MARKET OBSERVATIONS
JANUARY 2022

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Dependencies

The pandemic's impact has been felt around the world in so many ways. Of course, most devastating have been the extreme loss of life and the lingering health consequences for many virus survivors. At the outset, daily life changed abruptly from measures taken to contain virus spread. As recovery has progressed and virus variants have emerged, new life patterns have developed. However, dependencies once taken for granted have been derailed and the consequences persist. They are seen in supply chain disruptions, labor supply/demand imbalances, and the impact of government policies. A review of some important dependencies can provide perspective for investing yet ahead.

PERSPECTIVE

The two faces of trade are exports and imports. Before the pandemic, trade issues gained much attention, and it continues. The pandemic, however, brought change to trade activity and attention has been focused on supply chain disruption. Imports provide a window to the magnitude of this disruption. Shortages of certain items such as computer chips have been clear. Nevertheless, Chart I provides a different perspective. Imports when measured as a percentage of the overall U.S. economy are back to a record high in 2021. U.S. dependency on a wide range of imported raw materials and finished goods remains strong and carries the potential for higher inflation continuing.

Pandemic disruptions have wrought labor supply/demand imbalances. The dependencies among businesses, schools and homes have become clearer as working parents struggle with competing needs amidst changing healthcare policy directives. The labor force participation rate is the percentage of the population that is either working or actively looking for work. Chart II shows the participation rate for women since World War II. Over fifty years, their participation rate nearly doubled. Certainly, the pandemic decline is notable and recovery has been sluggish. Important as well is the clear downward trend from a peak rate in early 2000. The trend was beginning to turn before the pandemic. Changes sustained from the pandemic likely will influence future levels of women participating in the labor force, but so too will other factors including demographic and societal changes.

The path of the U.S. economy in the pandemic has been highly dependent on federal government policies for both its initial decline and its subsequent recovery. The actual size of the federal government sector itself as a percentage of overall economic activity over the past twenty years is shown in Chart III. Government programs redistribute significant funds across the economy, but government's own share is relatively small and has moved within a narrow range. The largest increase in this period occurred in the Great Recession. After an increase in 2020, the government share has pulled back a bit in 2021.

INVESTMENT IMPLICATIONS

Portfolio returns are dependent on trends in key variables such as real economic activity and inflation. Changing expectations for these variables will impact directly return and risk assumptions used to managed portfolios over time. However, portfolio structure in general is dependent on the goals, time horizons and risk tolerance of each investor. Revisiting these parameters throughout the pandemic is appropriate. Priorities may shift as a result of recent experience, but fundamental investing dependencies will endure.

CHART I

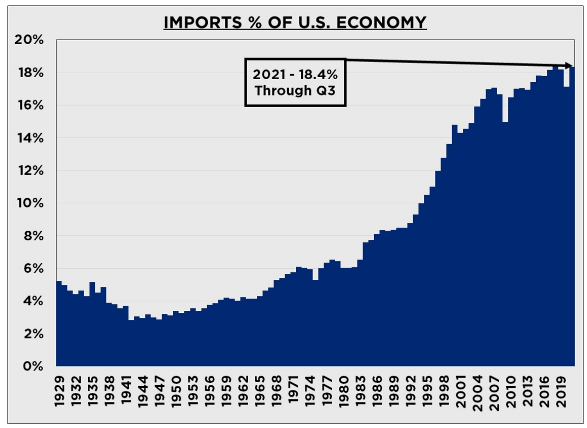

CHART II

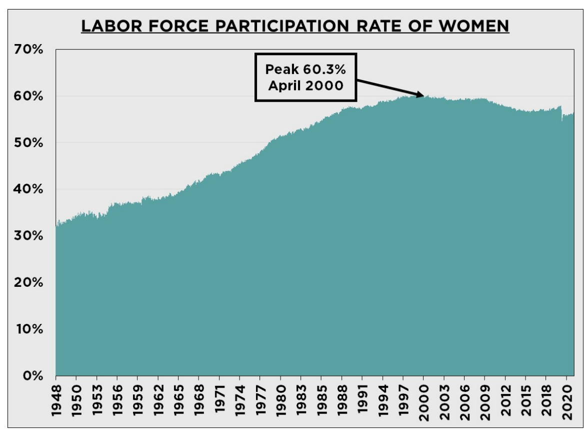

CHART III