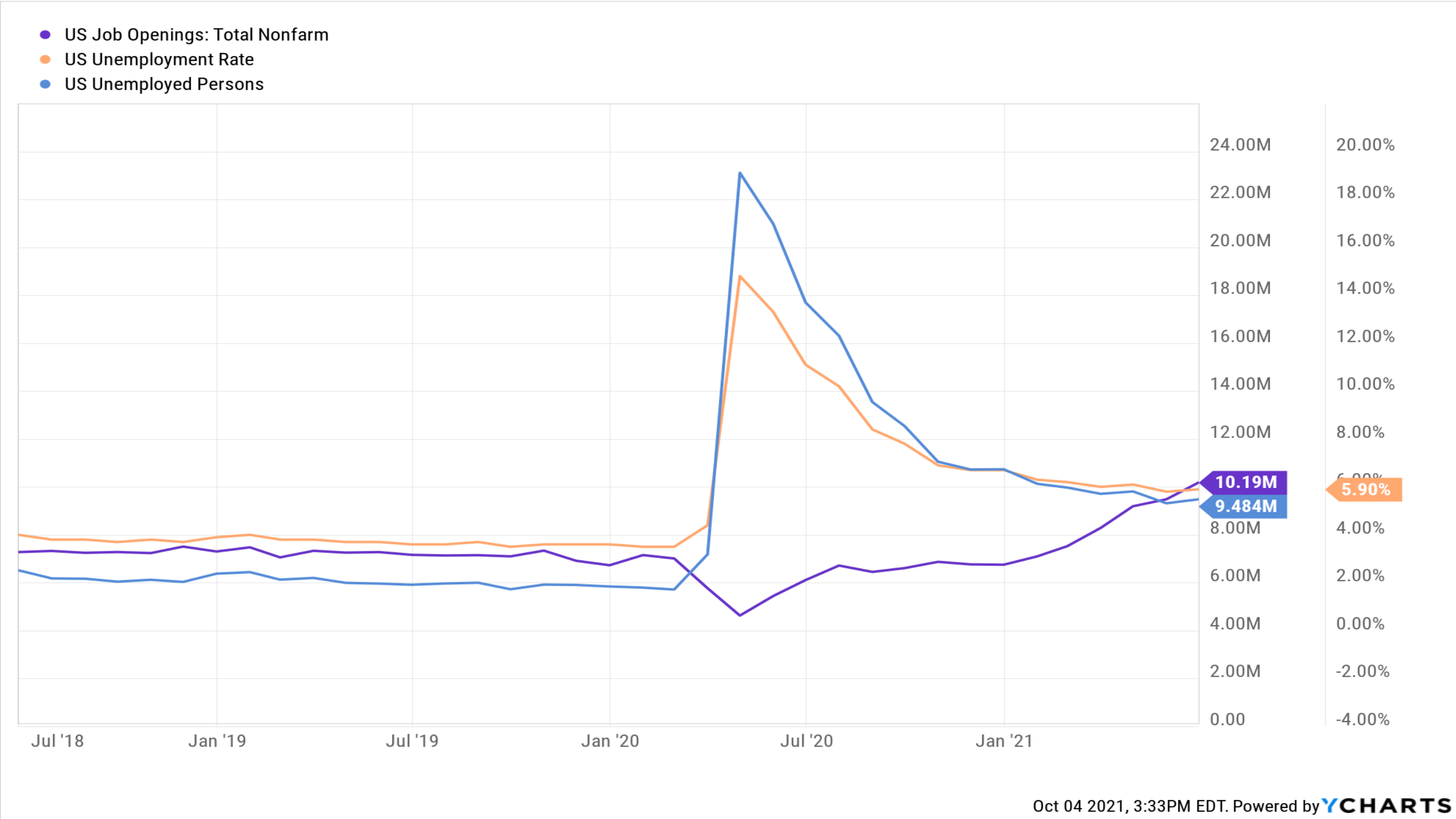
Continued on page 2



INSIDE THIS ISSUE

SPECIAL POINTS OF INTEREST

- Contact us if you would like to update your financial plan or schedule a portfolio review.
- We would love to help your family or friends! Please let us know if anyone in your circle could use financial planning or investment management.
- Our office will be closed Monday, October 11th, 2021 in observance of Columbus Day.



As demonstrated in the chart above, there are now more job openings than unemployed people in the U.S. Some of this shortage can be explained by a big wave of employees retiring- the rate of baby boomers retiring had increased by 35% over pre-pandemic levels as of Q1 2021, reducing the pool of available employees. Employers have responded to this issue by raising wages, which is certainly a win for workers. However, this has increased costs for employers- which will likely be passed on to consumers. Furthermore, wage increases tend to be sticky (it's quite uncommon for employers to reduce employee pay) meaning those passed along price increases are probably here to stay. It also doesn't appear that pay has been raised <u>enough</u> to pull the necessary number of workers off the sidelines (hence more job openings than unemployed people). Again, this is not helping the supply issues as companies need workers to meet the demand they are experiencing from consumers.

