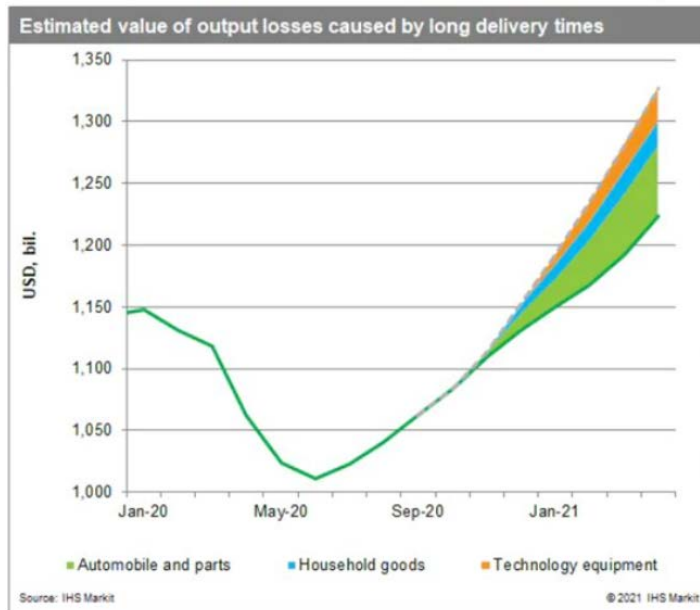


Interesting Charts and Commentary

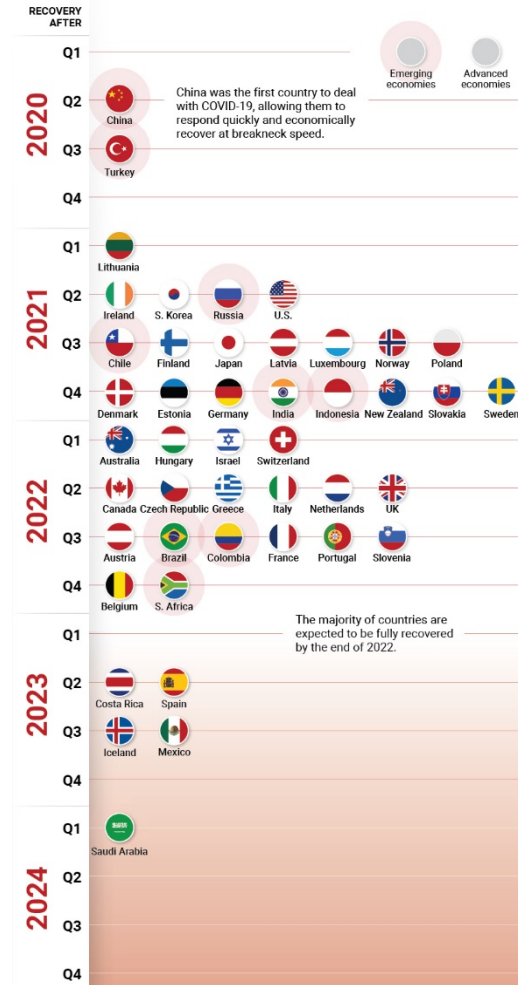
Recovery to Pre-Pandemic Economic Levels Remains Uneven

While the United States has almost recovered to pre-pandemic levels of economic activity, many parts of the world remain locked down, following a spike in Covid cases. The disparity in vaccination rates and economic recoveries has led to supply chain issues around the world. Over \$250 billion has been lost in economic output because of increased delivery times.



