Economic Update
&
Future Outlook 2022

Presented To:

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KEY POINTS

1. The Delta variant of COVID-19 resulted in a resurgence of cases across the United States. Cases and hospitalizations continue to weigh on consumer sentiment and reduced Q3 GDP.

2. U.S. consumer balance sheets are strong; and despite a decline in confidence, the hand-off from the goods recovery to the service economy is likely in the near term.

3. As the economy has reopened, supply chain disruptions and demand shocks resulted in significant inflation. This transitory inflation is lasting longer than previously thought.

4. The Federal Reserve remains accommodative but announced plans to begin tapering this month.

5. Equity valuations remain high by historical standards, but the outlook for equities remains attractive relative to other asset classes.

6. Infrastructure spending and tax plans remain highly certain.

BASE CASE OUTLOOK

Economy

2021-2022 U.S. strong economic growth as economies reopen labor markets improve & COVID impact declines.

Policy

Fed remains accommodative and fiscal policy supports economic growth.

Even as QE is tapered fiscal policy less additive, but not restrictive.

Markets

Equity market outperforms with broader global recovery.

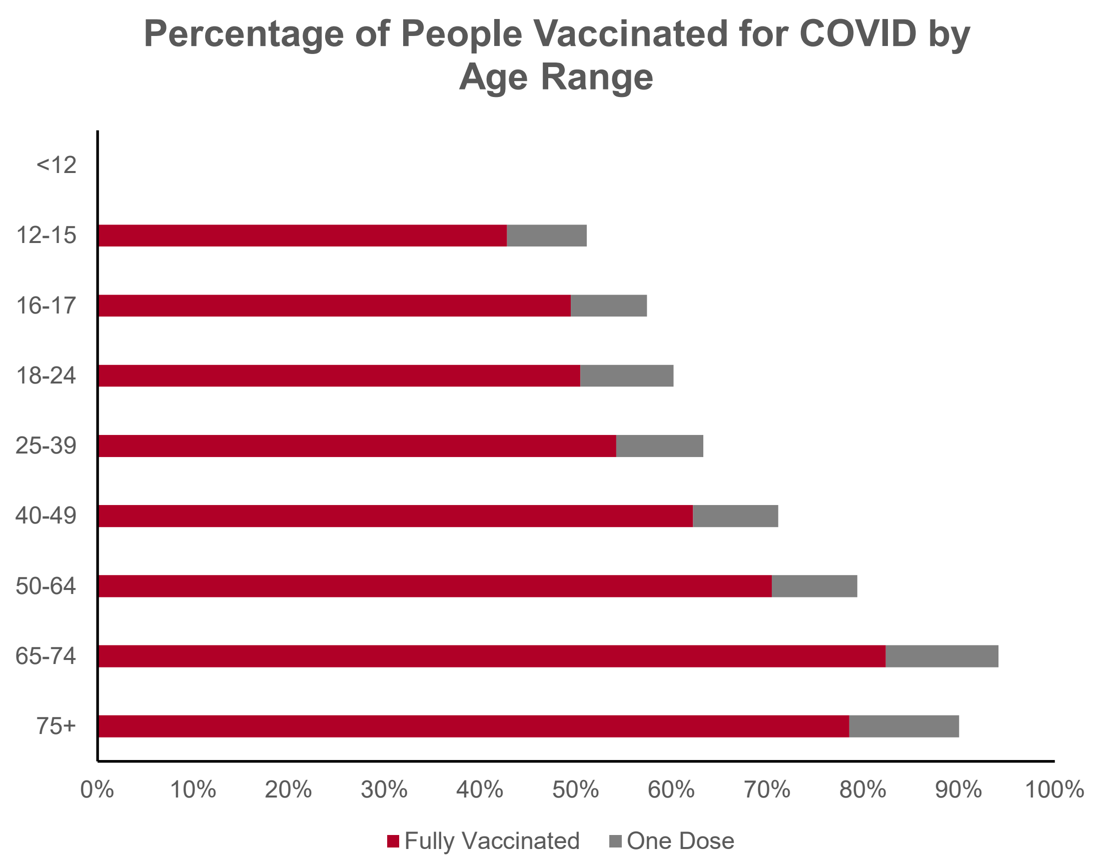
Risk: COVID-19 variants that resist vaccines and delay the reopening.

Risk: Sustainable inflation surge.

Risk: Sharply higher interest rates and taxes.

U.S.: A SUCCESSFUL VACCINE ROLLOUT

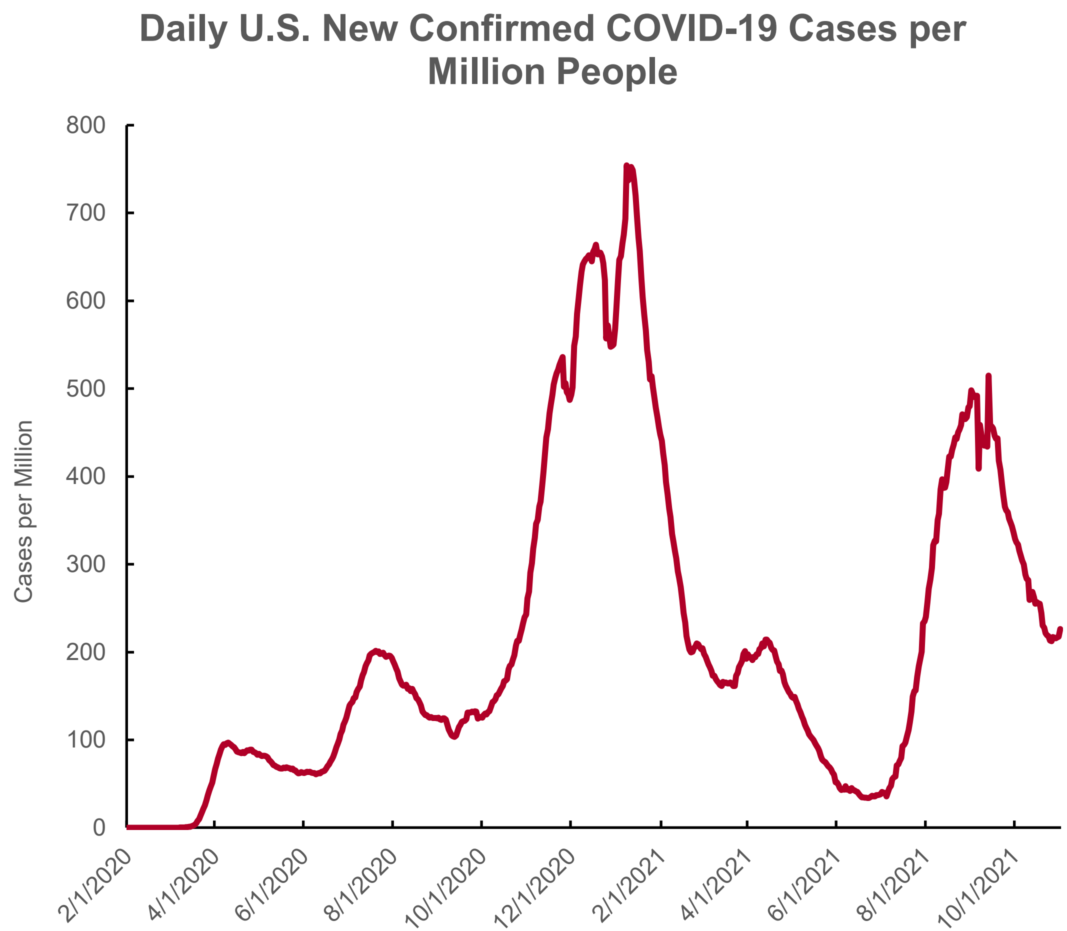
- As of September 30th, 56% of the U.S. has been fully vaccinated.
- Vaccine hesitancy as well as the need for booster doses remains controversial.
- Recent approval of vaccines for children 5-11 will expand the percentage of the population which is vaccinated.



Source: USA Facts. Data shown as of October 31, 2021.

U.S. COVID-19 CASES

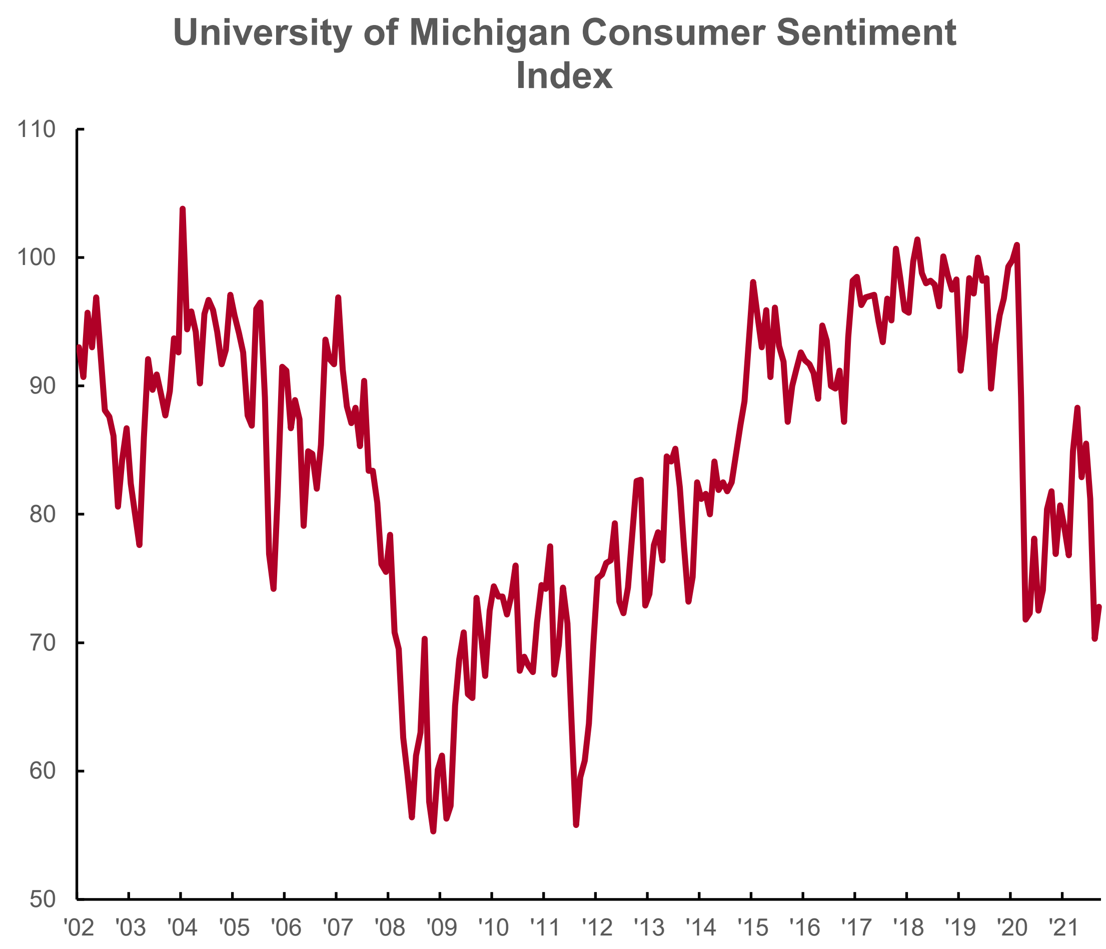
- The Delta variant raged across the U.S. over the summer despite the vaccine rollout.
- As cases rose, employers pulled back on return-to-office plans, particularly on the coasts.
- Delta has become the primary strand of COVID-19, and the infection rate remains multiples of the original strand of the disease.
- Delta cases appears to be rolling over even as schools are reopening.



