J|M BROWN FINANCIAL PARTNERS

Weekly Market Commentary
October 11th, 2021

Gasoline Going to $5 A Gallon?

Energy Crunch

- Adding to supply-chain disruptions – The price action in commodities stole the spotlight last week, contributing to the elevated volatility in equity and fixed-income markets. Among the eye-catching moves are that oil rose to a seven-year high, natural gas prices briefly spiked to 2008 levels after having doubled this year, and coal rose to record highs. The rocketing prices have triggered an energy crunch in Europe and China, hitting factory output and adding another complication in the long list of supply-chain issues that are holding back the global economic recovery.

- A confluence of factors to blame – There is no single cause for the emerging commodity inflation. We see a combination of factors boosting demand and limiting supply.

- Demand is primarily benefiting from the gradual return of the economy to normal. On top of that, the ongoing pandemic and the restrictions that are still in place in many parts of the world have shifted consumption patterns towards goods and away from services, which translates to higher energy consumption for the manufacturing-focused economies.

- On the supply side, output limits from OPEC and its allies, the transition away from fossil fuels towards renewables (which has impacted energy investments), extreme weather events, and geopolitical developments have all constrained production.

- An overshoot in oil prices is possible but unlikely to last – The recent parabolic rise in coal and natural gas prices has sparked fears that a similar move could be in the cards for oil. Prices will stay supported as oil demand continues to recover from the pandemic. However, the rise in prices is likely to prove self-limiting, as high prices will incentivize increased production.

- Over the last decade the U.S. rig count, an important barometer for the oil-drilling industry, has closely followed oil prices, as seen in the graph below. However, following last year's collapse in oil and amid pressures from investors to exercise capital discipline, U.S. shale producers have been very cautious in adding supply. With WTI oil near $80, U.S. producers are able to generate enough profits to maintain healthy financial positions and reinvest in production at the same time.

Worsening Labor Shortages

- September job gains disappoint, but recovery on track – The U.S. economy added 194,000 jobs in September, the smallest gain this year and well below estimates. More encouraging was that the August numbers were revised meaningfully higher and the miss in private-sector jobs was less severe. Employment in leisure and hospitality increased by 74,000, even though it remains about 10% below its pre-pandemic level.

- Workers not in a rush to rejoin the workforce – Despite the disappointing job gains, the unemployment rate fell more than expected, to 4.8%, a new post-pandemic low. However, that was driven by an unexpected drop in the labor-force participation rate, indicating that more people left the workforce. With labor shortages appearing to worsen, employers are boosting pay as they compete to attract workers. Average hourly earnings (wages) rose 4.6% from last year and 0.6% from the previous month, the strongest advance since April.

- Questions whether the Fed's "substantial further progress" test is met – Today's disappointing employment report complicates the Fed's upcoming decision in November to start the tapering of its bond purchases. With Chair Powell looking for "substantial further progress," but also mentioned last month that the payroll report does not need to be a "knockout" to push him over the line, we think that policymakers will likely proceed to take their first step towards removing the Fed's pandemic stimulus.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,746	1.22%
S&P 500 Index	4,391	.78%
NASDAQ	14,580	.09%
MSCI EAFE	2,266	-.66%
10-yr Treasury Yield	1.60%	8.84%
Gold	$1,756	-.28%
Bonds	$114.13	-.76%

Source: Reuters/Wall Street Journal

Five Money Moves To Make When You Turn 50

1.It’s Time To Catch Up- There are quite a few good things about turning the age of 50, and one of them is that those who want to save more for retirement get a special tax break from Uncle Sam. These are called ‘catch-up’ provisions and they allow you to put more money into your 401(k), 403(b), IRA’s, etc. This may be the most powerful savings thing you do for retirement at the age of 50 if you get it out of mind out of sight.

Here in 2021, you can put away up to $19,500 pre-tax in your 401(k) or 403(b) plans, but if you turned 50 at any time during the 2019 calendar year, you are eligible to put away $6,500 more money as a catch- up in your 401(k) plans. If you are saving money in IRAs, you would normally be able to put away up to $6,000, but the catch-up now allows you to put away an additional $1,000 as a catch-up within your IRA. For those of you who own a small business and have set up a SIMPLE IRA, there are catch-up provisions in those plans as well.

2.Closely Examine Your Mortgage Situation- Depending on what age your children are currently, the housing situation could be challenging to figure out over the long term. Some 50-year-olds are seeing daylight and thinking about whether their empty nester home will be in the city, the mountains, or at the beach. Or maybe some of all of that! For those 50 year-olds who just had kids recently, you still might be thinking about what school districts you want to be in or considering an area that will be good for raising kids.

The harsh reality you need to contemplate is how long you think you will be able to earn the same income you are earning today and how that will work with the timing of paying off your mortgage. You may want to rerun various scenarios to see how much money you need to add every month to your mortgage payment to figure out how to time the payoff when you retire. This is the time with interest rates being low where you might consider going to a 15-year note or 20-year note instead of a 30-year note. The biggest concern is if you take a new 30-year large mortgage today, and how you will pay that off when you no longer are making the same income you are making today.