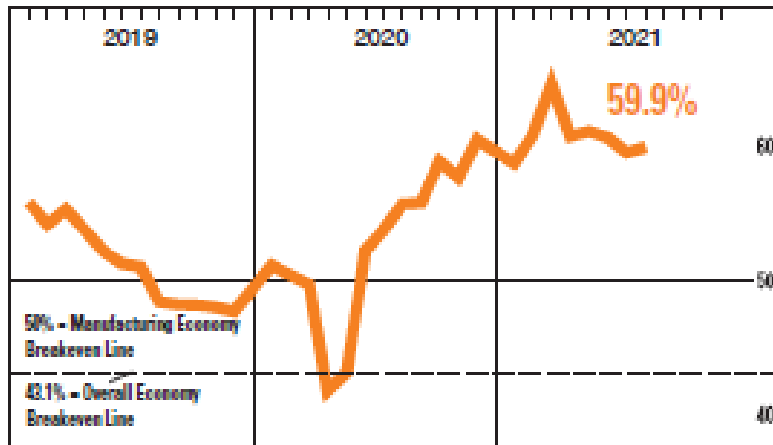
Source: Visual Capitalist, IHS Markit

When Will Your Country Recover To Pre-Pandemic Levels of GDP Per Capita?

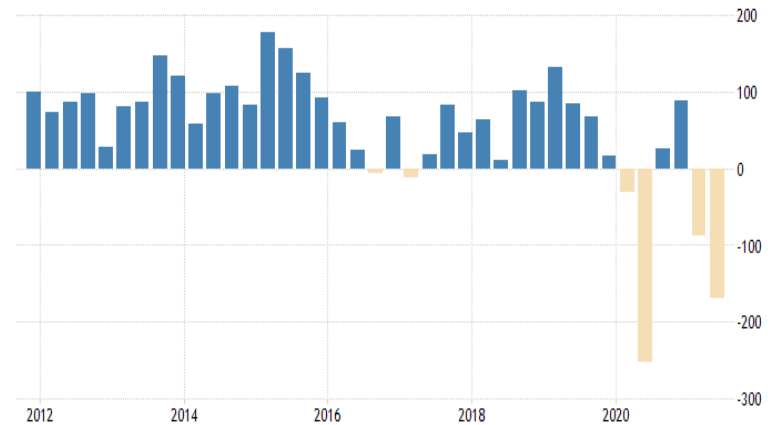


Manufacturing Growth Has Peaked at High Levels

U.S. Manufacturing growth has slowed from the blistering growth experienced earlier in the year. Factory orders and manufacturing production remain strong yet face increasingly difficult year-over-year comparisons. Inventories remain very tight given supply chain disruptions and recovering demand. Lean inventory levels should ensure that manufacturing growth will remain steady for the foreseeable future.



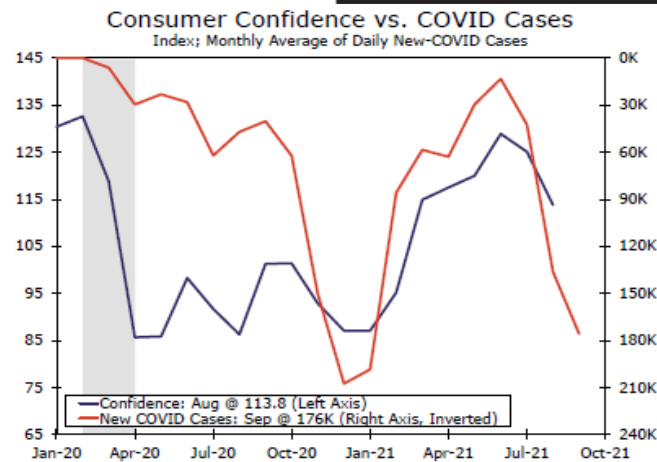
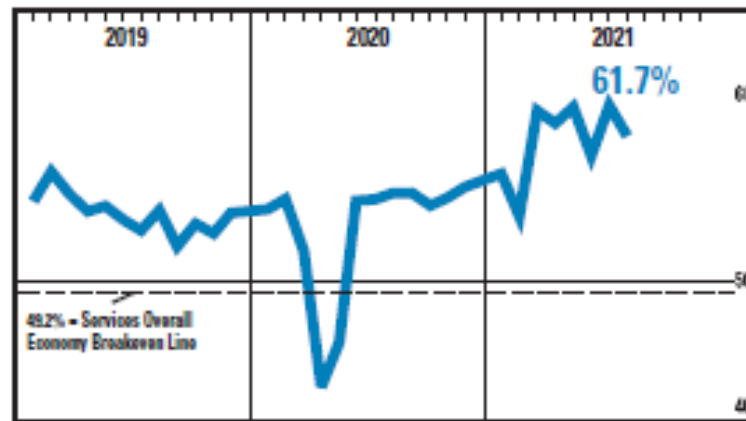
Change In Inventories