It would be fair to say we have become less sanguine in our expectations for inflation since writing the last newsletter. The bond market is effectively pricing in a 2.5% average inflation rate over the next 5 years. Though not particularly high on an historical basis, this rate is <u>double</u> the pre-pandemic expected rate from two years ago. We believe that the bond market (and the Fed) may be underestimating the "stickiness" of the inflation that we're all seeing on a daily basis and the length of time it may take to resolve the supply problems. As a rule, we do our best to avoid commenting on politics and try to remain clear-eyed about the economic impact of policy and future legislation. That being said, we believe the market is concerned about the levels of additional spending in the proposed legislation currently being debated in Congress and the effect it would have on inflation. Injecting trillions more dollars into an economy that already has strong demand and major supply issues will likely lead to even more inflation. Additionally, deficit spending to fund this legislation would lead to both a higher level of national debt and most likely higher interest rates on that debt.

We currently feel there is risk that interest rates move higher in response to inflation. Because bond prices move inversely to yields, this means that bond prices would fall. We also know that longer duration bonds are more volatile than shorter duration bonds. To reduce our exposure to this risk, we sold a longer duration bond fund held in many of the accounts resulting in most accounts being underweight bonds at the moment. We have also ensured we remain fully invested in Treasury Inflation Protected Securities (TIPS) in case inflation runs hotter than expected.

Geopolitically, we are concerned with the actions we are seeing from the Chinese Government and from Chinese companies. It appears that their debt-laden real estate sector is facing major issues related to over-supply. The Chinese government has become increasingly more aggressive in targeting specific companies and CEOs that run afoul of the Communist Party. They also continue to push the envelope with regard to their stated goal of Taiwan reunification by demonstrating military force towards the island.

Continued on page 3

Too Much Demand, Not Enough Supply (continued from page 2)

Human rights concerns aside, the Taiwan issue is troubling for investors because roughly 2/3 of worldwide semiconductor manufacturing takes place in Taiwan. The MSCI China Index, which covers some 85% of the publicly traded companies in China, is down over 32% from its all-time high on February 17th. We had very little exposure to Chinese companies to begin with, but we fully exited the positions we had at the end of August.

Positively, it appears that Delta wave COVID cases are receding- even in states that did relatively little mitigation. Former FDA Commissioner Dr. Scott Gottlieb, who we believe has had the best track record on COVID predictions during the pandemic, recently stated on CNBC that he believes “at least 85, maybe 90%” of U.S. residents have some form of COVID immunity through either prior infection or vaccination at this point. While we had certainly hoped for lower levels of infection, severe illness, and death, the current level of immunity in the population should severely decrease the prevalence of the disease going forward. Dr. Gottlieb went on to say that he expects infection rates to decline substantially in the next few months and that Delta will likely be the last major wave of infection. If Dr. Gottlieb is correct and the worst of COVID is behind us, we expect a strong pick up in revenue in industries like travel, hospitality and leisure, which have still not fully recovered.

The S&P 500 had returned almost 22% for the year when it hit its peak just before Labor Day- a phenomenal year by any measure. September, known for being seasonally weak, was less kind and the index fell about 4.7% for the month. As we have just highlighted, there are certainly issues that investors are digesting, but at this point we’re viewing this as a fairly run of the mill correction. Paradoxically, the market spends 95% of the time below all-time highs and we happen to be experiencing one of those periods right now.

Despite all the issues we have discussed, we remain positive on U.S. companies. Corporate balance sheets and earnings have remained strong and the companies that are able to procure the supplies and inventory they need are receiving almost insatiable demand from the U.S. consumer- though we have seen minor pullbacks due to COVID waves. We have been heavily oriented towards U.S. companies for years now and we still really like the companies we own. We continue to believe that these corporations are some of the best-positioned in the world to succeed in the economy of the future.

Annual RMD Reminder

We got a break from Required Minimum Distributions (RMDs) in 2020, but they are back for 2021! We will process these in December. If anything has changed with your tax withholding or how you would like to receive your distribution, please contact us. If you are unsure about how much to elect for tax withholding, we can work with your CPA on this.

RMDs are calculated based on your age and the ending value of your tax deferred accounts on 12/31 of the previous year. The percentage of the account you must withdraw increases every year as you get older. The amounts distributed are taxed at ordinary income rates. If you are ever wondering how much you are required to withdraw, give us a call!

Note: Beginning in 2020 the age for RMDs increased to 72 from 70 1/2 thanks to the SECURE Act passed in 2019.

Market Index	Q3 Total Return	Year to Date Total Return	1 Year Total Return
S&P 500	0.05%	15.9%	29.3%
DJIA	-1.8%	12.1%	24%
NASDAQ Comp	-0.4%	12.7%	28.4%
MSCI EAFE	-0.5%	8.8%	26%
Russell 2000	-5.1%	12.4%	45.4%

METIS WEALTH
MANAGEMENT & PLANNING

400 Main Street, Suite 200G

Hilton Head Island, SC 29926

Phone: (843) 271-6088

www.metiswealthllc.com

Roy Sokolowski
CEO
roy@metiswealthllc.com

Pat Sokolowski, CFP®
COO
pat@metiswealthllc.com

Jenn Sokolowski, CFP®
Financial Planner/Relationship Manager
jenn@metiswealthllc.com

Rob Sokolowski, CFP®
Financial Planner/Assistant Portfolio Manager
rob@metiswealthllc.com

Announcement: We are Moving!

We signed a lease on a space in a new construction building in Old Town Bluffton!

We will be on Red Cedar St, right off May River Rd. The building is not complete yet, but we are targeting a December 1st move in date. More details coming soon.

Artist rendering of the front of the building as seen from May River Rd.

Exterior view of the backside. Our office will be on the second floor.

Main office space with huge windows overlooking May River Rd

5 Red Cedar St., Suite 201, Bluffton, SC 29910