Email Body 10-18-2021

**Mandates, Inflation, What Else is New?**

“The more things change, the more they stay the same” – Jean-Baptiste Karr. Many of us remember only being able to go to gas stations on odd/even days in the 1970’s and the advent of “stagflation” or a low/no growth economy plus inflation. Interestingly, some in the media are beginning to wonder if we are returning to that era given the price of oil and shortages of various commodities on shelves. Understanding what the future holds requires some knowledge of the past and ascertaining whether historical relationships between economic factors continue or are broken. Given the same set of circumstances, you can generate different results in different time periods reflecting the uniqueness of each generation. What lies ahead? No one really knows for sure. Perhaps Mark Twain said it best, “history doesn’t repeat itself, but it does rhyme.”

Covid-19 case levels, hospitalizations, and deaths in San Diego County and California (per County and State government sources) continue to trend down and are now at about 15% of the January 2021 peak. Nationally per the CDC, the rolling seven-day average daily cases and hospitalizations have dropped from August peaks by over a 50%. With covid-19 statistics continuing to decline, government interference in the private sector should become less of an issue. The wildcard here are vaccine mandates and their impact on important government and private sector goods and services capacities. Whether employees comply or employers/Government blinks remains to be seen. The next month looks to be a wild one.

The main difference between today and the 1970’s is that current inflation is largely the result of restarting the supply chain to feed the world’s economies. Demand far exceeds supply and supply will likely rise to meet demand as the kinks in the supply chain are worked out over the next year. In the 1970’s the sudden rise of oil prices reduced demand (i.e., reduced economic activity) resulting in the reduction of capacity and an increase in prices. Over time capacity was rebuilt, substitutes were found, and market prices adjusted to the new realities. We are seeing some of the same things today with supply chains being rebuilt with an eye towards sustainability and production being moved closer to end users. As with all things it will take time and there will be economic pain to one degree or another.

This past week saw the reporting of year-over-year consumer price index (5.4%) and producer price index (8.6%) numbers that gave some pause to analysts as to whether this inflation is truly transitory as the Federal Reserve insists. More are coming around to believe that inflation will settle above pre-pandemic levels for some time although not at recession causing levels. Some economic data has softened including consumer confidence (i.e., down modestly in October) and industrial production (i.e., down 0.7% in September). Home builder confidence improved to its highest level this year and retail sales for September came in with a 0.7% increase verses an expected 0.1% decline. Sales grew in eleven of thirteen categories reflecting strength in goods as well as restaurants and other hospitality venues. Third quarter earnings reporting is expected to show 25% to 30% growth in year-over- year comparisons. When you consider September’s market decline, equity valuations are back in reasonable territory and are primed to continue to expand. With the Federal debt ceiling issue pushed off to December and the Federal Reserve continuing to provide liquidity to the financial markets, it looks to be a decent fourth quarter for the equity markets. Especially if history is any dependable guide. The primary risks to the markets are twofold; (1) Federal and State governments mishandle covid responses, and (2) the bond markets and the Federal Reserve misread the current shocks, foment rising inflation expectations, and raise interest rates to quickly or to far. Let’s hope cool heads remain in charge.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

As always, stay safe and healthy!

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