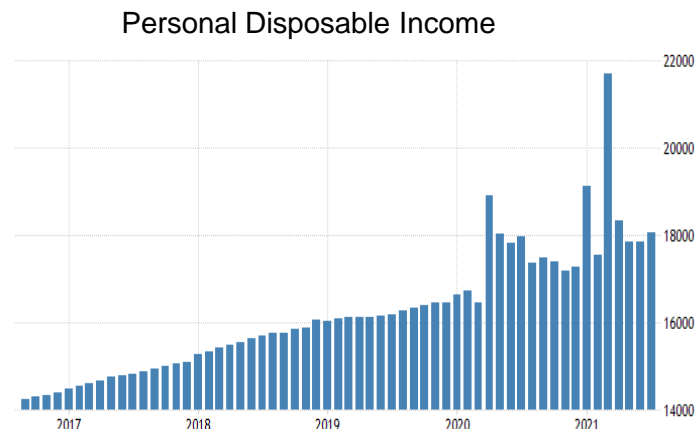
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Services Growth Is Flattening

The U.S. service economy is following a similar path, strong but decelerating. Although the mid-year rise of the Delta variant has hampered consumer confidence, high levels of disposable income continue to spur retail and restaurant spending.



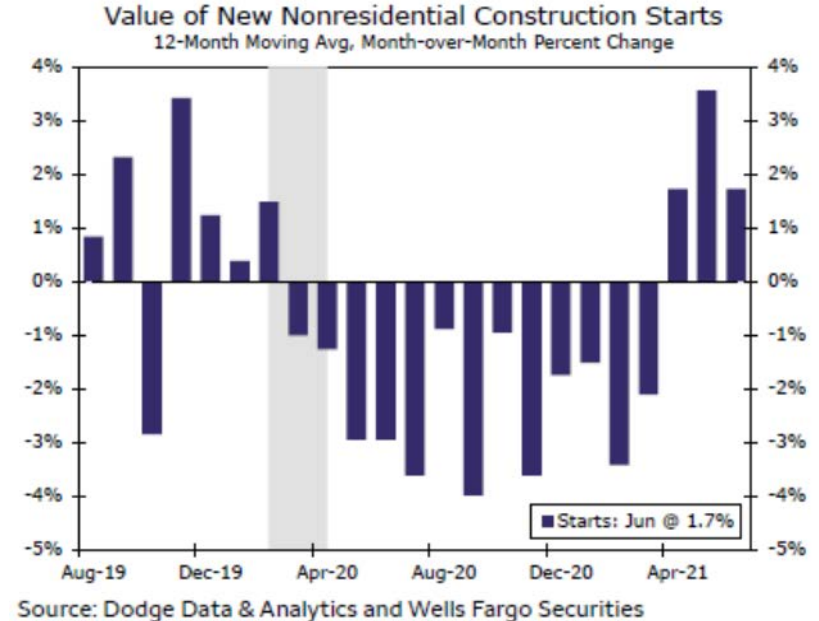
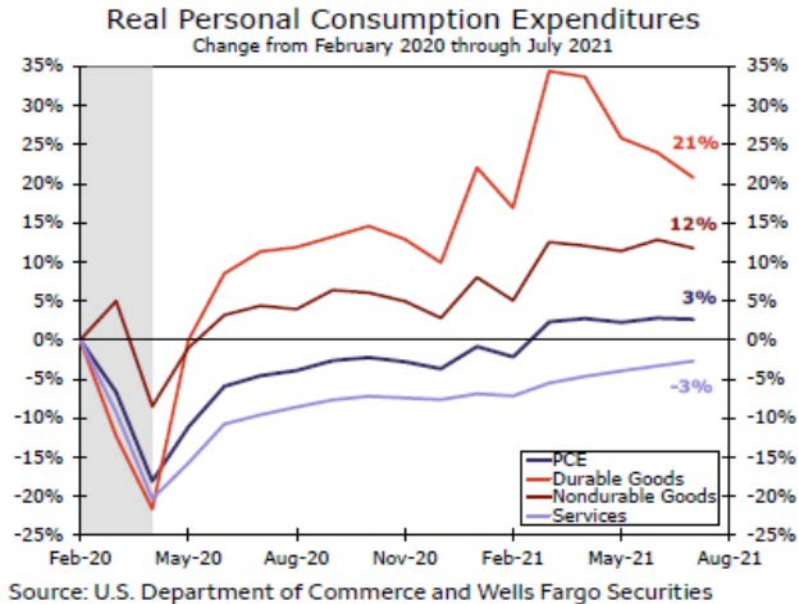
Source: The Conference Board, Bloomberg LP and Wells Fargo Securities



