MARKET OBSERVATIONS
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SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Disparities

Economic and financial disparities pre-date the pandemic. To date, some have dissipated, others exacerbated and new ones emerged. In hindsight, global economic activity was truncated with relative ease. As ongoing supply chain disruptions have shown, a great re-start has proven quite challenging. Challenges have arisen for labor supply, raw materials and finished goods. Real economic growth has remained firm although wobbling a bit with COVID-19 developments. Near-term inflation has accelerated but expectations are for lower rates to return. A review of some important disparities can provide perspective for investing yet ahead.

PERSPECTIVE

Employment conditions experienced the greatest disparities at the start of the coronavirus-induced economic shutdown. The shift to remote working was challenging for all and impractical if not impossible for many. Throughout 2021, the mismatch between job openings and available workers remains and businesses struggle to find a balance between remote and in-person work protocols. Remote continues to dominate as COVID-19 challenges remain. As Chart I shows, however, work-from-home patterns differ sharply by educational attainment. These patterns indicate the continuing financial burden falling on many households with a resultant dampening of overall economic activity.

Higher rates of inflation have arrived, but policy makers believe that recent high rates are transitory and inflation will return to levels closer to their target. Chart II shows rolling 12-month rates of inflation for the Consumer Price Index ("CPI") along with the Fed's target and consumer expectations for the CPI from University of Michigan surveys. For most of the past decade, consumer inflation expectations proved too high. If current higher inflation is transitory, the disparity between consumer expectations and inflation reality may continue. Important for future inflation is consumer psychology. If consumers determine that inflation will abate, they will defer purchase thus slowing near-term activity and perhaps influencing the inflation outcome itself.

U.S. stock market indexes such as the S&P 500 remain near all-time high levels. Table I shows disparities between current conditions and earlier market peaks. The greatest disparities are the current high level of the S&P 500 and the low level of interest rates. Concerns have arisen that a stock market decline is likely and certainly some sell-off already has occurred. The P/E ratio is elevated but has been constrained most recently by strong earnings growth. The dividend yield is low absolutely but compares favorably to still low interest rates. While interest rates are expected to rise, further earnings growth could limit the downside risk for the stock market. However, it is likely as well that returns by sector will continue to vary along with forecasts for rates of economic growth and inflation.

INVESTMENT IMPLICATIONS

Disparity rather than similarity seems likely to color the investment environment ahead. Viruses and their remedies remain on hopeful but uncertain paths. Government policies remain captive to uncompromising politics. And business generally struggles with supply chain and labor market disparities. What remains the same is the need to align portfolios with goals, horizons and risk tolerance. There should be no tolerance for disparity here.

CHART I

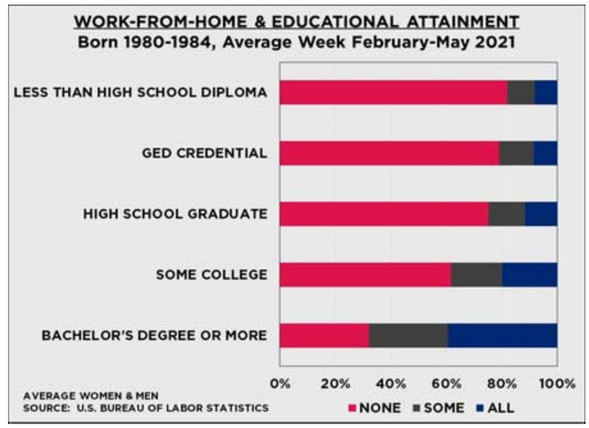

CHART II

TABLE I

STOCK MARKET COMPARISONS - S&P 500 PRICE INDEX

	TECH PEAK Mar-2000	HOUSING PEAK Oct-2007	PRE-PANDEMIC PEAK Feb-2020	CURRENT Sep-2021
INDEX LEVEL	1,527	1,565	3,386	4,308
P/E RATIO	25.2x	15.1x	19.2x	20.3x
DIVIDEND YIELD	1.4%	1.9%	1.9%	1.5%
10-YR. U.S. TREAS.	6.2%	4.7%	1.6%	1.5%

SOURCE: J.P. MORGAN ASSET MANAGEMENT