Source: Our World in Data. Data shown as of October 31, 2021.

U.S. CONSUMER CONFIDENCE – DELTA IMPACTING

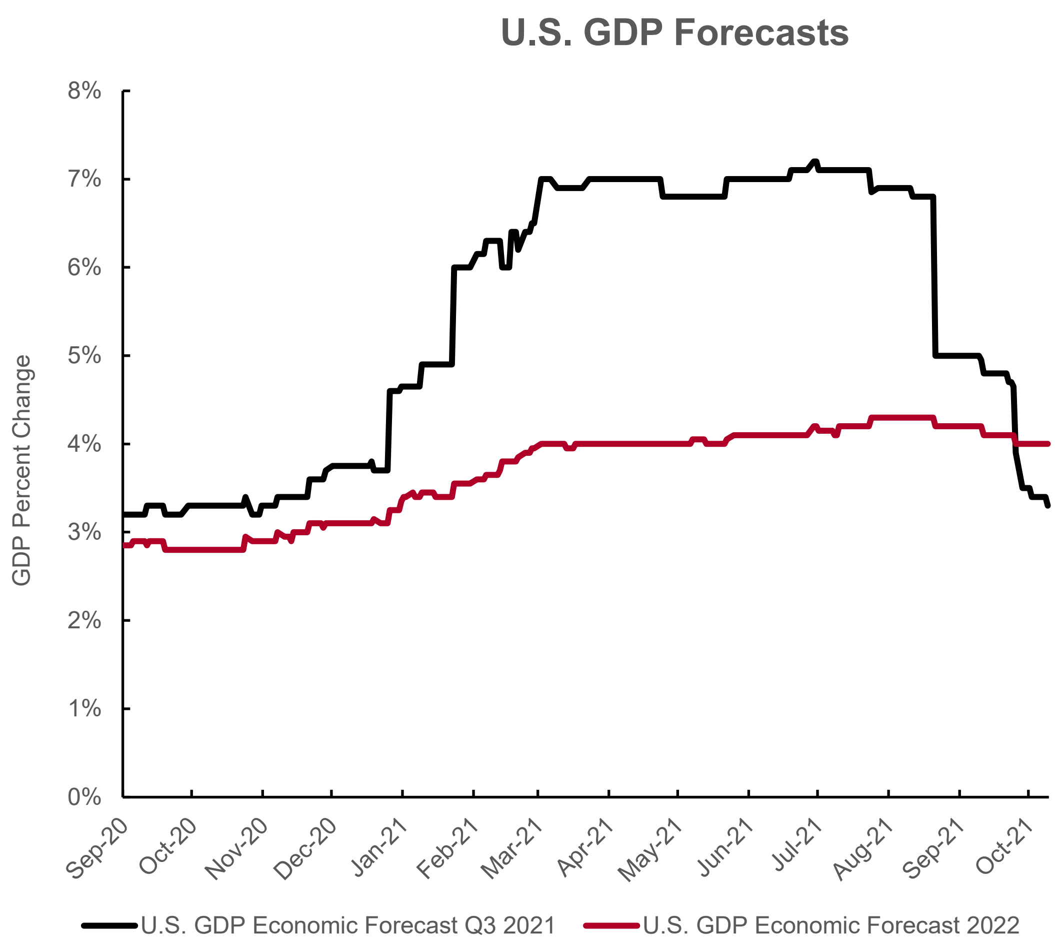
- The increase in cases, hospitalizations, and deaths despite the vaccine has negatively impacted consumer confidence.
- The decline in consumer confidence has resulted in a deceleration of the economic recovery.



Source: Federal Reserve Bank of St. Louis. Data shown as of September 30, 2021.

CONSENSUS GDP ESTIMATES

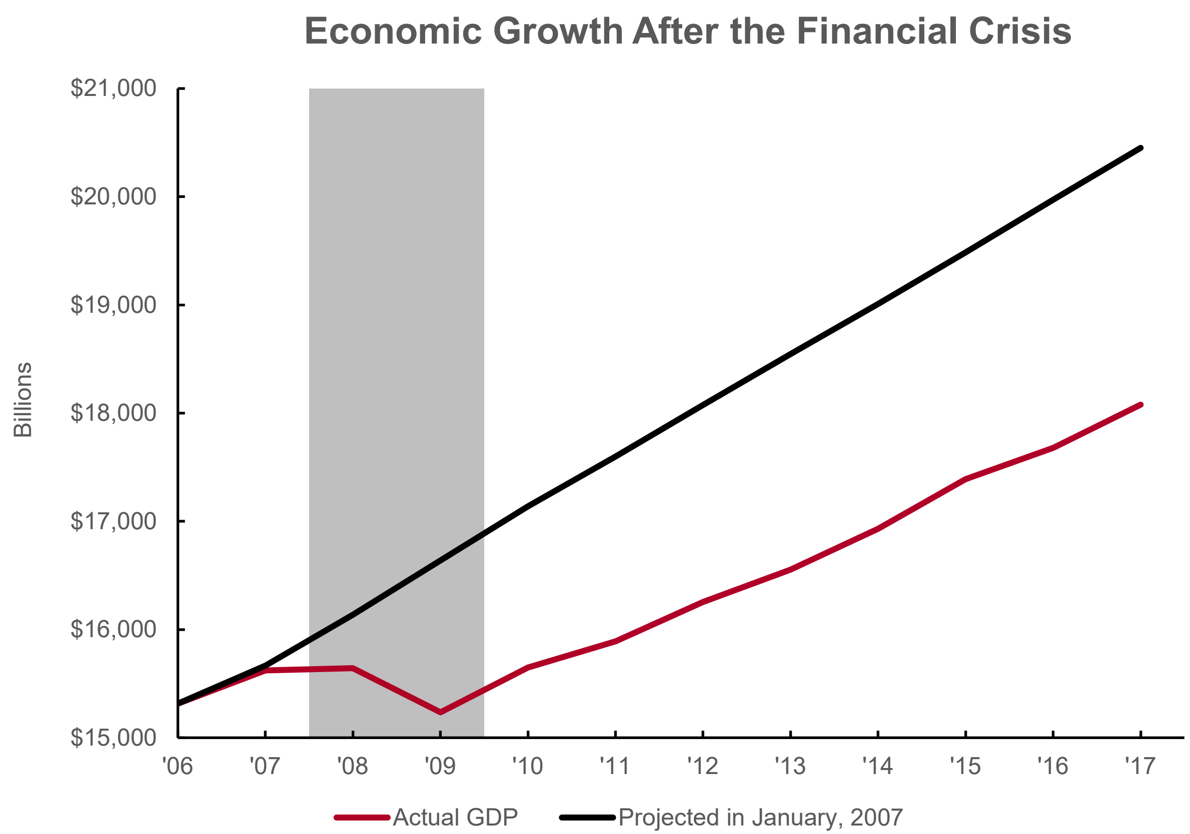
- 3Q GDP estimates ratcheted higher as a robust reopening appeared inevitable.
- More recently, 3Q GDP and 2021 GDP estimates have trended lower as Delta hit confidence.
- 2022 GDP estimates remain above trend as the recovery likely spills into next year.
- Q3 2020 first look reported at 2%.



Source: Bloomberg. Data shown as of October 31, 2021.

THE RESPONSE – FINANCIAL CRISIS

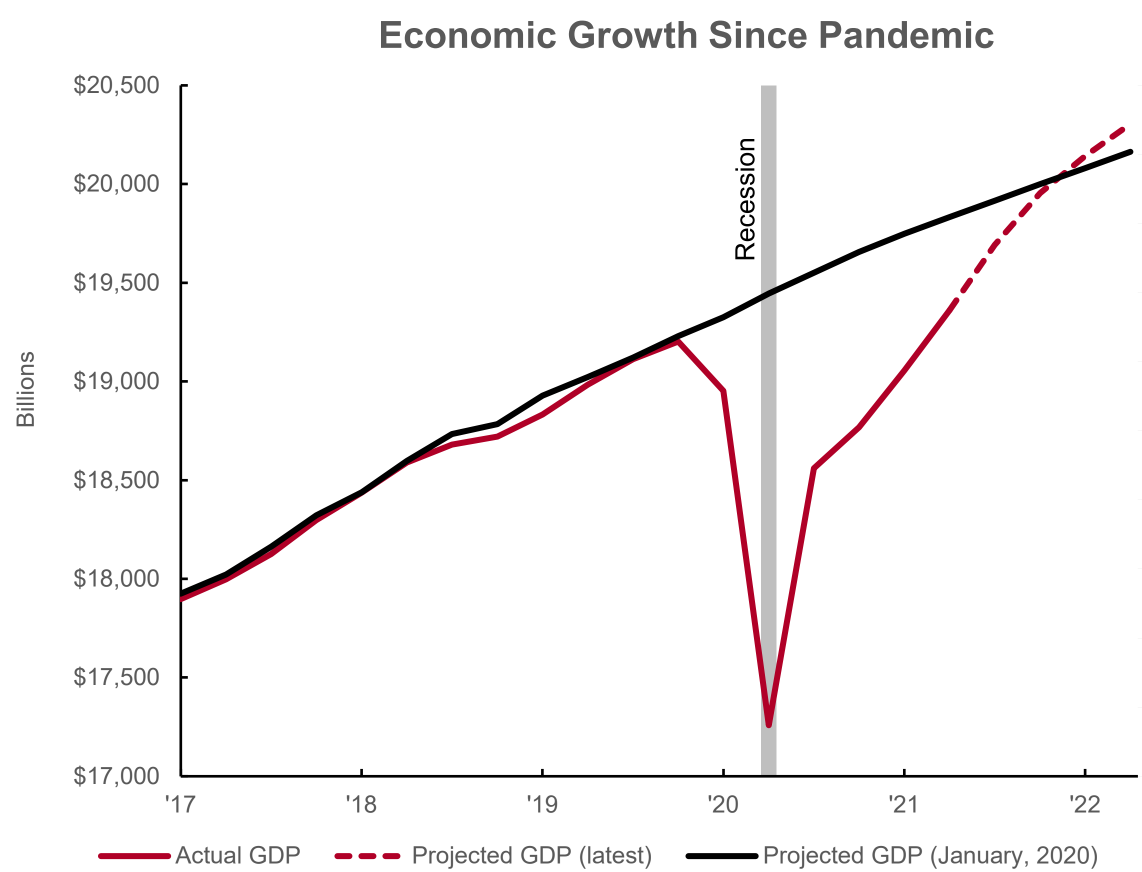
- Primarily a monetary response, very little fiscal response.
- Result – slow economic recovery which lagged pre-financial crisis projections.



Source: Strategas.

THE RESPONSE – PANDEMIC

- Concerted monetary and fiscal response.
- Recovery much faster – shortest recession in history.
- Growth expected to attain pre-pandemic projection by early 2022.
- But – the avoidance of one risk is the acceptance of another.

