



PWM Weekly Observations

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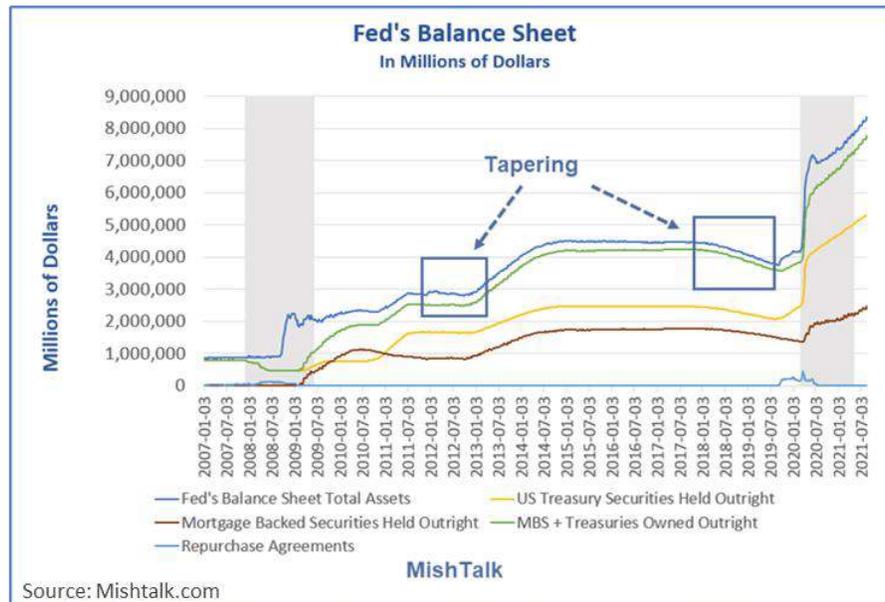


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Tapering is Not a Fashion Statement

There's been a lot of talk about tapering lately and we're not talking about the slim fit that is the style for men these days, we're talking about the Fed's balance sheet. Here's what you need to know.

- For most of the period from late 2008 to today, the Fed has been on a buying spree of various assets, particularly Treasuries and mortgage-backed securities. In the process, it has increased the size of the Fed balance sheet from approximately \$1 trillion to over \$8 trillion today.
- More demand typically results in higher prices, other things being equal, and that implies that this Fed buying spree has been a significant driver to the incredible rise in asset values over the last 12+ years.
- Tapering simply means that Fed is going to reduce the size of this buying spree, with the intention of ending it completely at some undefined point in time.
- In the past, efforts to taper (see the chart below) have resulted in 'taper tantrums', meaning that markets came a bit unglued when the Fed tapered. The implication is that other things being equal, less demand should lead to lower asset prices and so the market reacts poorly to tapering.
- The Fed appears ready to start tapering, the question is how far will this go before the market pushes back with another 'taper tantrum'.
- We can only guess, but we suspect it won't take long. At that point the more important question will finally be asked.
- Will the Fed cave and resume purchases in response to the tantrum?



We, like everyone else on Wall St., can only guess at the answer, but we will make the following observations/arguments:

- The Fed has a strong desire to ‘normalize’ its behavior in markets, despite the difficulties in doing so. The implication is that at some point, like any good parent, it must ignore the tantrum of the unruly child and act anyway.
- Although unfilled jobs actually outnumber the unemployed, the unemployment rate remains quite high. The Fed does not want to put a crimp on the re-employment of these people, so tapering now would not align with their desired result.
- Inflation is running hot, which argues for tapering sooner rather than later, but the Fed has argued that most inflation we see now is transitory.

Fed Chair Powell spoke on Friday at the annual Jackson Hole Symposium and essentially said the following:

- Inflation targets have essentially been met; Fed will remain on guard for signs of a more permanent inflation.
- Employment continues to improve, but the spread of Delta presents risks for that trend.
- The timing and pace of tapering (when it comes) has no influence on the timing and pace of potential interest rate increases.

Our conclusion is that the table is now set to begin tapering, but the statement on Friday is clearly attempting to head-off a repeat of past taper tantrums. The success of this messaging will become clearer when the taper actually begins. For now, the stock market appears pleased by the tone of Chair Powell’s statement – neither too dovish nor too hawkish.

There is some initial evidence that the Delta surge could be easing in the areas that were earliest hit. If that trend continues and school openings do not create another resurgence, we can expect a tapering announcement sooner rather than later.

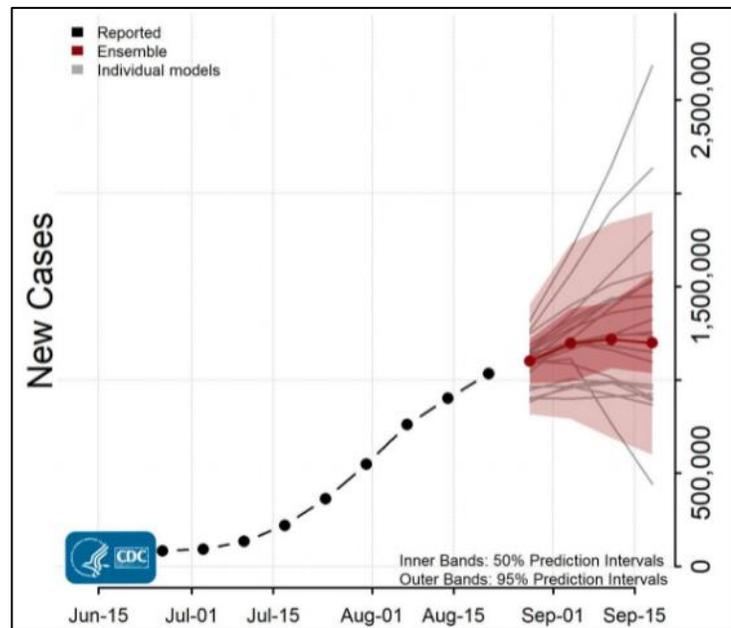


Is the Delta Surge Ending?