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

The Overall Economy Is Growing But Slowing

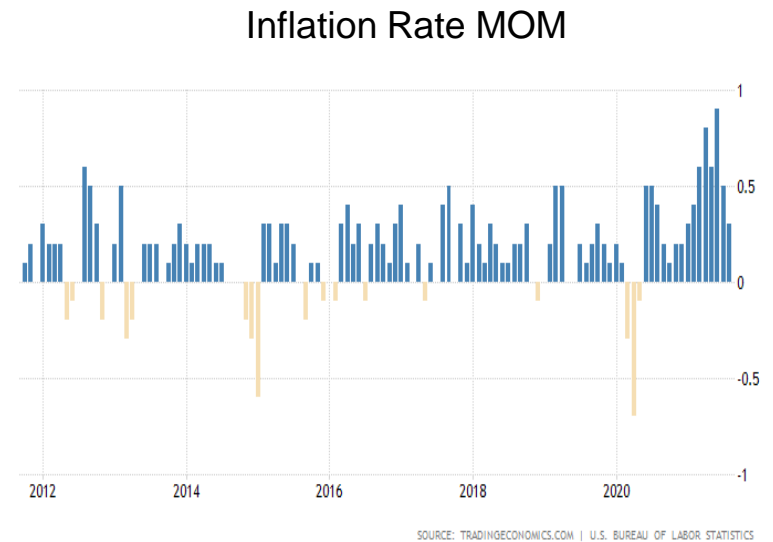
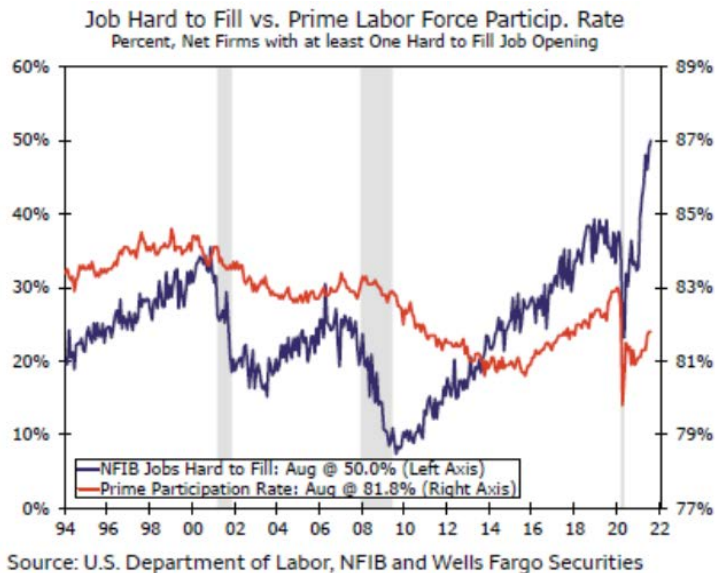
With the rise of Delta, formerly “hot” growth expectations for GDP and personal consumption have been revised downward but remain positive near-term. Residential construction spending has cooled, but nonresidential construction growth advanced last quarter. Overall, the economy seems to be growing at a more sustainable pace.



