



## PWM Weekly Observations

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### Crazy Headlines of the Week

- This week seemed to bring headline after headline that simply caused us to mutter “this is crazy”. ‘Shortage’ appears to be the key word in those stories, whether it is shortage of goods or commodities or the shortage of common sense in Congress. And who knows what’s going on in California... read on for details.
- [JPM: “We Could Be Just Weeks Away From Cushing Effectively Running Out Of Crude”](#) – For those that may be unfamiliar with Cushing, it is in Oklahoma and is the primary storage point for crude oil in the U.S. Ironically, it was just over a year ago, as the pandemic recession hit, that oil prices went negative because Cushing was literally full and had no more capacity to store crude. Roughly 18 months later, we are potentially facing the opposite circumstance as Cushing may run dry.
- [U.S. Propane Market Headed for ‘Armageddon’ This Winter, IHS Says](#) – Propane inventories are near historic lows as we enter the winter heating season. Prices have already doubled and recently hit a 7+ year high. IHS Markit, an independent economic research firm, says prices are so high and supplies so scarce that the market appears headed for “Armageddon” (their choice of words, not ours).
- [California jobless claims soar to highest since April; US numbers fall.](#) – What’s going on in California? The state accounted for nearly one out of every three jobless claims filed nationwide. Claims in the U.S. (including California) fell 6,000 to 290,000, but claims in California rose by 80,700! We have no explanation.
- [Sinema’s Opposition Stymies Democrats’ Planned Tax-Rate Increases](#) – Political dysfunction is not just across party lines; it is within political parties as well. The days of negotiation and compromise appear to be over even within political parties. This is not good or productive.
- [The London Copper Market Is in a Historic Flash Squeeze](#) – The London copper market remains in a historic squeeze, as a critical shortfall in available inventories drives prices to near-record levels and leaves buyers paying huge premiums for spot metal.



- [China's Energy Crisis Deepens With Potentially Fatal Consequences](#) – “China’s multi-month energy crisis is deepening, with coal and natural gas prices now at record highs while temperatures are poised to plummet across the country. Emergency power rationing policies are still in effect, meaning that many households and factories alike could be left with intermittent power as winter sub-zero (Celsius) temperatures approach. Further supply chain shortages, inflation, and public discontent are on the horizon. Political fallout for Chairman Xi is unclear.”
- [Caribou Coffee Prepares for the Worst and Stocks Up on Supplies](#) – “We continue to increase safety stock on key items,” Chief Executive Officer John Butcher said in an interview. “Cups, lids, chocolate and coffee are the things that come to mind that we’ve increased safety stock on.” On a side note, Newsday this week ran a story highlighting the current shortage of juice boxes. These shortage/hoarding stories are just everywhere.

Bloomberg had an interview this week with an economist from Morgan Stanley who effectively said that while focusing on the shortage situation, the Street neglected to account for the massive increase in demand, which of course is a major part of the shortage story, as regular readers here already know. **We stoked demand with massive fiscal spending at a time when our ability to meet that demand was severely compromised and that is still not corrected. The headlines above make it clear that the situation is getting worse, not better, and efforts to hoard items only makes the situation worse. The way out of this is murky at best.**

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## Cash – The Overlooked Diversifier

- **A recent article in the Financial Times on Portfolio Diversification caught our eye. One of the more interesting points made was the use of cash as a diversifier.**
  - Bull markets begin from very low valuations, as was the case in 2020, when the pandemic precipitated a waterfall economic decline. The beginnings of bull runs are relatively easy to navigate. **The problems begin as the bull ages and valuations get high. Diversification is the key to staying on track, and cash can be a very useful diversifier.**
  - This seems a little incongruous, because the return on cash is effectively nil, but as the article points out, **“since 1959, the probability of cash outperforming the S&P 500 in any month is 40 per cent, and one in three over any six-month period”** (source: FT, Morgan Stanley). Obviously, on a long-term basis, cash is a typically a losing proposition, but over a shorter time, the odds are much better.
  - Inflation complicates the situation. Holding cash through an inflationary period can be damaging as inflation reduces the purchasing power of your cash. Inflation changes the rules of diversification a bit. **Asset values have benefitted from extraordinarily accommodative monetary conditions for many years. Now, the beginnings of a reversal of that policy are about to begin. We concede the anticipated tapering (a reduction in Fed bond purchases) is a minor move in that direction, but any move that begins to reverse the easy money of years past has both a real and a psychological component. We can assess that the real component is rather tame, but it is difficult to assess the psychological component. With valuations so high, we need to stay diversified and stay ready for whatever comes.**
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## What We're Reading