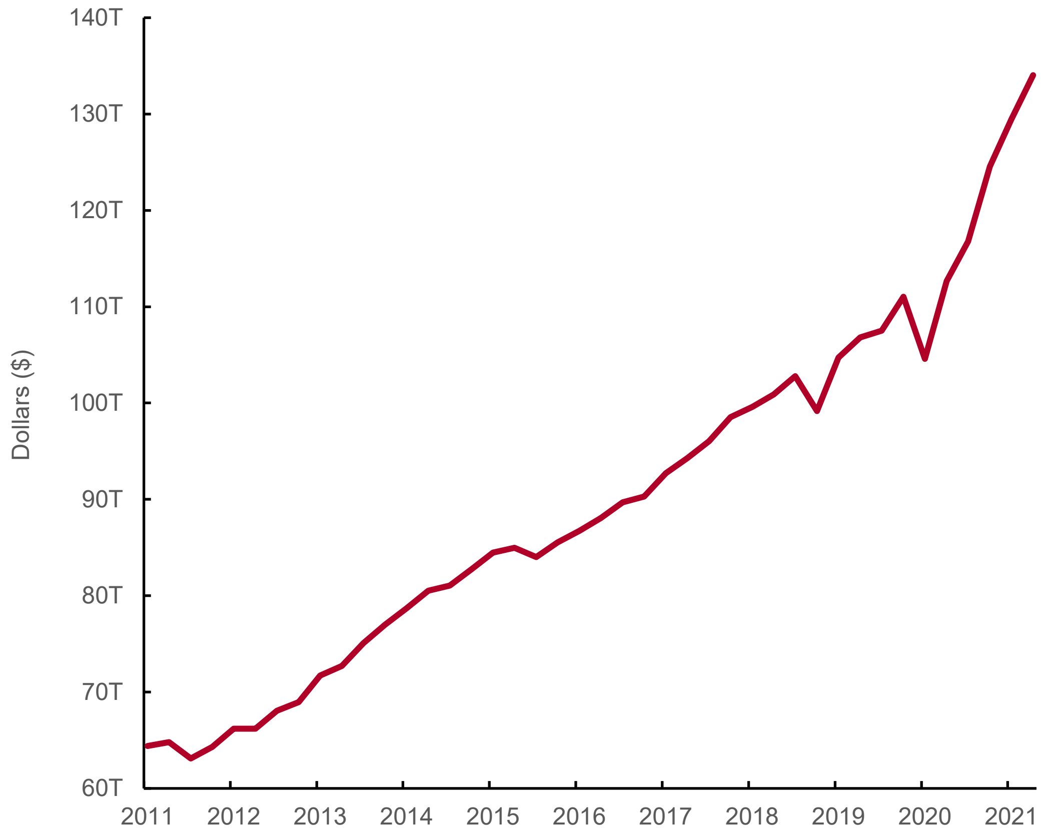


Source: Strategas.

U.S. HOUSEHOLDS: FINANCIAL STRENGTH

- Household net worth is at record highs. To a certain extent, this is offsetting the recent decline in consumer confidence.
- The increase in wealth is due to:
  - Above average savings
  - Home value appreciation
  - Stock market rally – stocks are 25% higher than pre-pandemic levels.
- Increased household worth is the fuel for the economic recovery.

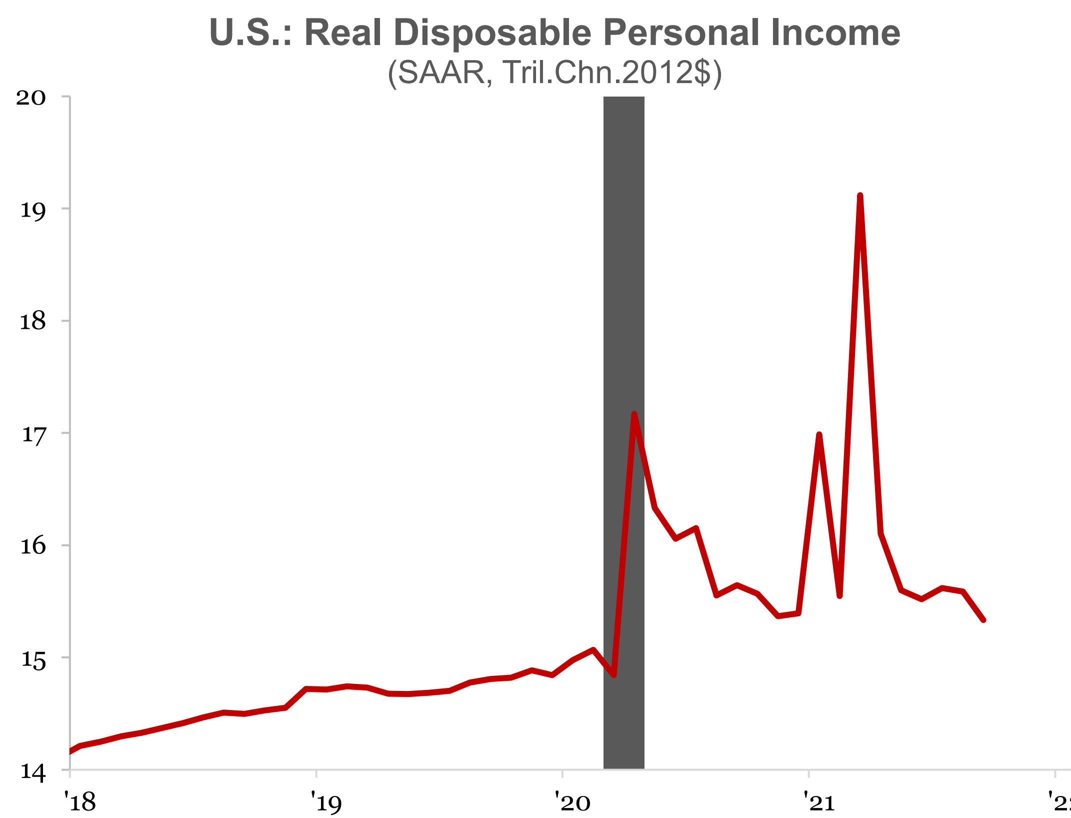
Households Net Worth (In Trillions of $)



Source: Federal Reserve Bank of St. Louis. Data shown as of June 30, 2021.

U.S.: REAL DISPOSABLE PERSONAL INCOME

- Fiscal stimulus led to personal incomes rising even as economic growth collapsed and unemployment spiked higher.
- Impact of multiple fiscal programs can be seen in the data.
- Fiscal stimulus totaled some $5.9 trillion dollars.
- But – Note decline at end of chart.

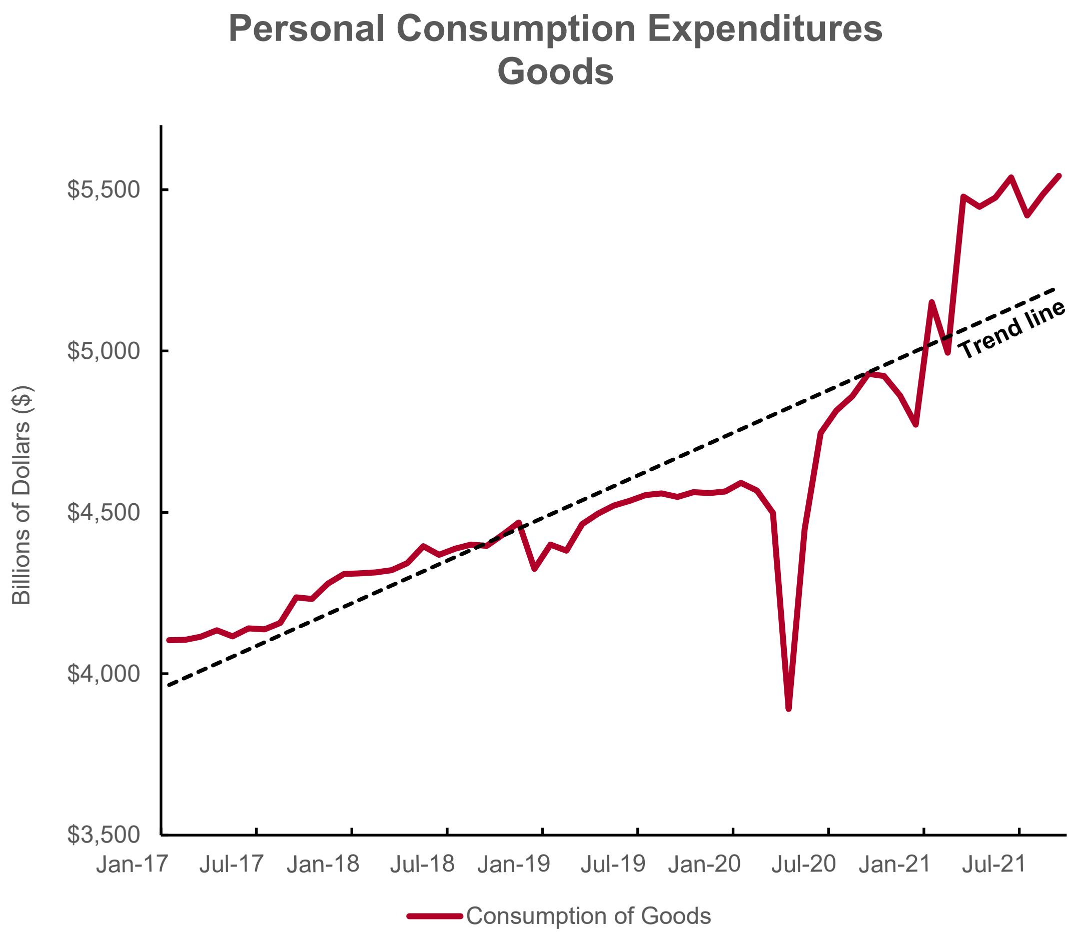


Source: Strategas.

Confidential

PERSONAL CONSUMPTION OF GOODS

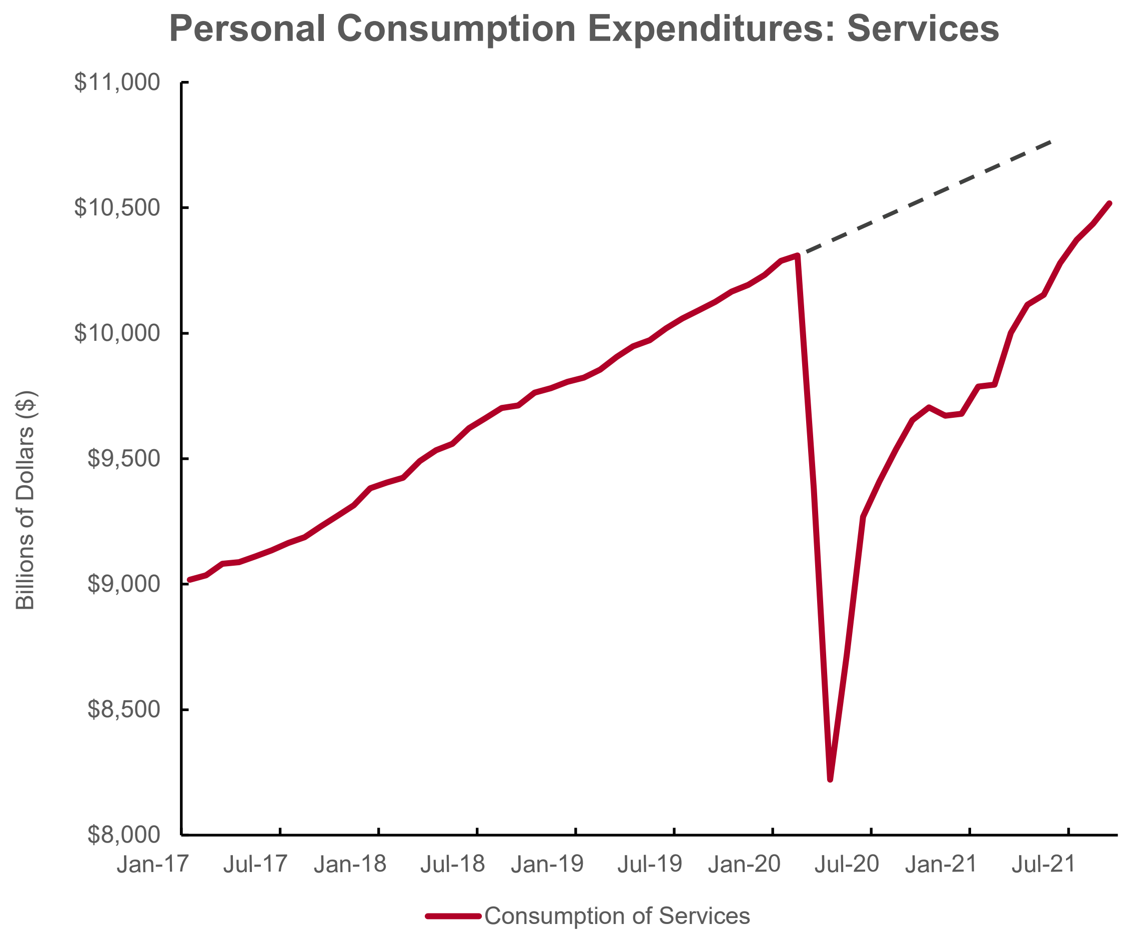
- After an initial drop from the pandemic, consumption of goods rebounded to all-time highs.
- Federal transfer payments and higher savings boosted the demands for goods, which appears to be at a short-term peak.
- The booming demand for goods has led to shortages, bottlenecks, and elevated inflation.



