PWM Weekly Observations

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Can China Reverse the Current Inflation Trend?

- **Although supply chain disruptions are clearly a contributing factor to current inflation, China's influence on inflation should not be discounted.**
- **Prices are still significantly higher, but have recently fallen, coinciding with Chinese authorities cracking down on commodity speculation.**
- **The recent correction does NOT mean we can stop worrying about inflation.**

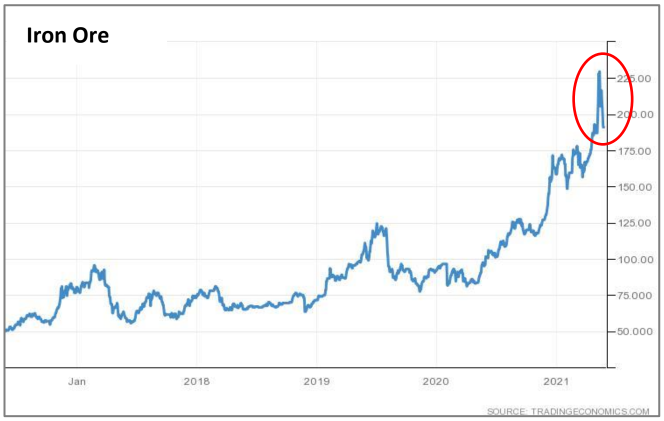
Last week we spoke about how a hoarding mentality can have a meaningful impact on inflation. Recently, the Chinese government took an important step in attempting to stop that hoarding reaction in China, which is, of course, the world's primary user of raw materials. When the CCP announced it would have a 'zero tolerance' policy toward commodity speculation, commodity markets quickly corrected. But make no mistake, we remain well above pre-pandemic price levels, as shown in the 5-year charts on the following page for key commodities. However, the Chinese action could act as a pressure relief valve for commodity prices and allow more time for supply chains to catch up.

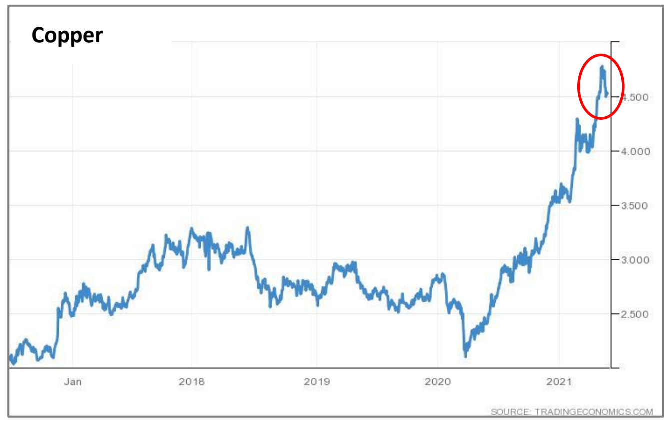
The CCP action is the result of a command and control government, which we can't do here, but market forces can have a similar effect. Housing starts in April were down almost 10% from March levels, compared to an expected decline of 2%. The decline comes despite a very strong overall housing market and a lack of supply in the existing housing stock. We note that March starts were near a 15 year high, but housing starts, which had been rising consistently from summer 2020, are beginning to waffle. As we said last week, sometimes the cure for high prices is…. high prices. In this case, the rapid rise in lumber and copper costs appears to have put homebuilders on the defensive.

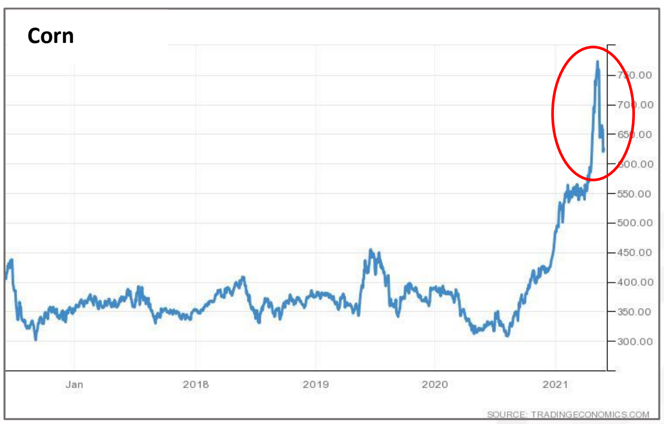
While all of this is interesting (at least to us), it really has little to do with longer-term inflation expectations. We believe there are two things that are critical to watch for longer-term inflation trends. The first is the velocity of money, which is how fast money circulates through the economy. With such massive increases in the money supply, if and when velocity picks up it will likely stoke inflation fears. Velocity has been weakening for many years and it absolutely collapsed in the pandemic. With recovery, velocity is expected to pick up again.

