PWM Weekly Observations

November 20, 2021

Philip G. Palumbo, CFP®
Chief Investment Officer

Doug Augenthaler, CFA® CFP®
Chief Portfolio Strategist

Build, Back, Better – On the Brink

- **As if we needed more evidence that Congressional mathematics is generally faulty, the CBO analysis of the Build Back Batter plan has a $376 billion gap between costs and revenue.** To be fair, the official analysis excludes revenue from increased IRS enforcement. CBO estimated that increased enforcement could produce $200 billion, reducing the revenue shortfall to 'only' $167 billion. Also to be fair, these estimates only hold if the temporary programs in the bill are truly temporary and some future Congress allows them to expire. Historically, there are very few examples of government transfer programs being allowed to expire.

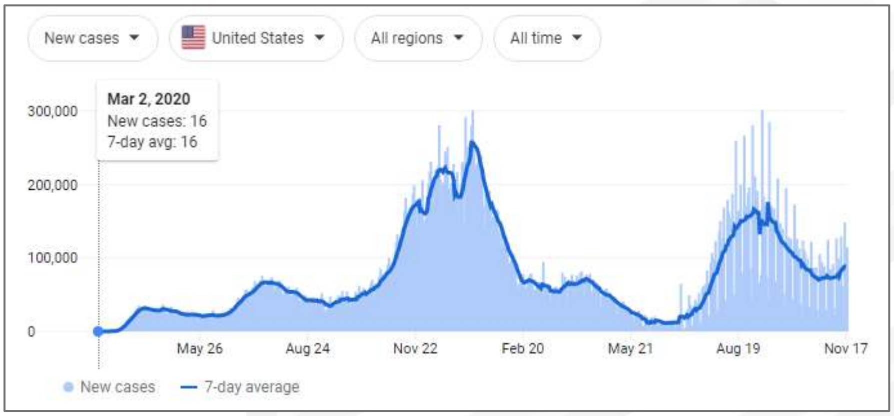
- **The bill was passed by the House on Friday and now goes to the primary battleground – the Senate.** At last look, Senators Manchin and Sinema were only on board if the bill was fully paid for, as per the CBO. The question now is whether the plan is close enough for them to alter that stance. The pressure is building on these two Senators as they need to balance their popularity at home with the desires of their party.

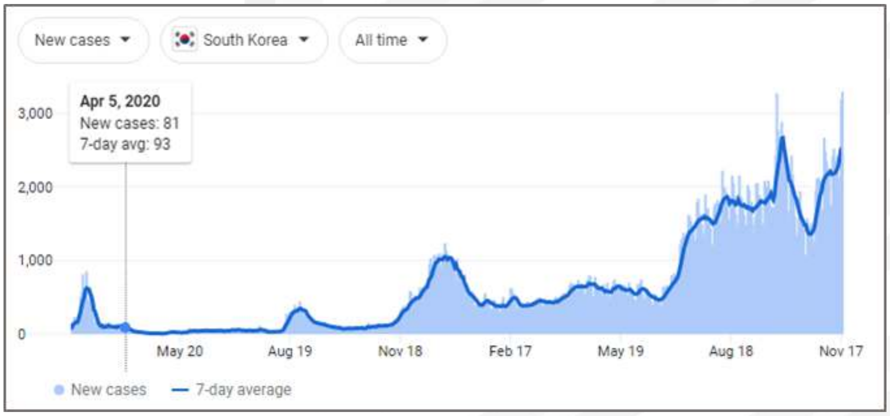
- **The politics may be unpredictable, but in our view the economics of Build, Back, Better are more clear – It is likely to be inflationary**. As 2021 closes, we are in the middle of an inflationary surge brought on by massive fiscal spending (read: giving money to America) colliding with reduced productive capacity due to the pandemic. We don't argue the need for a dramatic fiscal stimulus to offset the pandemic, but it appears we went too far. That is not a criticism. No one had any clue how much was really needed. This bill, right now, pours more money on the inflationary fire.