[Creating More Demand \(When Supply is the Problem\)](#)

[Biden Races Clock and Holds Few Tools in Supply-Chain Crisis](#)

[Pandemic fallout could slow U.S. online holiday spending growth](#)

[Is the U.S. Already in Recession?](#)

[Do you need to start holiday shopping even earlier this year?](#)

[China Evergrande shares tumble after failure of sale talks](#)

[Fed announces new rules to restrict trading by top officials](#)

[U.S. Housing Starts Decreased in September; Building Permits Fell Sharply](#)

[Industrial production falls 1.3% in September as effects from Hurricane Ida linger](#)

[Fed Chair Powell Cautions on Inflation, Says Taper Plans 'On Track'](#)

## Markets This Week

As you take a quick glance at the table below, you'll notice that all major indices and sectors were positive on the week and most are positive YTD with the exception of fixed income and gold. This data can be taken with a grain of salt because as equity indexes run higher, the economy still is without solid job data, constraints on our supply chains, and rapid inflation. Take commodities for example, with the exception of this week, commodity and energy indexes have outperformed other asset classes by a wide margin. When you go to fill up your tank, you see that gas prices are through the roof so the appreciation in the price of securities can at times not always appear to be as good as they seem. In addition, it is a good lesson that the stock market is not always a good benchmark for the direction of our economy.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	1.63%	22.38%	20+ Yr. Treasuries (TLT)	-0.66%	-7.59%	Consumer Disc. (XLY)	1.98%	20.43%
Dow (DIA)	1.10%	18.15%	Barclays US Aggregate (AGG)	-0.45%	-2.18%	Info. Technology (XLK)	1.60%	22.53%
NASDAQ (QQQ)	1.36%	19.23%	Intermediate Municipal (MUB)	-0.31%	-0.06%	Financials (XLF)	2.81%	39.54%
Russell 1000 Growth (IWF)	1.77%	20.88%	US Corporate Bonds (LQD)	-0.68%	-2.56%	Health Care (XLV)	2.89%	17.34%
Russell 1000 Value (IWD)	1.54%	22.40%	Barclays US High Yield (HYG)	-0.44%	2.54%	Utilities (XLU)	2.39%	9.72%
Vanguard Mid-Cap (VO)	2.08%	23.22%				Industrials (XLI)	1.86%	19.47%
Vanguard Small-Cap (VB)	1.55%	19.16%				Energy (XLE)	1.08%	57.99%
						Materials (XLB)	0.81%	18.71%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	0.68%	7.62%
MSCI EAFE (EFA)	0.65%	11.84%	Commodities (PDBC)	-0.84%	46.79%	Comm. Services (XLC)	0.07%	19.74%
MSCI Emerging (EEM)	0.19%	1.17%	Gold (GLD)	1.48%	-5.94%	REITS (VNQ)	2.50%	30.87%
						Homebuilders (XHB)	3.35%	34.55%

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:

### [91% of people with health savings accounts make this mistake](#)

Just 9% of health savings account owners invest a portion of their funds, according to the Employee Benefit Research Institute. The rest, 91%, hold cash.

## Tax Planning:

### [Tax Moves to Make Before the End of the Year to Lower Your Bill](#)

With the end of the year rapidly approaching, it's time to consider moves that will lower your 2021 tax bill and hopefully position you for tax savings in future years too.

## Health:

### [Six tips for choosing Medicare drug coverage](#)

If you're wondering how to choose a Medicare drug plan that works for you, the best way is to start by looking at your priorities, and the drugs you currently take.

## Entrepreneur:

### [14 Ways Companies Can Promote Financial Wellness Among Employees](#)

Helping your team members maintain good physical health can be beneficial for both them and the company; but what about their financial health?

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