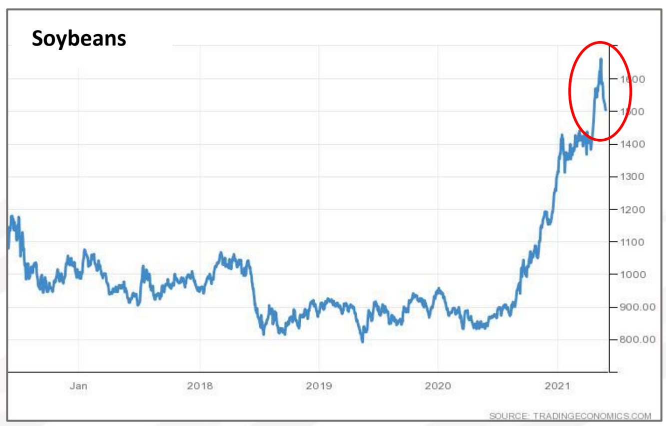
The other is wages. We are certainly seeing increases in the minimum wage across most of the country, but that is not enough. It is harder to see wage pressures with union participation so low, but the inflation lessons of the 1970's include: 1) it is hard to reduce wages, and 2) wage pressure keeps the inflation merry-go-round going. We envision any meaningful increase in wages in the economic data to spark inflation fears once again.

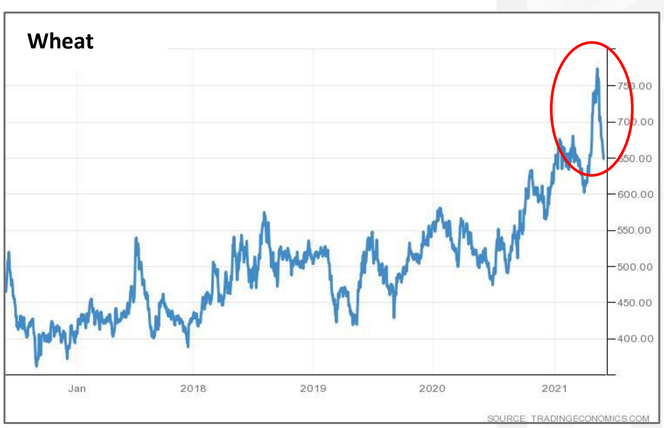
Finally, with the national debt at historic levels, we view the Federal Reserve as a body that desires inflation to make repayment of that debt easier. The bottom line is that there is little standing in the way of higher inflation over the longer-term, no matter what is happening at the moment.

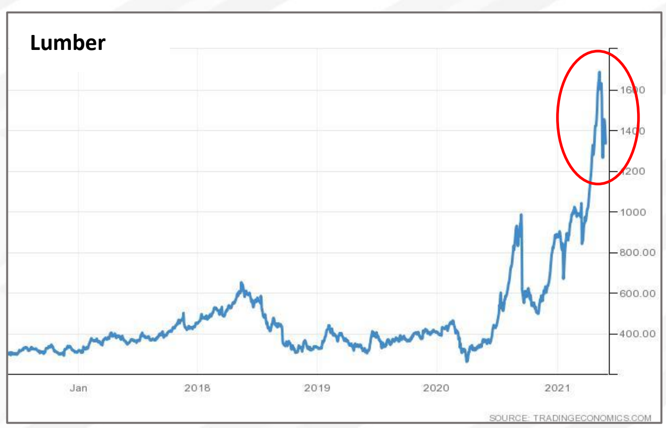












All charts from Trading Economics.com

Gold and commodities tend to perform well in an inflationary environment, which is why we consistently maintain allocations to both in our portfolios for diversification. If you'd like us to review your 401k and/or 403b plan assets for appropriate diversification, call us and we will help you adjust your allocations.

Some Practical Advice on Identity Theft

Identity theft and other variations of hacking became increasingly commonplace during the pandemic and unfortunately, economic recovery has not reversed the trend. There are some simple steps you can talk to protect yourself. For example, do not use the same password in multiple places. A password manager can be an easy solution. A password manager will not only remember your passwords, it will create strong passwords for you!