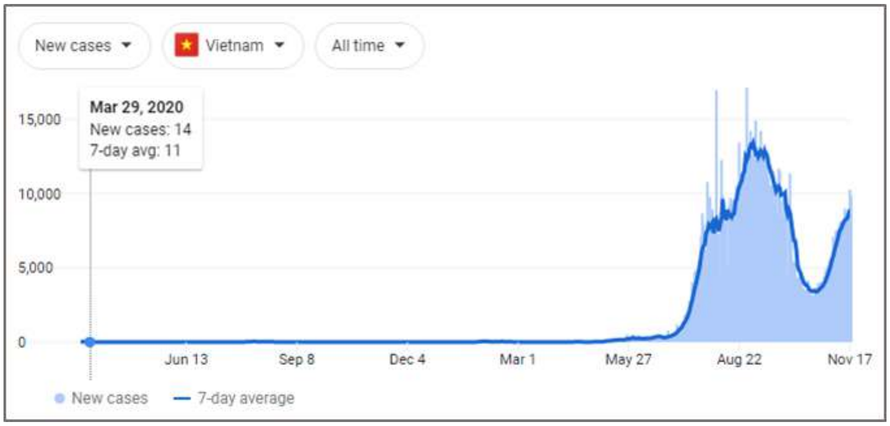
- **Unlike the infrastructure bill, which is spread out over 10 years, the roughly $1.63 trillion (CBO estimate) Build Back Better bill is more front loaded** as many aspects of the bill are set to expire within a few years, but paid for over 10 years. Much of Build, Back, Better increases transfer payments (read: puts money directly in the hands of the public) and if this is passed right now, it stands to make the current inflationary spiral worse. Creating more demand at a time when productive capacity is already inadequate and COVID shut downs are continuing will only make inflation worse in the short term. There are many admirable aspects of Build, Back, Better, but passage right now is only stimulating additional demand that cannot be met. Too much money chasing too few goods causes higher prices. If passed, we would expect faster economic growth and more rapid inflation. Logically, that would push the Fed towards raising rates sooner.

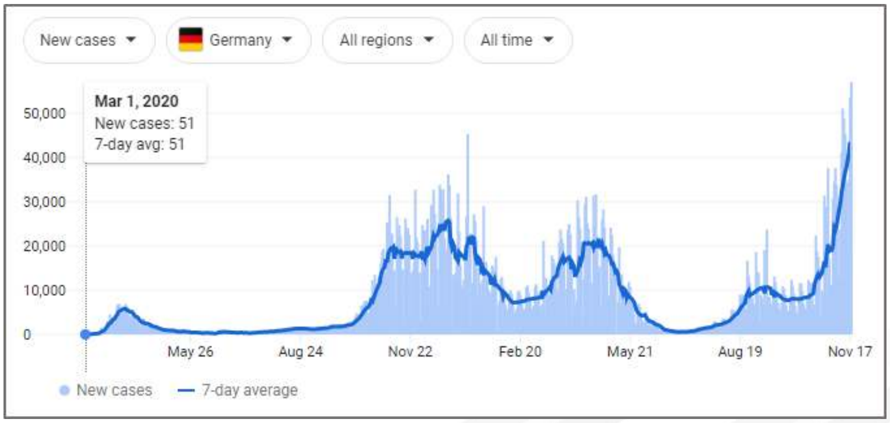
Don't Look Now

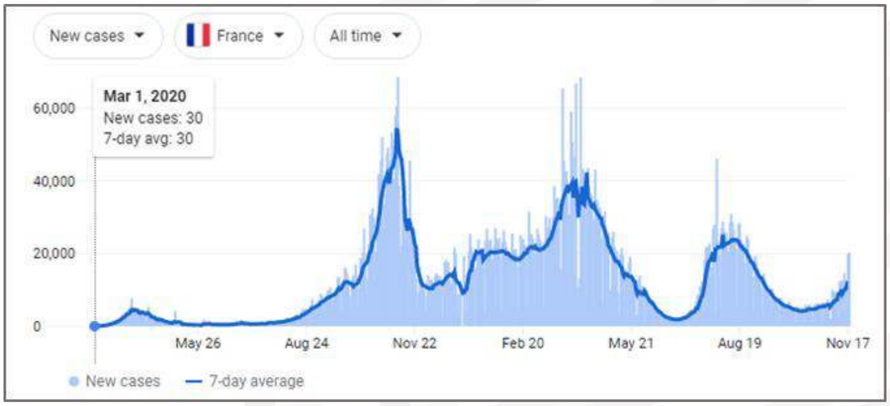
- **The hope was that the last wave of COVID would mark its demise. That hope appears unfounded** as the U.S. is beginning another rise in cases, mostly in northern states. Europe, and particularly Germany and Austria, are hitting new record highs in reported cases. Parts of Asia are experiencing a similar rise. Why is this important? A critical element in repairing the supply demand imbalance is for COVID to recede, allowing production to fully recover. The charts below tell the story, with the exception of China, where data is scarce, but recent news stories are focusing on Delta outbreaks. Getting supply back to normal may take longer than expected. (All charts are from the NY Times.)