Source: Strategas. Data shown as of September 30, 2021.

SERVICES – UPSIDE POTENTIAL FOR 2022

- Services, while improving, have remained below the pre-pandemic trend.
- Services have a large multiplier effect on the economy as money spent on services tends to stay within the U.S.
- Services, such as travel and entertainment, are expected to increase through this year and into 2022.

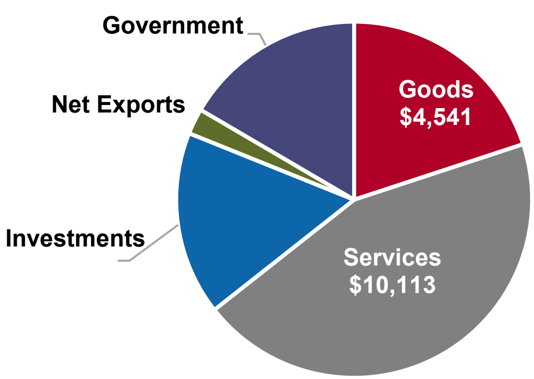


Source: Strategas. Data shown as of September 30, 2021.

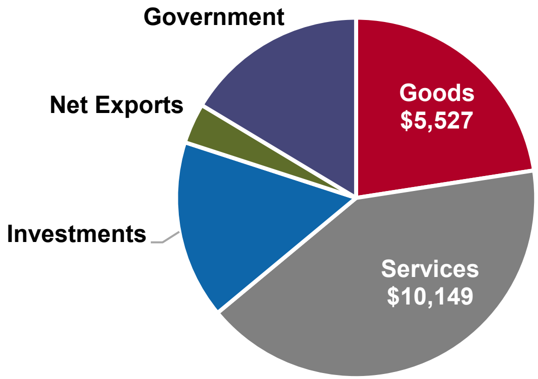
IMPORTANCE OF SERVICES TO OUR ECONOMIC GROWTH

- The goods economy is 21% larger than pre-COVID levels, which led to inflation in commodities.
- The service economy is approximately the same size as pre-COVID levels.
- Services are 2x the size of the goods economy and have a great economic multiplier.

4th Quarter 2019 GDP Figures
In Billions



2nd Quarter 2021 GDP Figures
In Billions

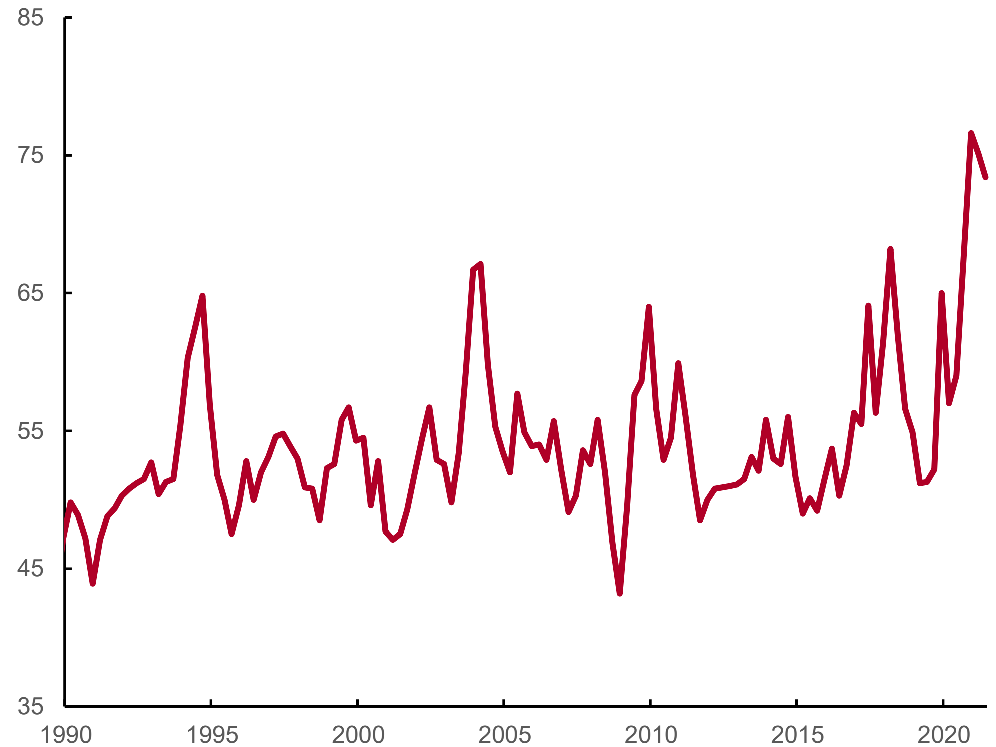


Source: Strategas.

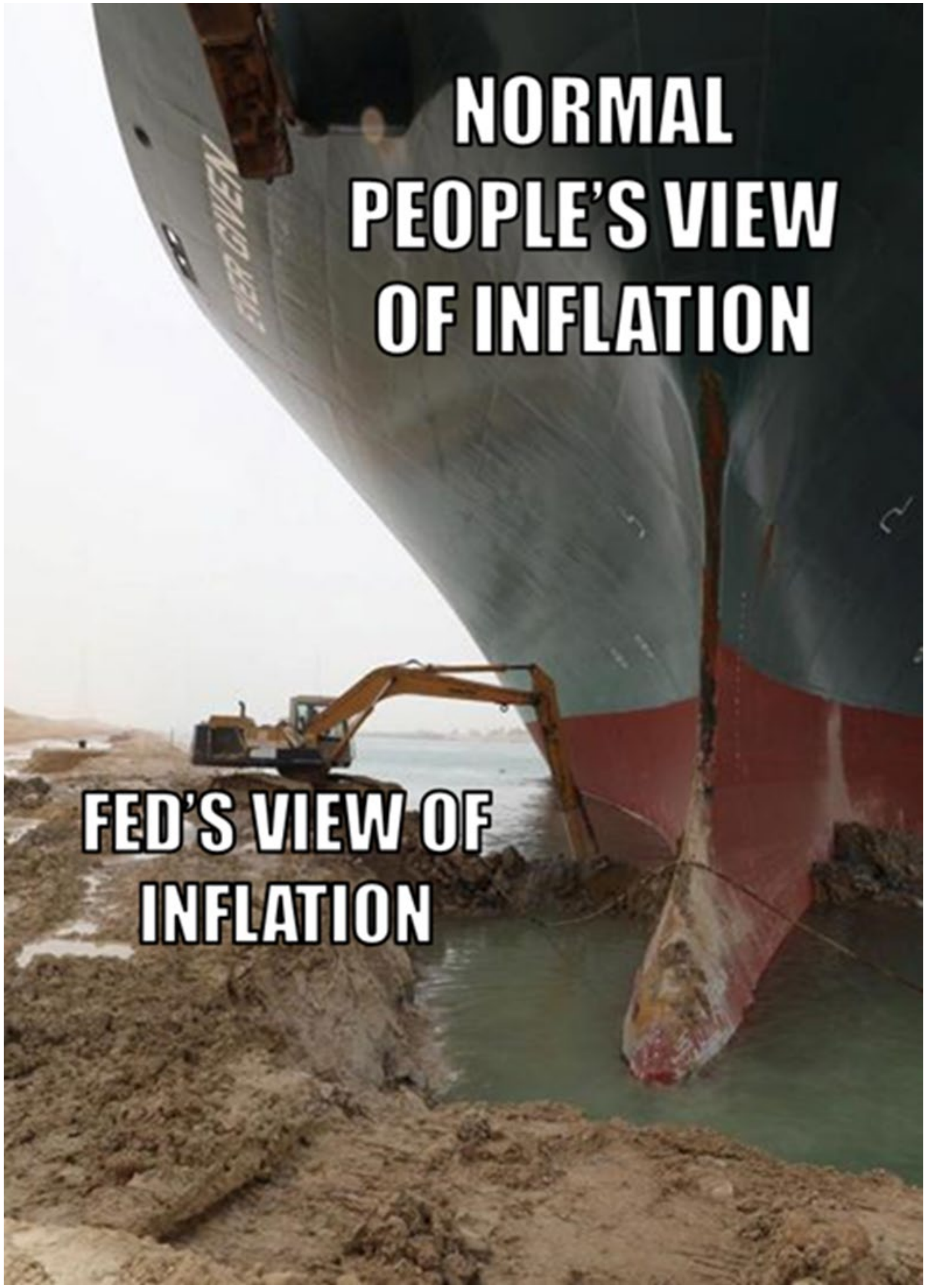
SUPPLIERS STRUGGLE TO RESPOND TO DEMAND

- The number of days it takes to receive delivery of supplies has reached decade highs and is particularly extreme in specific sectors.
- Businesses have been unable to find labor and key production inputs resulting in longer lead times for delivery of goods.
- This has contributed to higher inflation near-term, which is expected to trend downward as stimulus demand fades, shipping bottlenecks clear, and manufacturing picks back up.