One of the more overlooked items to protect is your credit score. If you're identity is stolen, one of the ways thieves steal your money is to apply for a loan or mortgage in your name and walk off with the proceeds while you are left to pay off the debt. The big problem here is that you have no idea this is happening until it is too late.

The solution is to freeze your credit with the three credit bureaus: Experian, Equifax and TransUnion. This security freeze locks your credit score so anyone looking to approve a loan in your name cannot access your credit score, making it very difficult for any loan to be approved. It's easy to do, if you are a little bit organized, and if you do want to access your credit, say for that next car, just unfreeze, make the transaction and re-freeze. This article from Kiplinger article provides all the details for this highly recommended safeguard.

What We're Reading

IAEA chief sounds alarm over Iran's nuclear program

Senate Republicans Unveil $928 Billion Infrastructure Offer

The Global House Price Boom Could Haunt the Recovery From Covid-19

The Inflation Scare Is Over. The Fed One Is Just Getting Started.

Yellen: government is operating like it's 2010, calls for more aggressive spending

U.S. weekly jobless claims drop to fresh 14-month low; recovery gaining speed

Budget Calls for Spending Surge Fueled by Higher Taxes; Retroactive Gains Tax

Why former Fed president Richard Fisher is calling for change (6 min. video)

Biden's Asia Czar Says Era of Engagement With China Is Over

Why the U.S. is facing a housing shortage (11 min. video)

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Markets This Week

The market appears to have bought into the narrative that inflation is transitory, allowing interest rates to fall a bit and stocks to rebound. There were ony three groups in the red for the week with defensive sectors leading the way: Utilities, Health Care and Consumer Staples. With the exception of the Russell 1000 Value Index, the broad indexes were all up 1% or more for the week with the NASDAQ and Small Caps leading the way. The story was similar for Commodities, Gold and International Stocks with each up 1% or more. Bonds were modestly higher as rates moderated. Among the equity sectors, Homebuilders led that way as lumber prices finally corrected a bit.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	1.23%	12.71%	20+ Yr. Treasuries (TLT)	0.56%	-11.90%	Consumer Disc. (XLY)	2.55%	7.68%
Dow (DIA)	1.05%	13.53%	Barclays US Aggregate (AGG)	0.18%	-2.61%	Info. Technology (XLK)	1.62%	6.67%
NASDAQ (QQQ)	2.12%	6.57%	Intermediate Municipal (MUB)	0.24%	0.28%	Financials (XLF)	1.09%	29.44%
Russell 1000 Growth (IWF)	1.70%	6.38%	US Corporate Bonds (LQD)	0.37%	-4.08%	Health Care (XLV)	-0.61%	9.33%
Russell 1000 Value (IWD)	0.95%	18.33%	Barclays US High Yield (HYG)	0.08%	0.93%	Utilities (XLU)	-1.51%	4.69%
Vanguard Mid-Cap (VO)	1.66%	13.45%				Industrials (XLI)	2.02%	19.08%
Vanguard Small-Cap (VB)	2.17%	14.64%				Energy (XLE)	0.10%	39.23%
						Materials (XLB)	0.76%	21.04%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	-0.30%	5.54%
MSCI EAFE (EFA)	1.00%	10.79%	Commodities (PDBC)	2.38%	26.87%	Comm. Services (XLC)	2.51%	16.97%
MSCI Emerging (EEM)	3.26%	6.19%	Gold (GLD)	1.33%	0.01%	REITS (VNQ)	2.04%	18.29%
						Homebuilders (XHB)	3.28%	30.29%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.

Retirement Planning:

A Young Worker's Guide to Saving for Emergencies and Investing for Retirement

Beginning salaries may not leave much to stash away, but financial pros say it's crucial for young workers to make saving a requirement from every paycheck.

Estate Planning:

What Kids Need to Know About Finances

In a digital world, it's even more critical to teach children how to handle cold, hard cash.

Health:

Mental Health Awareness: A Silver Lining of the Pandemic

If any good has come from this crisis, we have a heightened awareness of the multiple facets of well-being.

Entrepreneur:

How Rejection Can Fuel Your Entrepreneurial Success

It isn't always a "no"- it may just be a "yes" to a different question.