Source: Wells Fargo

Inflation Trends Remain a Concern

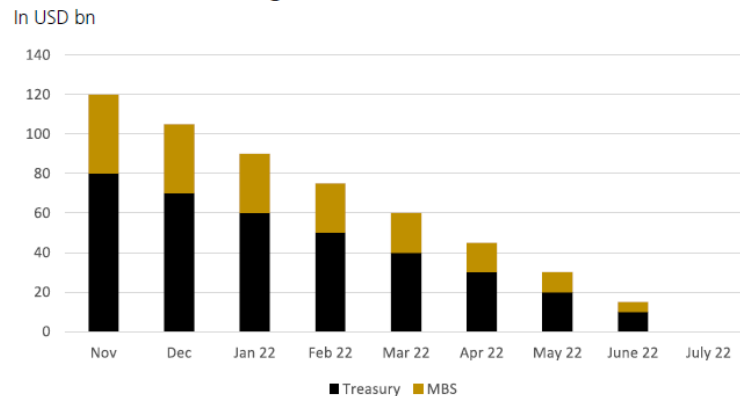
The labor participation rate for workers of prime employment age (25-54) is down from the pre-Covid peak, causing a spike in unfilled job openings. A sustained labor shortage could spark higher inflation levels, a trend the Federal Reserve is watching closely. Energy prices have spiked higher recently on European and Asian supply disruptions. Actual inflation has lagged expectations consistently over the past few years, and current year-over-year comparisons, reflecting global supply chain disruptions, call into question the magnitude and duration of inflationary trends.



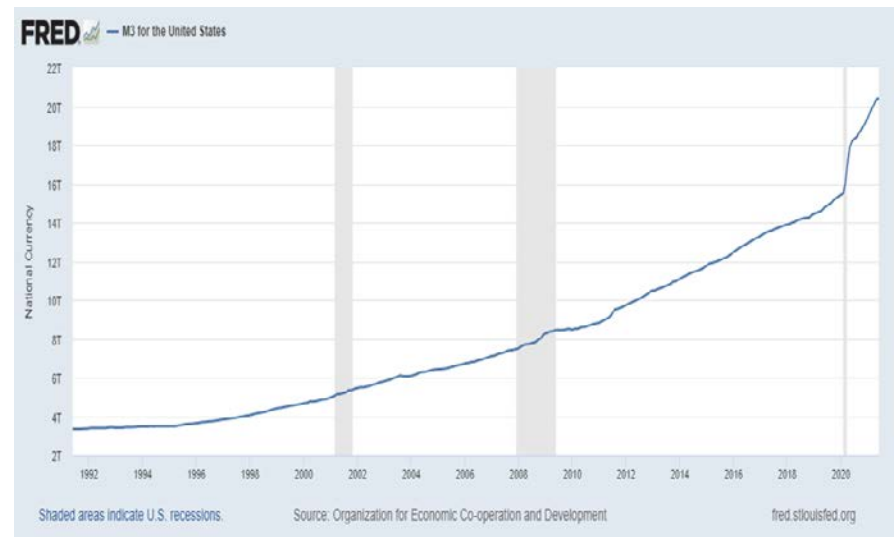
Federal Reserve Tapering Should Slow, Not Stop, Growth

Per Federal Reserve Chairman, Jerome Powell, the economy has made substantial progress toward recovery, and the Fed will begin tapering its asset purchases soon. Given the amount of money still in the system, it would be difficult to characterize this move as a severe monetary tightening. In fact, assuming that the expected tapering schedule materializes, an additional \$540 billion dollars will be injected into the economy by mid-2022. That sum does not include the additional, potential stimulus in the form of infrastructure bills.