ISM Manufacturing Report on Business Supplier Deliveries

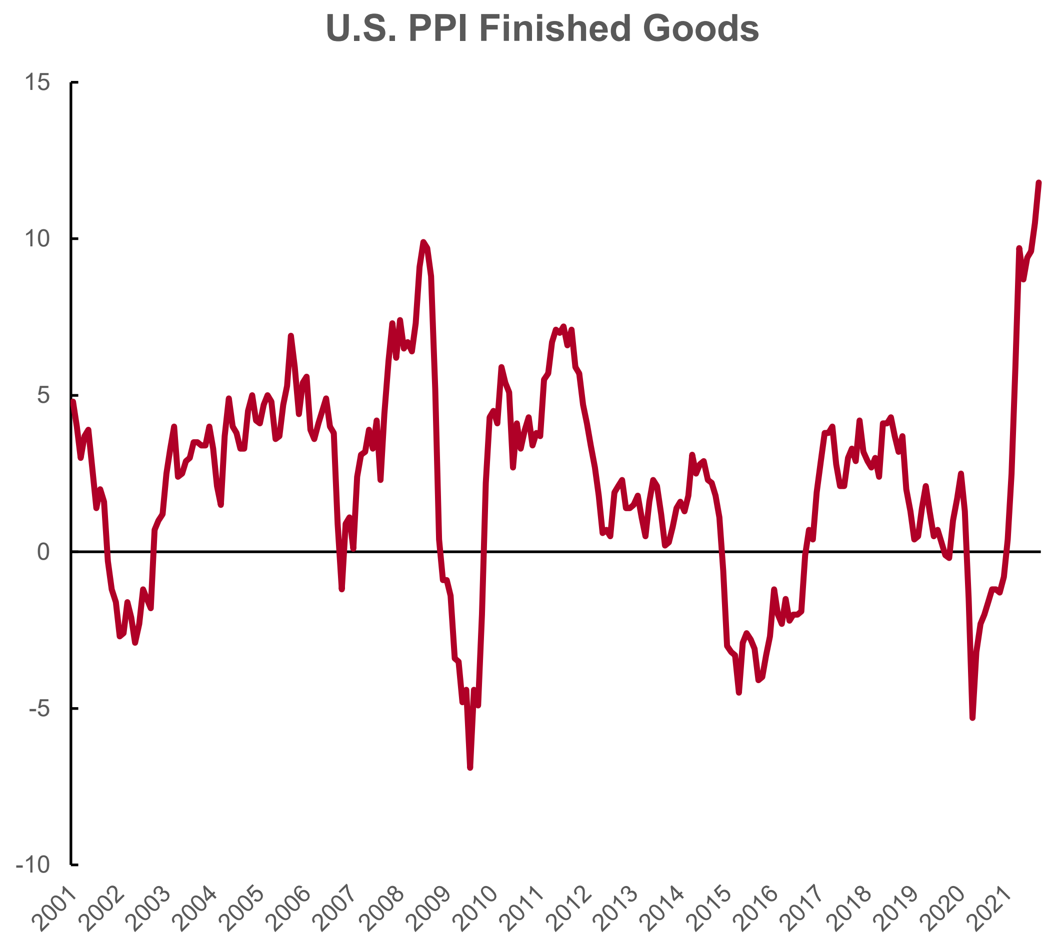


Source: Bloomberg. Data shown as of September 30, 2021.


NORMAL
PEOPLE'S VIEW
OF INFLATION
FED'S VIEW OF
INFLATION

INFLATION IS OUR GREATEST CONCERN

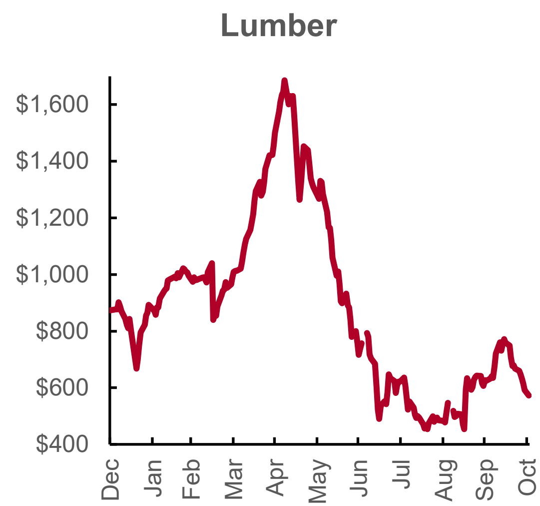
- With supply chain disruptions and a massive rebound in the demand for goods, producer inflation has risen to a twenty-year high.
- Though producers have been able to pass this inflation through to customers, if customers balk, the economy will slow.
- It's the uncertainty surrounding price stability that has negatively impacted consumer confidence.

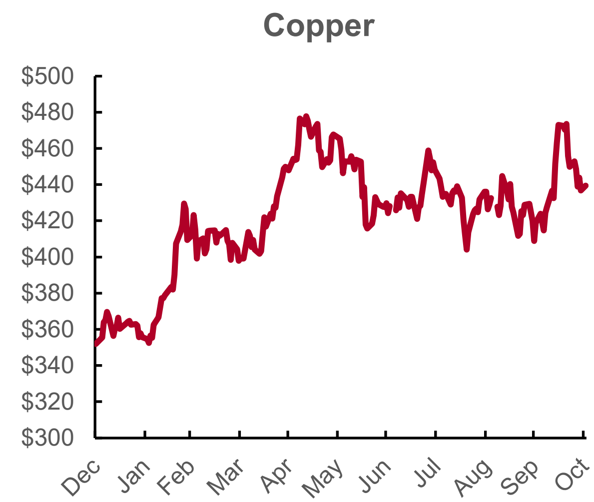


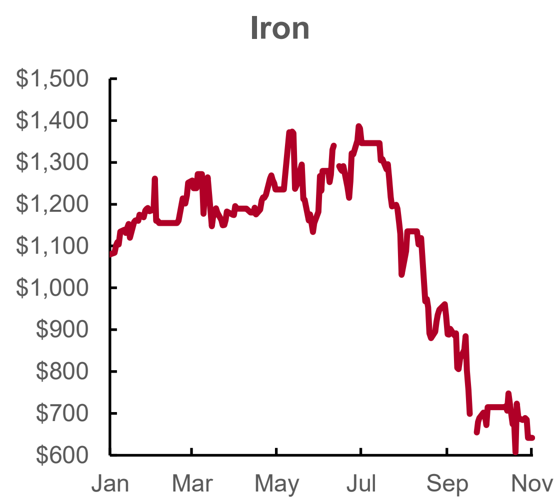
Source: Bloomberg. Data shown as of September 30, 2021.

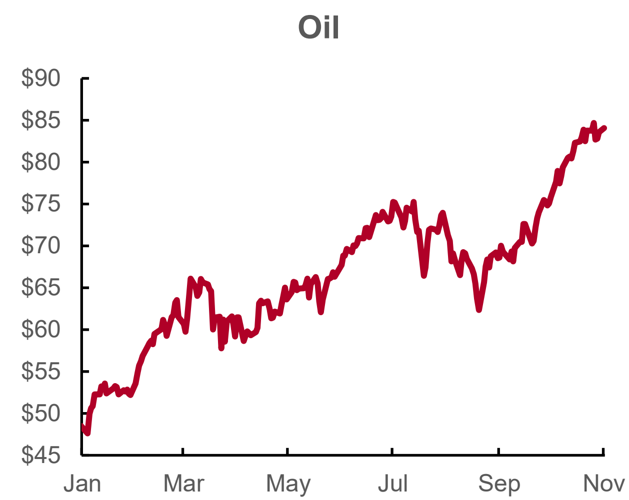
COMMODITY PRICES

- The initial surge in demand overwhelmed the supply in many commodities, leading to price surges.
- Recent price action shows some commodity prices declining.
- Chinese demand for commodities appears to be decelerating in anticipation of the 2022 Beijing Winter Olympics.







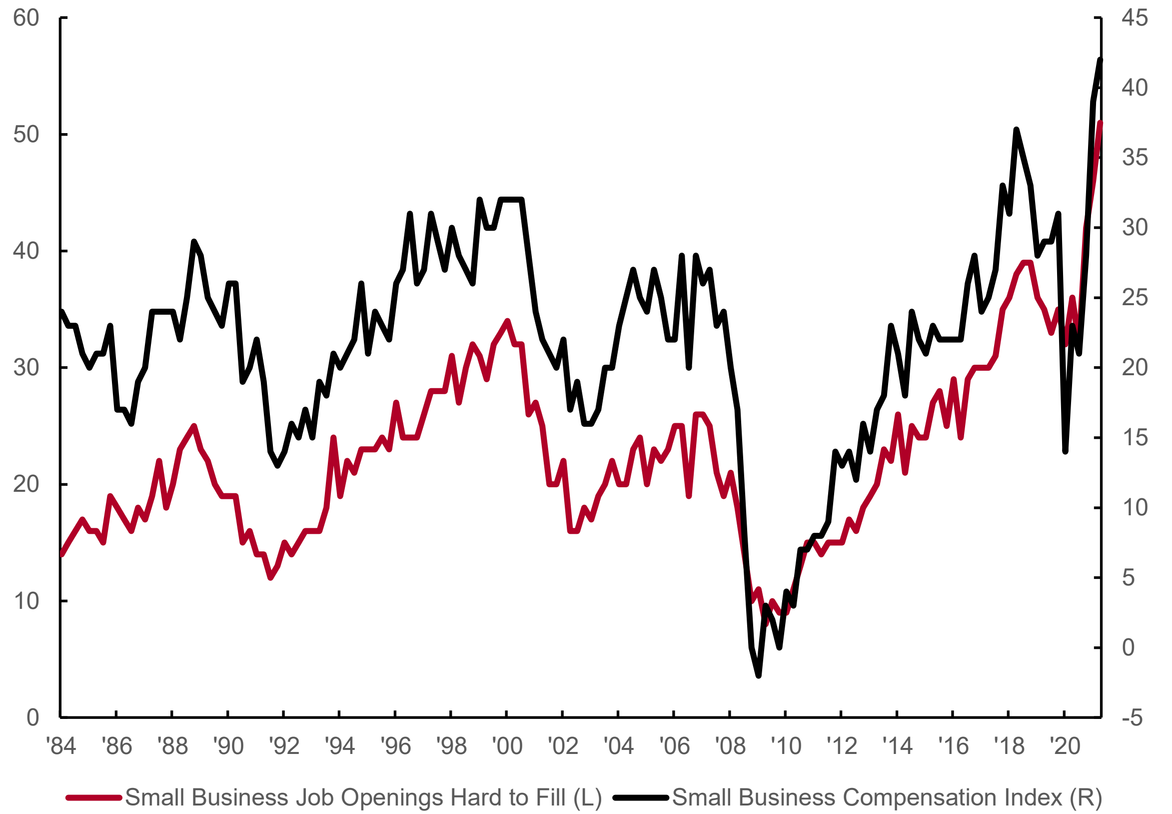


Source: Bloomberg. Data shown as of October 31, 2021.

WAGES – ANOTHER INFLATION RISK

- Not surprisingly, the leisure and hospitality industry has been one of the leading areas of wage inflation.
- Hourly wages need to continue to increase in lower-earnings jobs to encourage workers to return to employment.
- The $300 supplemental unemployment benefit kept some employees from returning to work.