New cases
Vietnam
All time
Mar 29, 2020
New cases: 14
7-day avg: 11
15,000
10,000
5,000
0
Jun 13
Sep 8
Dec 4
Mar 1
May 27
Aug 22
Nov 17
New cases
7-day average


New cases
Germany
All regions
All time
Mar 1, 2020
New cases: 51
7-day avg: 51
50,000
40,000
30,000
20,000
10,000
0
May 26
Aug 24
Nov 22
Feb 20
May 21
Aug 19
Nov 17
New cases
7-day average


New cases
France
All time
Mar 1, 2020
New cases: 30
7-day avg: 30
60,000
40,000
20,000
0
May 26
Aug 24
Nov 22
Feb 20
May 21
Aug 19
Nov 17
New cases
7-day average

What We're Reading

- *Global Wealth Surges as China Overtakes U.S. to Grab Top Spot*
- *If Biden picks Brainard over Powell, expect an immediate market impact*
- *4.4 million people quit in Sept. as Great Resignation shows no signs of stopping*
- *I Remember 1970s Inflation. Politicians Should, Too*
- *What's Wrong With ESG Investing as Explained Through the Medium of Ohio*
- *The Fed Has More Options Than 0% Rates or Recession*
- *SEC rejects VanEck ETF that directly tracks bitcoin*
- *BMO's Belski: If you take two steps back, you want to own stocks, period*
- *John Deere, Inflation Bellwether*
- *The Real Biden Bill: At Least $4.6 Trillion*

Markets This Week

This week saw mixed results from a variety of different asset classes. To finish the week, it was a bit interesting to see that the Dow posted negative results while the S&P and Nasdaq posted positive results. This is a small example as to why a handful of large-cap companies are not always a good indicator for the overall economy. Emerging markets and international stocks also suffered setbacks as Europe and parts of Asia begin to experience another wave of COVID. Higher-than-expected demand for housing has homebuilders up on the week along with Technology on solid earnings. Speaking of Technology, growth stocks posted positive numbers while their value counterparts posted negative numbers.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	0.35%	26.64%	20+ Yr. Treasuries (TLT)	0.70%	-4.84%	Consumer Disc. (XLY)	3.74%	32.10%
Dow (DIA)	-1.49%	17.87%	Barclays US Aggregate (AGG)	0.11%	-1.84%	Info. Technology (XLK)	2.39%	32.51%
NASDAQ (QQQ)	2.34%	28.80%	Intermediate Municipal (MUB)	0.12%	0.56%	Financials (XLF)	-2.81%	34.04%
Russell 1000 Growth (IWF)	1.83%	28.71%	US Corporate Bonds (LQD)	0.08%	-1.99%	Health Care (XLV)	-0.63%	18.50%
Russell 1000 Value (IWD)	-1.85%	21.41%	Barclays US High Yield (HYG)	-0.33%	2.21%	Utilities (XLU)	0.98%	9.81%
Vanguard Mid-Cap (VO)	-0.80%	25.27%				Industrials (XLI)	-1.09%	20.53%
Vanguard Small-Cap (VB)	-2.36%	20.15%				Energy (XLE)	-5.00%	49.05%
						Materials (XLB)	-1.99%	23.58%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	-1.08%	8.77%
MSCI EAFE (EFA)	-1.28%	11.61%	Commodities (PDBC)	-2.17%	42.01%	Comm. Services (XLC)	-1.90%	18.71%
MSCI Emerging (EEM)	-2.08%	-1.01%	Gold (GLD)	-1.05%	-3.22%	REITS (VNQ)	-0.23%	31.33%
						Homebuilders (XHB)	1.94%	46.45%

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.

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Retirement Planning:

[Thinking of Joining the Great Resignation? Here's What to Consider First.]

More Americans are quitting their jobs than ever before, and many of them don't plan to come back to the workplace, even though their finances may suffer as a result.

Estate Planning:

Build Back Better Act I, II, III: Current Version and Trusts and Estates

Three versions of the Act have attempted to make significant changes to current gift, estate, and trust income tax law.

Health:

The Best and Worst Juices At The Grocery Store

Some are 100% juice, while others are filled with additional sweeteners.