Fig. 1: The market anticipates a monthly drawdown of USD 15bn a month starting in December



Source: UBS, as of 23 September 2021



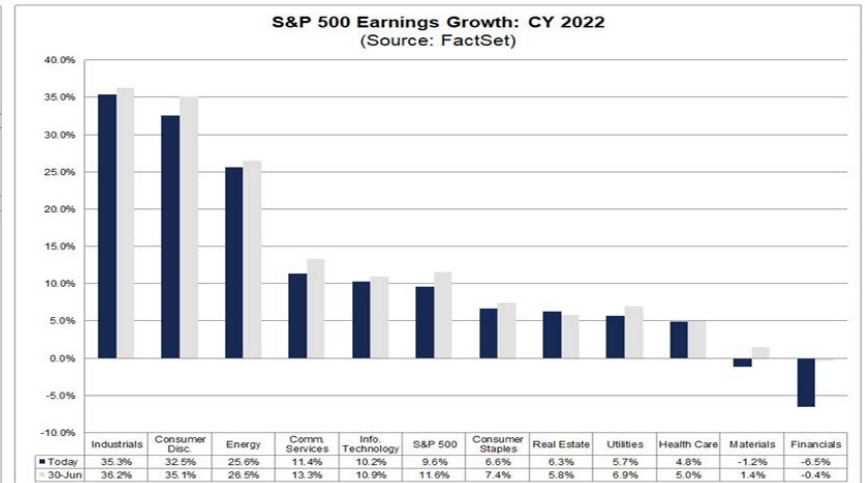
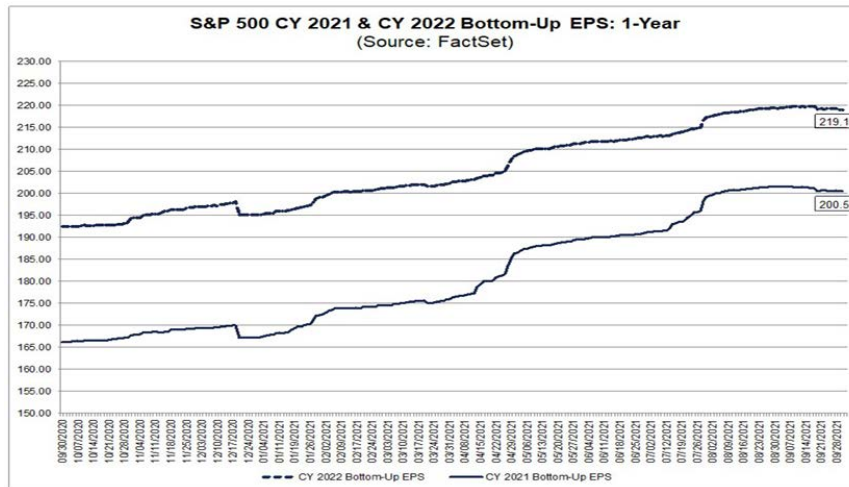
Many Wonder “Where Is The Correction?”

Typically, the price of S&P 500 Index declines by 10% at least once annually, often setting the stage for the next advance. Given the largely unbroken advance from March 23, 2020, many believe that the Index may be overdue for a correction. Here is an alternate perspective. . . . On April 6, 2021, 94% of S&P 500 companies were above their 200-day moving averages. Nearing September’s end, that figure had fallen to 64%. Concurrently, the average S&P 500 stock was approximately 15% below its 52-week high. Correction? Either way, earnings expectations had turned (purple line below).



Earnings Revisions Are Flattening

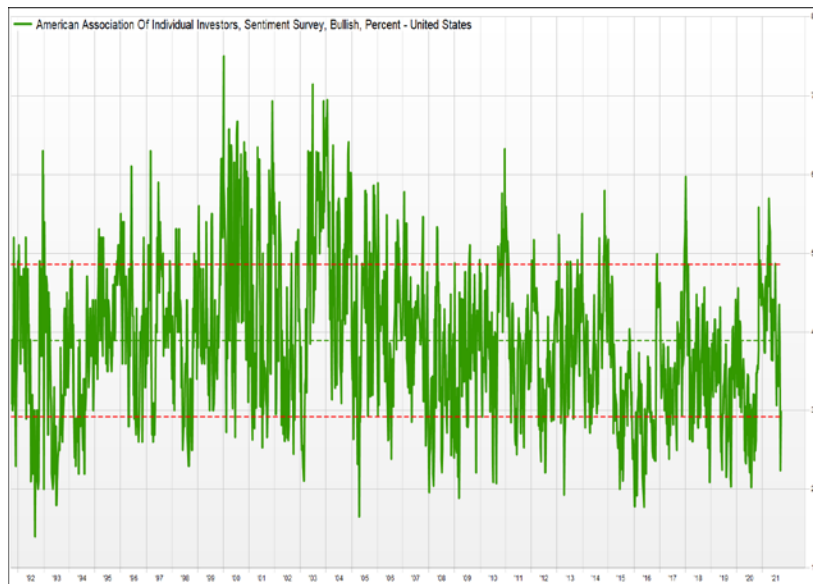
For the first time since mid-2020, forward earnings estimates have declined marginally, both for the S&P 500 Index as a whole and across most of the major sectors (blue bars versus gray). Nonetheless, aggregate Index earnings are still expected to grow year-over-year into 2022. Given this turn, investors may lean/rotate towards higher quality stocks, not necessarily away from the market as a whole.