Some pundits are projecting an end to the Delta surge based the number of cases rolling over in the states hit earliest. Of course, schools are, or are about to, re-open and this variant appears to affect kids more readily than the original, so it's hard to draw conclusions just yet. Below is the latest from the CDC based on 20+ models from the scientific community which show that it's pretty much a toss-up.

It's hard to know what to wish for. From a health perspective, we clearly want this recent surge to subside. From an economic viewpoint, if the surge declines here, but worsens in largely unvaccinated Asia, it could magnify and prolong supply chain issues, which would logically magnify and prolong inflation issues. That does not create a desirable result for the economy or markets.

As always, it is an unpredictable world. Predicting the future is not easy and predicting it consistently is impossible, which is why we stick to our plan, and leave the predictions to others.



What We're Reading

[*How Would Fed Tapering Impact Markets?*](#)

[*The World Economy's Supply Chain Problem Keeps Getting Worse*](#)

[*Fed's Kaplan concerned about inflation and risk; wants to announce taper in Sept.*](#)

[*In This Housing Boom, Mortgages Are for Losers*](#)

[*Remembering Charlie Watts \(short video\)*](#)

[*Hedge Funds Are Hot Again*](#)

[*Remember When September Was Going to Be the Return to Normal? \(Bloomberg\)*](#)

[*Map Explorer: Key Facts About Afghanistan*](#)

[*More terrorist attacks likely as Afghanistan withdrawal deadline nears*](#)

[*Biden eviction moratorium shot down by Supreme Court*](#)

[*Judge blocks Florida governor's order banning mask mandates*](#)



Markets This Week

It was a typical low volume, late summer week, but everything was hanging on the Jackson Hole Symposium and the comments from Fed Chair Powell. The stock market was optimistic and Powell did not disappoint, delivering a message of caution and flexibility by the Fed, and that capped the week with a strong rally on Friday. Broad stock indexes were all higher for the week with small caps leading the way. Among sectors, defensive stocks, such as Utilities and Consumer Staples, had a tougher week, while Energy led the way higher following oil prices. Bonds rallied on Friday based on the relatively dovish Fed stance, but were still down for the week. Emerging Markets rallied as Chinese shares re-gained some lost ground from government crackdowns and Commodities continued to roll and Gold rallied as the dollar declined.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	1.52%	20.78%	20+ Yr. Treasuries (TLT)	-0.72%	-4.49%	Consumer Disc. (XLY)	2.38%	13.44%
Dow (DIA)	0.97%	16.74%	Barclays US Aggregate (AGG)	-0.05%	-0.87%	Info. Technology (XLK)	1.45%	22.08%
NASDAQ (QQQ)	2.26%	20.15%	Intermediate Municipal (MUB)	0.08%	0.96%	Financials (XLF)	3.48%	33.42%
Russell 1000 Growth (IWF)	2.07%	20.05%	US Corporate Bonds (LQD)	0.11%	-0.84%	Health Care (XLV)	-1.09%	19.55%
Russell 1000 Value (IWD)	1.56%	20.59%	Barclays US High Yield (HYG)	0.77%	2.85%	Utilities (XLU)	-2.02%	10.95%
Vanguard Mid-Cap (VO)	2.83%	20.58%				Industrials (XLI)	2.23%	19.23%
Vanguard Small-Cap (VB)	4.30%	17.38%				Energy (XLE)	7.45%	32.84%
						Materials (XLB)	2.59%	19.76%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	-1.35%	7.70%
MSCI EAFE (EFA)	1.57%	12.11%	Commodities (PDBC)	7.33%	31.39%	Comm. Services (XLC)	2.41%	26.00%
MSCI Emerging (EEM)	4.22%	0.29%	Gold (GLD)	2.09%	-4.58%	REITS (VNQ)	0.38%	27.62%
						Homebuilders (XHB)	3.19%	36.86%

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:

[Planning on a Long Retirement? Rethink Your Equity Exposure](#)

New research from Dimensional Fund Advisors shows why retirees should be more conservative when it comes to too much equity exposure in their retirement funds.

Estate Planning:

[How To Create A Multigenerational Estate Plan](#)

Does your estate plan pass the multigenerational test?

Tax Planning:

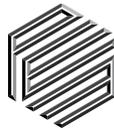
[More states enacting SALT limit workarounds](#)

Following enactment of the state and local tax deduction limitation in the Tax Cuts and Jobs Act in 2017, many states began looking for structures to circumvent the limit.

Health:

[How Sugar Addiction Affects Your Body](#)

Sugar addiction is a real thing and it has some very real health concerns.



Entrepreneur:

[Why It's So Important to Articulate Your Brand Values](#)

Defining your values can (and should) be the foundation of everything you do.

Disclosures:

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