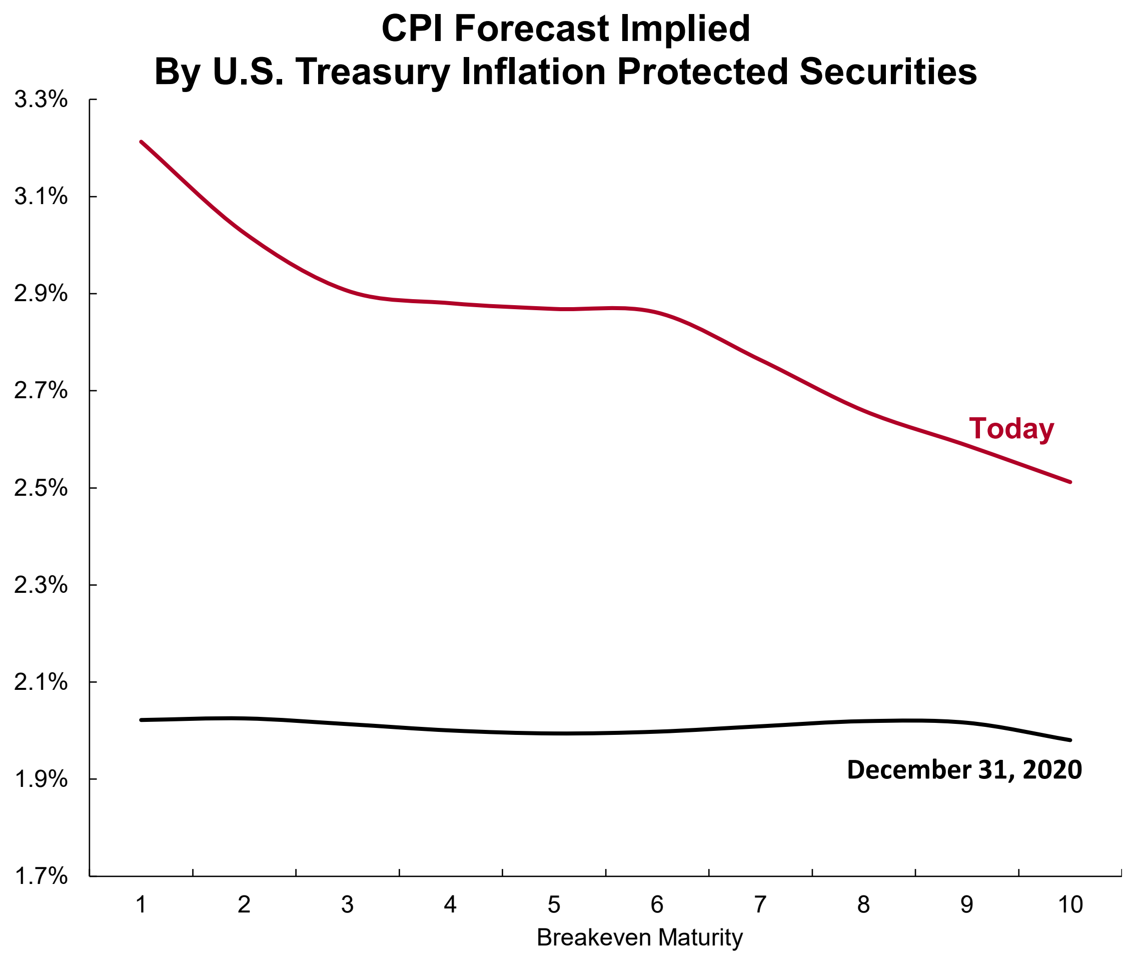
NFIB Small Business Job Openings Hard to Fill vs. NFIB Small Business Compensation Index



Source: Bloomberg. Data shown as of September 30, 2021.

BREAKEVEN CURVE EXPECTS INFLATION TO BE TRANSITORY

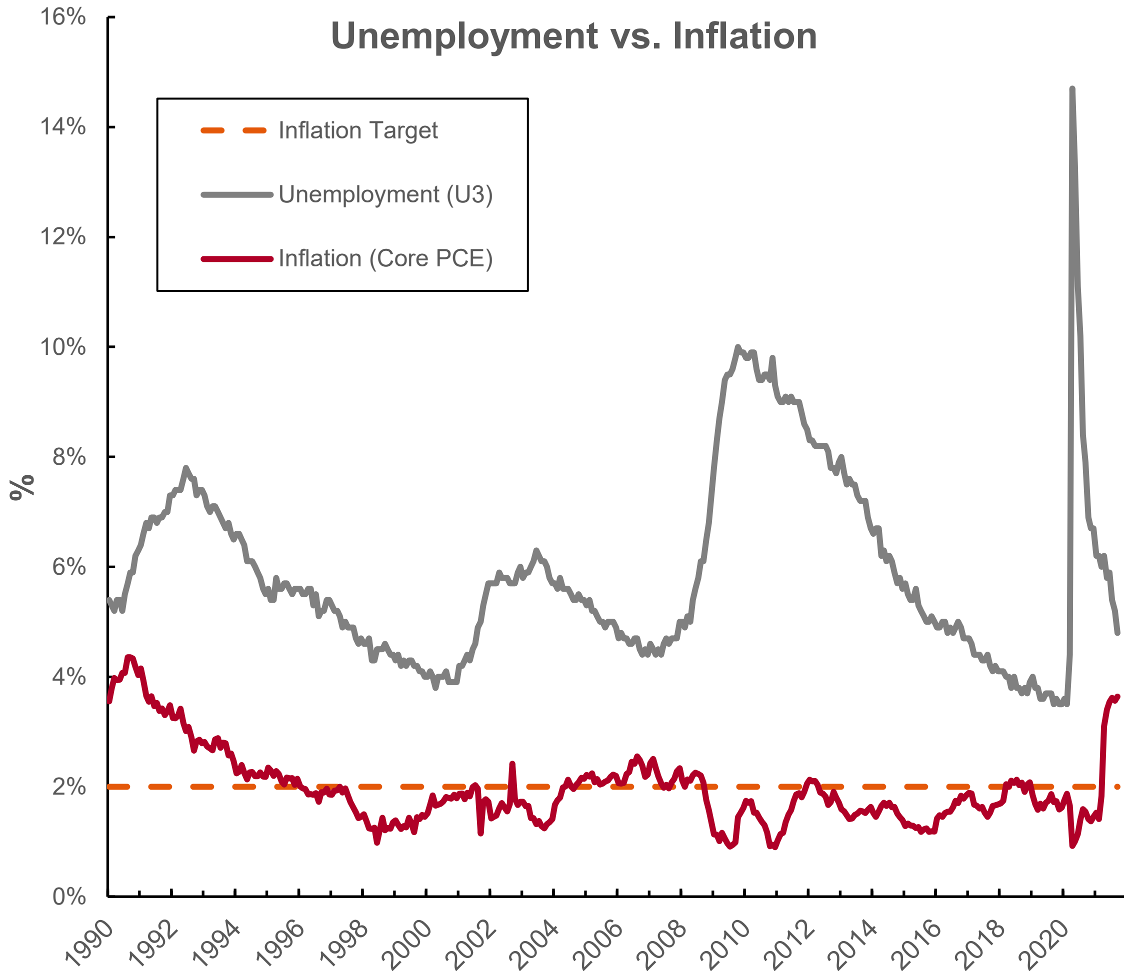
- With the economic reopening and the resulting surge in demand, inflation is expected to remain above average over the next year, before trending downward.
- The Fed expects inflation to remain ‘transitory’ as the reopening continues, and supply and demand become more in balance.
- The biggest risk to the economy is that inflation persists at high (above 2.5%) levels.



Source: Bloomberg. Data shown as of October 31, 2021

FEDERAL RESERVE'S NEW MONETARY POLICY FRAMEWORK

- Short-term rates are expected to remain near 0% until three conditions are met:
  - Economy reaches maximum sustainable employment.
  - Inflation has reached 2%.
  - Inflation is on track to moderately exceed 2% for some time.
- The Fed wants to see real economic progress toward goals rather than forecasts.



Source: Bloomberg. Data shown as of September 30, 2021.

THE FED'S TIMELINE FOR QUANTITATIVE EASING EXIT

Timeline for QE3 Exit and Plausible Timeline for Current QE Exit

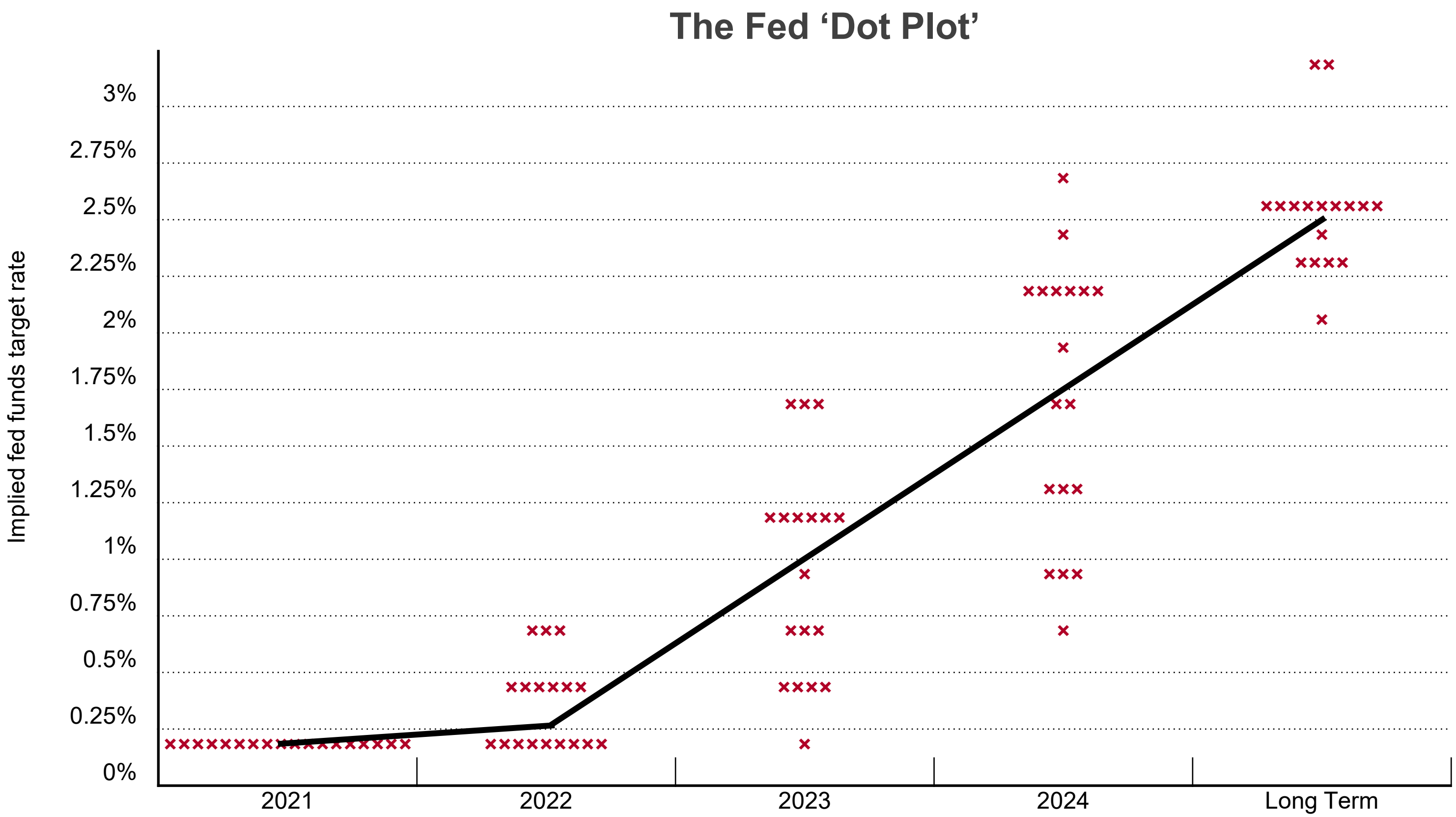
	Start of QE	Tapering First Hinted	Tapering Announced	Tapering Started	Tapering Ended	First Rate Hike
QE3	September 2012	May 2013	December 2013	January 2014	October 2014	December 2015
Current QE	March 2020	From the Beginning	November 2021	November 2021	Early Q3 2022	Q1 2023 or Later

- The Fed is expected to keep monetary policy accommodative longer.
- While the FOMC has not detailed the specific exit sequence from the ongoing QE, Fed Chair Powell has suggested it will follow a similar sequence to the exit of QE3.