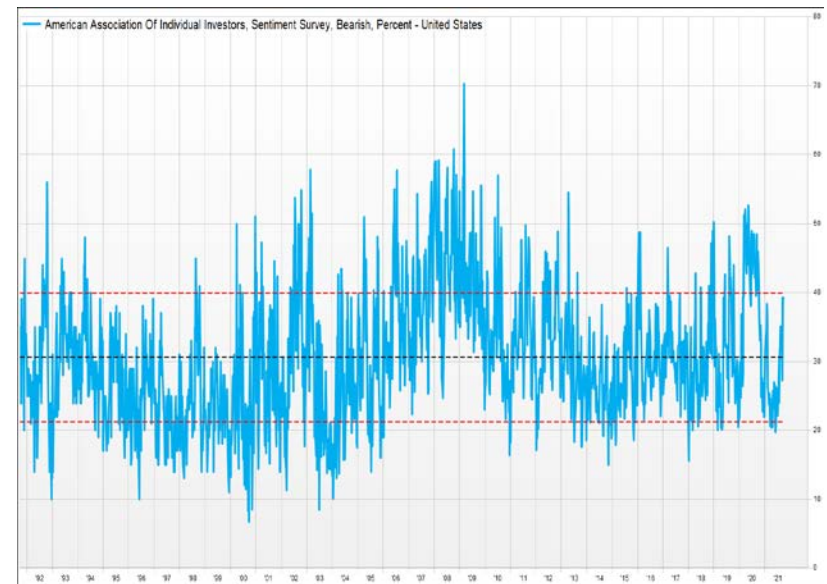
Sentiment Trends Are Improving

Versus the optimistic extremes of early to mid-2021, sentiment has started to normalize. Bullishness is declining, and bearishness is starting to increase; both are positives from a contrarian point of view. We consider this change a healthy development.

AAll Bullish



AAll Bearish



Conclusion:

- While the United States has almost recovered to pre-pandemic levels of economic activity, many parts of the world remain locked down. The disparity in vaccination rates and economic recoveries has led to supply chain issues around the world.
- Despite a slowdown in the rate of growth, the U.S. economy remains strong. Manufacturing is still firing on all cylinders (excepting supply chain issues), and inventories remain low. The U.S. service sector reflects strong but decelerating growth.
- Generally, the U.S. consumer appears to be in good shape. Personal consumption has moderated, but delinquencies continue to trend downward.
- Inflation remains a concern. The labor participation rate for workers in the prime employment age (25-54) is down from a pre-Covid peak. A sustained labor shortage could result in higher inflation levels, a trend the Federal Reserve is watching closely. Energy prices bear monitoring as well. Actual inflation has lagged expectations consistently over the past few years, and current year-over-year comparisons, reflecting global supply chain disruptions, call into question the magnitude and duration of inflationary trends.
- The U.S. economy has made substantial progress, and the Fed is expected to begin tapering its asset purchases by year-end. Given the amount of money still in the system (and yet to come), it would be difficult to characterize this as a worrisome change.
- Forward earnings estimates have started to decline but year-over-year improvement is expected in 2022.
- We have not had a textbook correction, but the average stock within the S&P 500 Index is well off its 52-week high. Sentiment is starting to normalize.

Disclosure:

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