3.When Will The Kids Be Off Of Payroll?

Depending on the age of your kids, you really need to assess the balance of what you want to do for assistance with a college education and your desire to make a work optional plan. Do not underestimate (no matter how tough you think you are going to be), how much emotional pull there will be to actually help your kids. We have heard parents that say, “I’m only going to give my kids a head start of $10,000 a year.” However, when their children get into a top school, they begin to figure out other ways they can help fund their kid's dreams. We’ve seen this time and time again, so have a realistic conversation about what this is going to look like.

For the aftermath of college, consider whether you will let them live at home or not and for how long that will persist. How long will you pay for their mobile phone? Their auto insurance? Their health insurance? All of these questions will help you better determine your overall run rate as you approach retirement. And don't forget if you have daughters (and sons), there is probably going to be something down the road you'll have to come out of pocket for if they get married. We recently saw one case that was well over six figures out of the parents’ pockets!!

4.Consolidate- For the first 30 years of your adult life, you've probably acquired more stuff than you imagined. There are at least one or two collections in your house that you haven't looked at or touched in years. There are countless numbers of boxes of pictures, cards, awards, and other family-related items spread throughout the house. You've got closets of clothes and pieces of old luggage in your storage closet. Is it time to do a purge and see what you really need?

That’s the physical part of what you have collected. On the financial side, you might be carrying four or five credit cards, a checking account(s), savings account(s), credit union account(s), various old 401(k)’s, several brokerage accounts, and other financial instruments you have purchased over the years. If the accounts are in many different places, are you really gaining an advantage by having all these accounts? Are there some strategies that just aren't working? Are you tired of trying to figure out where everything is and how it is actually performing? This is a great time to consolidate and get your financial house in one or two places.

5.Review Your Insurance: Especially Long-Term Care - You are probably thinking 50 is the new 30, right? Wrong! 50 is actually 50 and whether we like it or not, the aches and pains and signs of aging are starting to happen. At this point, you might be fully grey or seeing signs of grey. You might be using reading glasses (100% in a dark restaurant reading a menu). You might notice the knees don't work exactly as they used to, or your lower back has just a bit more pain than it once did ten years ago. This is the year you will get all the big physicals and have your colonoscopy (ugh!). It is crucial before it gets too expensive to review if you need long-term care insurance or if you need to adjust and get more life insurance or disability insurance for the stretch run.

Earnings Highlights This Week

(source: CNBC)

Samsung- Samsung said its operating profit for the quarter that ended in September was up 28% from a year ago to 15.8 trillion Korean won ($13.26 billion). That's set to be the South Korean semiconductor giant's best quarterly profit in three years — since the third quarter of 2018 when Samsung posted a profit of more than 17.5 trillion won. Still, Friday's figure fell below analysts' estimates of 16.1 trillion won, according to Refinitiv Smart Estimate.

Levi Strauss- Levi Strauss reported fiscal third-quarter earnings and sales that topped analysts' expectations. Levi said consumer demand picked up during the back-to-school season and got a boost from shoppers looking for the latest denim trends. Although many apparel companies have been hit by global supply chain bottlenecks, Levi has fared well comparatively due to its diversified manufacturing.

Pepsi- PepsiCo raised its full-year forecast after its latest quarterly earnings and revenue topped analysts' expectations. The company's organic revenue climbed 9% in the quarter. But the growth of Pepsi's North American beverage unit moderated during the quarter.

Ford- Ford's U.S. vehicle sales during the third quarter fell by 27.4% from last year as an ongoing shortage of semiconductor chips interrupted vehicle production and cut dealer inventories. The drastic fall was narrower than auto forecasters expected but wider than the overall industry that was anticipated to be down between 13% and 14% from the same time last year.

News and Notes:

How Could Climate Change Affect Your Wallet?

Rising Food Prices

- Devastating heat. Debilitating droughts. Crippling frost. Extreme weather is a nightmare for farmers around the world.
- The Bloomberg Commodity Index is up 30% alone in 2021 and sugar and coffee futures were up 50% at one point this year.
- In the state of Washington, 93% of the spring wheat was in poor or very poor condition due to droughts according to the Drought Monitor.

Insurance Costs Will Be Going Up (or not available at all)

- Severe weather events have contributed to natural disaster losses of $40 billion during the first half of 2021 alone. (Source: Swiss Re)
- As thunderstorms and floods happen more frequently, the costs for insurance

in those areas are skyrocketing and, in some cases, you cannot get coverage at all.
- Wildfires are on the rise and some carriers are now excluding them from damage coverage.

Your Basic Home Utilities

- With extreme heat and extreme cold becoming a regularity, expect higher gas bills or higher electric bills depending on where you live.
- With wildfires and natural disasters rising, more homeowners are having to make investments to protect their homes (high-end hurricane shutters, adding backup generators, more insulation.

Your Income May Fall

- The millennial generation is projected to lose 8.8 trillion dollars of income due to global warming.
- A study from researchers at the University of California, Berkeley in 2015 projected that the average person should expect to lose about a quarter of their income to the costs of climate change by 2100.

From the team at J M Brown Financial Partners
www.perfectcalendar.com

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.