Source: Cornerstone Macro

FED INTEREST RATE HIKES ARE STILL A LONG WAY OFF

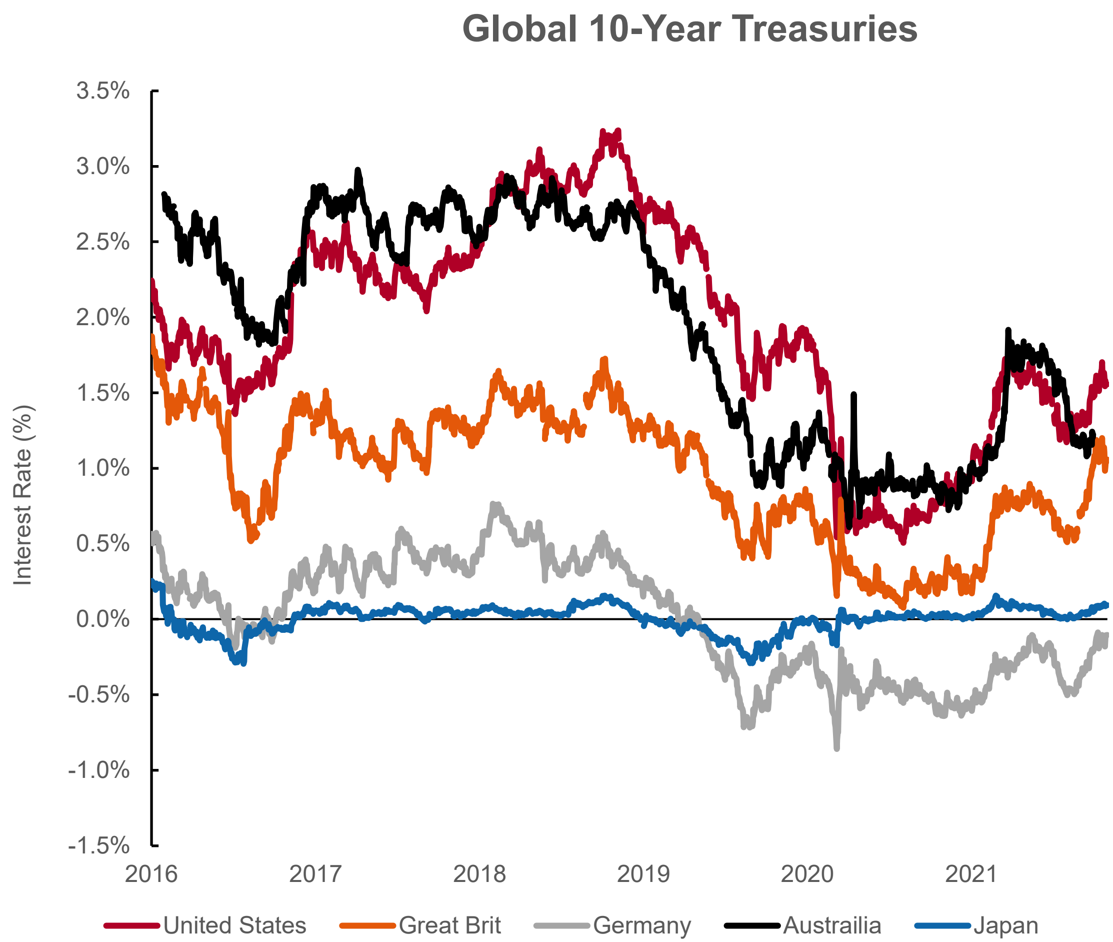
- The FOMC projects Fed Funds lift-off to occur in 2023.
- Forecasting gradual increases of 3 hikes in 2023, followed by 3 hikes in 2024.
- Market based Fed Funds futures doubt the Fed will be able to hike rates above 2% in long term.



Source: Bloomberg. Data shown as of September 22, 2021.

DESPITE LOW RATES, DEMAND WILL REMAIN FOR U.S. TREASURIES

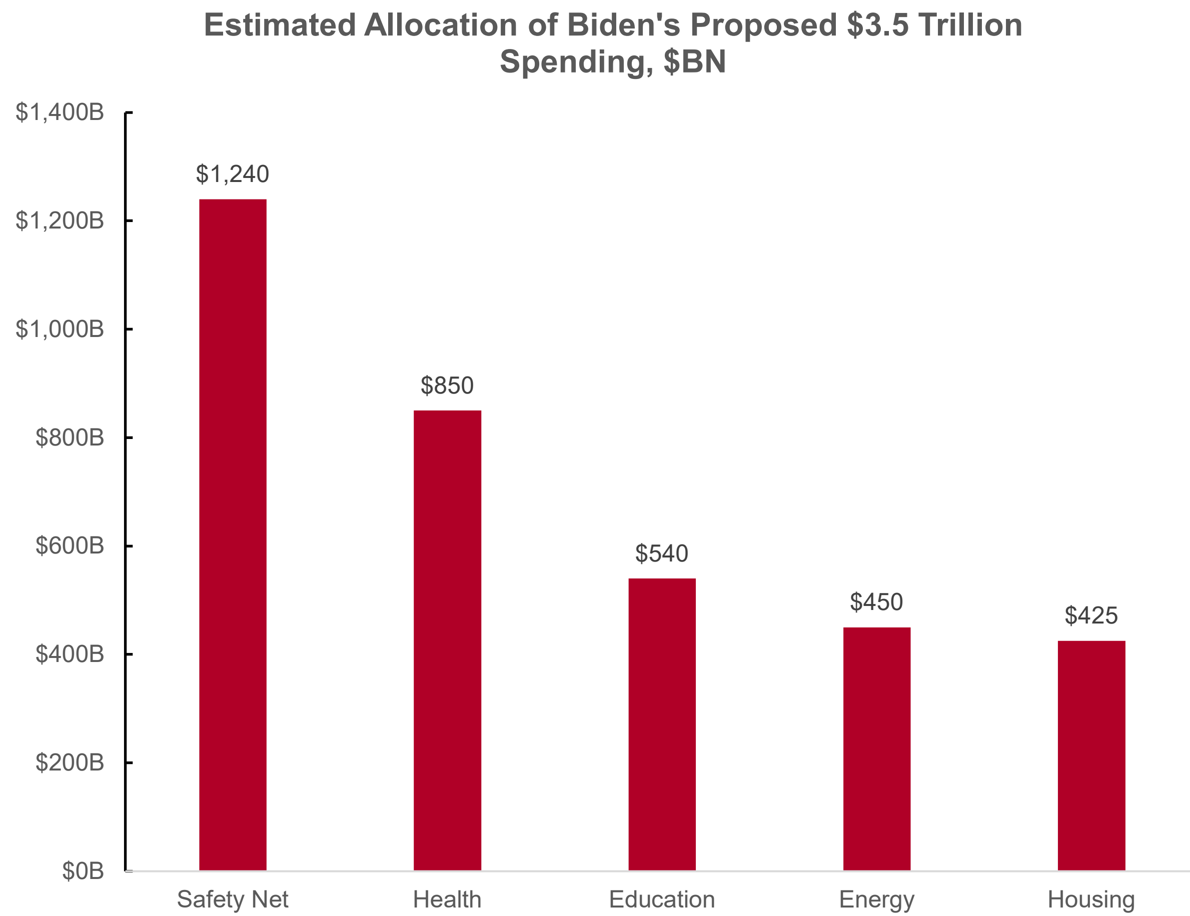
- Will a decline in Fed purchases result in a rate surge?
- When compared with bonds around the world, U.S. Treasuries yield substantially higher than many other countries.



Source: Bloomberg. Data shown as of October 31, 2021.

PROPOSED SPENDING

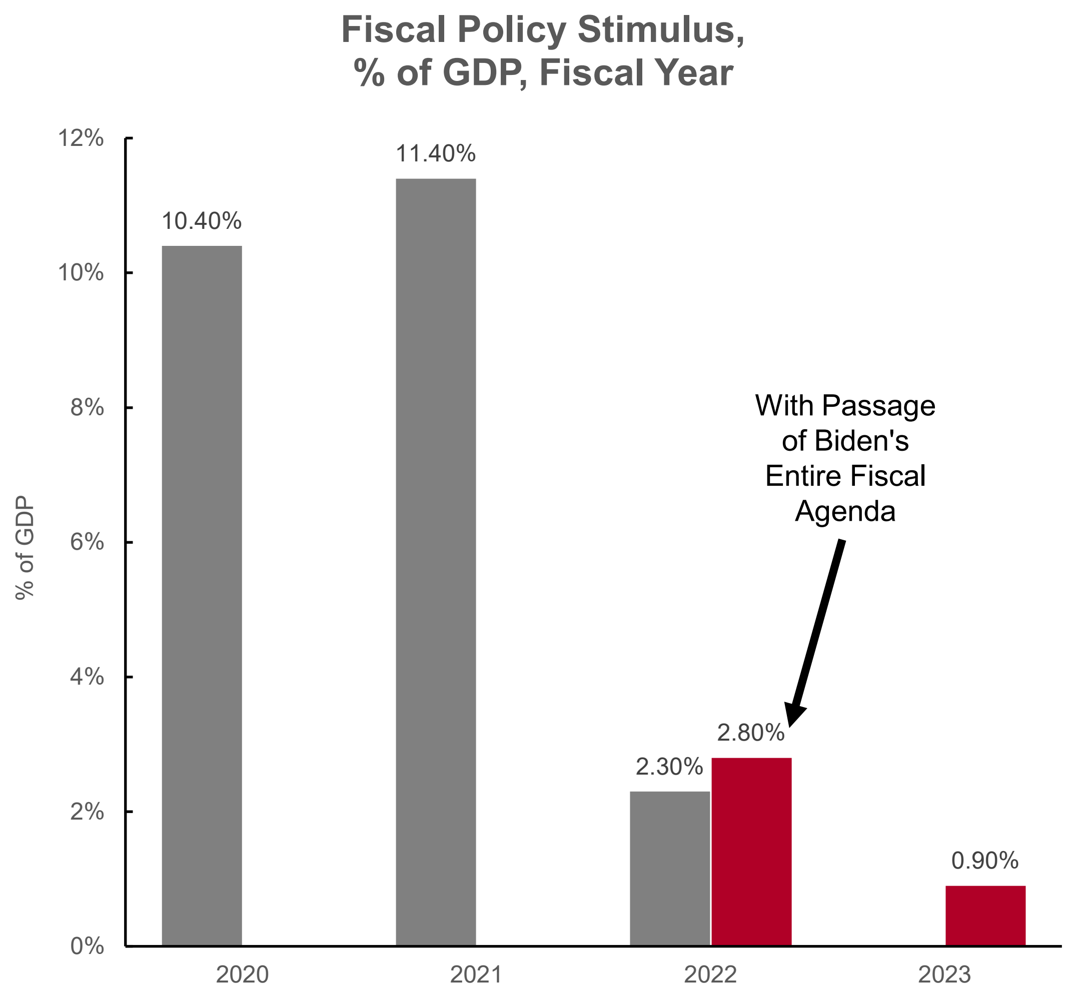
- Total spending will, in all likelihood, be lower than $3.5 trillion.
- The economic impact of this spending is very different than earlier pandemic stimulus plans.



Source: Strategas.

IMPACT OF FISCAL POLICY AND CONTRIBUTION TO ECONOMIC GROWTH

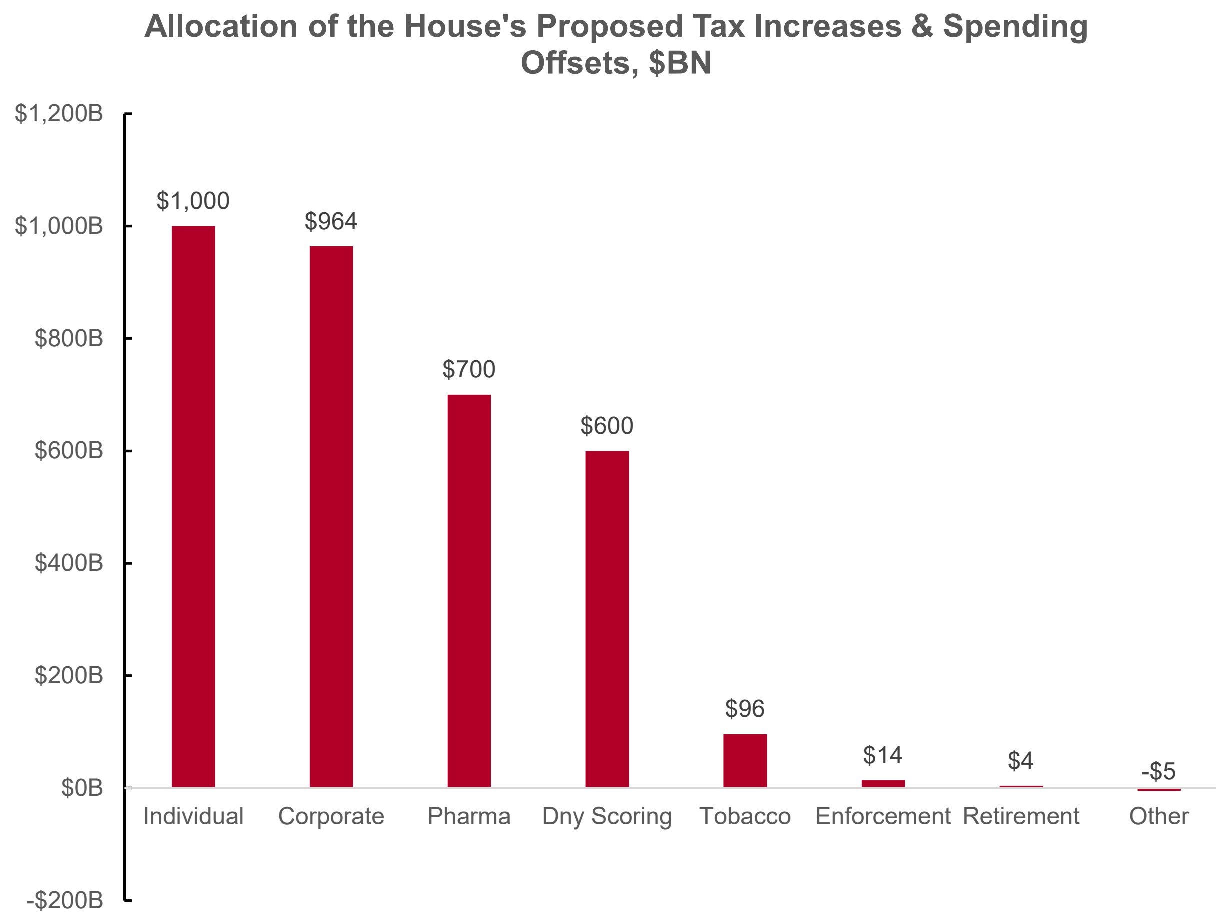
- Fiscal policy during the COVID-19 pandemic has been extraordinary.
- In future years, fiscal stimulus could turn to a headwind as the economy deals with lower rates of fiscal stimulus.



Source: Strategas

PROPOSED TAXES

- Total taxes probably less.
- President and House have provided proposals, the Senate is next.
- Slim Democratic Majorities make passage as proposed harder.

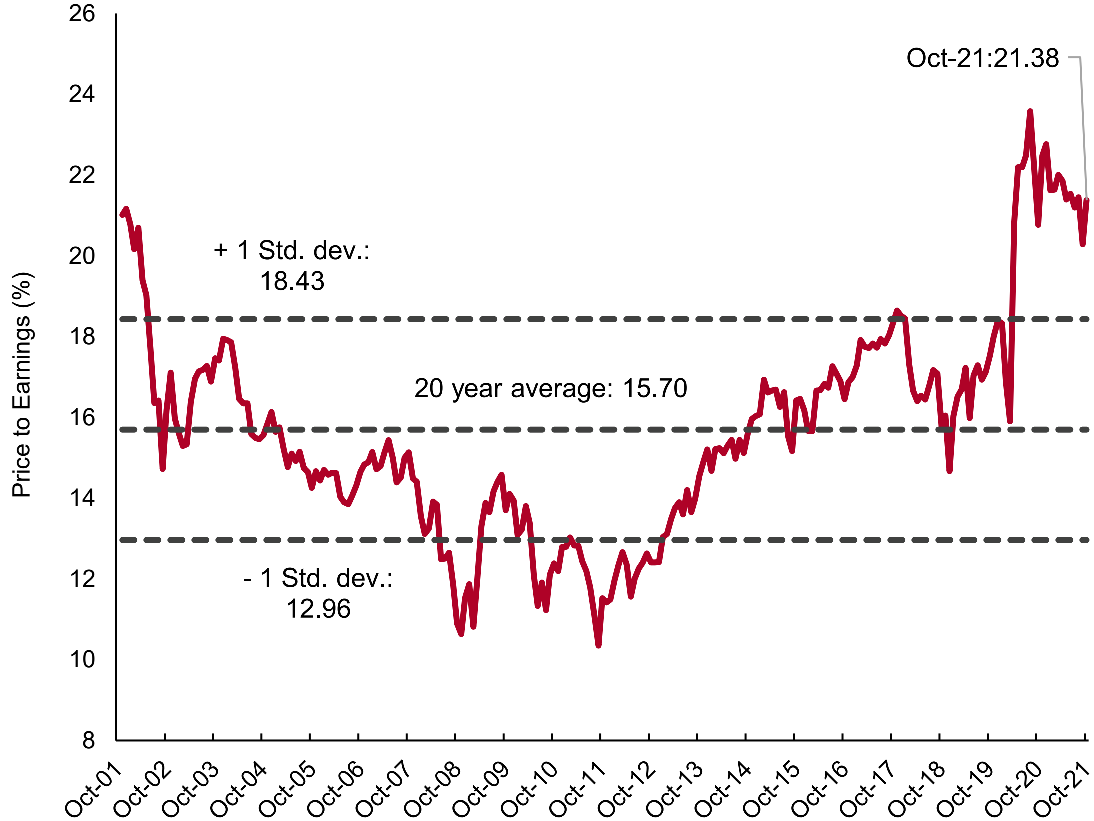


Source: Strategas.

S&P 500 VALUATIONS REMAIN HIGH

- Relative to history, the S&P 500 is historically expensive.
- However, the interest rate environment makes historical comparisons difficult.
- Economic growth in 2021 may be the strongest we've seen in decades.
- Increased corporate taxes may likely be a headwind in 2022.

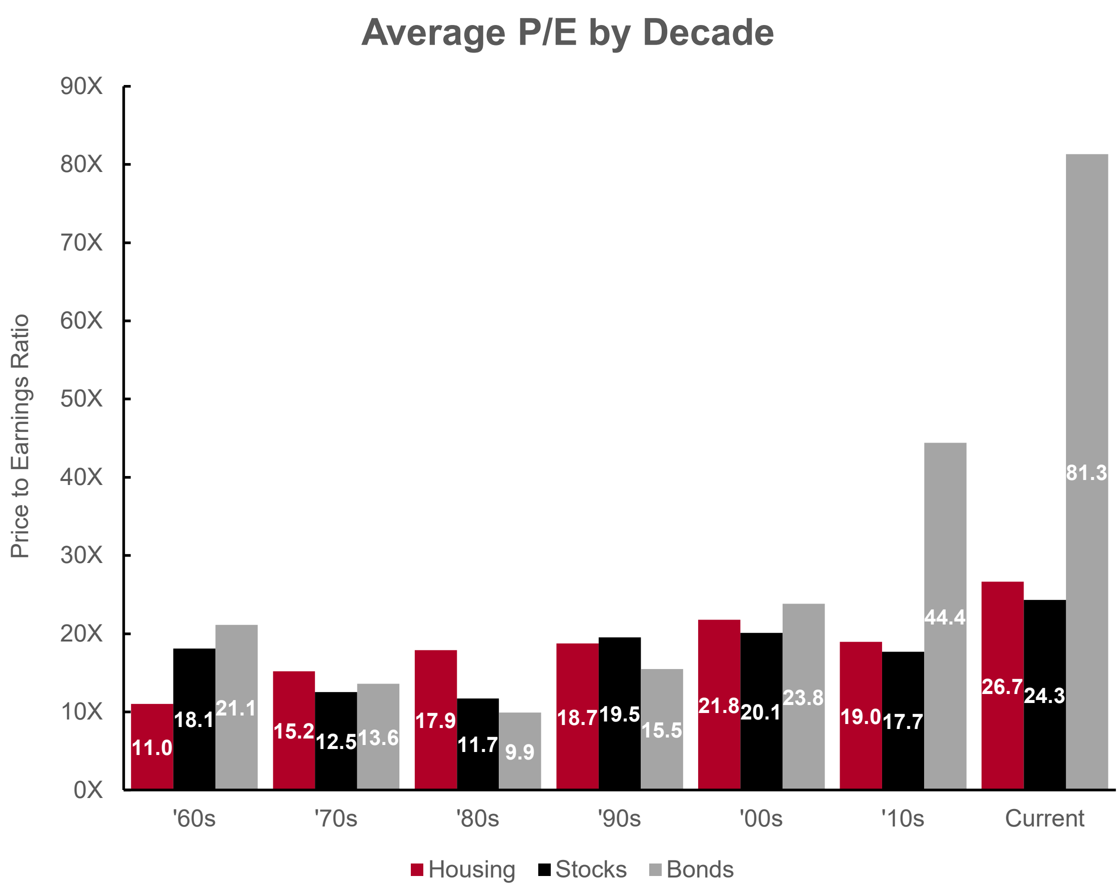
S&P 500 Next Twelve Months Price to Earnings Ratio



Source: FactSet. Data shown as of October 31, 2021.

AT ALL-TIME HIGHS, STOCKS ARE STILL RELATIVELY CHEAP

- Bonds appear expensive when compared with other asset classes.
- Quantitative easing has potentially front-loaded stock market gains.
- Stocks remain expensive relative to history. But compared with other asset classes, stocks appear attractive.



Source: Strategas. Data shown as of August 31, 2021. Bonds do not have a Price/Earnings ratio, but for comparison, we are showing bonds based on the price divided by the interest rate to create comparability. Housing represents U.S. median home price / median rent.

CONCLUSIONS

- Optimistic on economic growth.
- Labor market holds key to economic expansion and inflation.
- Favor equites over fixed income and cash.

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