

PRICEY THANKSGIVING

According to the American Farm Bureau's annual Thanksgiving dinner survey, a holiday feast for a family of ten featuring turkey, stuffing, sweet potatoes, and pumpkin pie cost \$53.31, a 14% increase over last year. A 16-pound turkey cost \$4.60 more than a year ago.

Sharp upside inflation surprises that have pushed US inflation to 30-year highs have fueled concerns that "temporary" pandemic-related inflationary pressures could prove persistent, raising the risk of a price spiral that could force the Federal Reserve into a costly tightening interest rate cycle.

What have been the key drivers of inflation? There are three main culprits:

1. Tightness in durable goods owing to supply chain bottlenecks and elevated demand

- a. Microchip shortages strike at the heart of the matter. The CEO of Taiwan Semiconductor, the world's largest microchip manufacturer, expects the shortage - especially for chips used in vehicle manufacturing - will only being resolved toward the end of 2022 as it takes time to build out additional manufacturing capacity.
- b. In terms of logistics bottlenecks, truck driver shortages are the main issue. This issue is difficult to resolve due to the highly fragmented nature of the long-haul trucking industry.

2. Worker shortages

- a. Broader worker shortages should resolve themselves over the next few months as the impact of government support programs and other pandemic-related disruptions begin to fade.

3. Housing and commodity scarcity

- a. Housing scarcity is a function of both worker shortages and commodity shortages. Commodity shortages and associated price inflation have little to do with temporary pandemic-related shifts, instead they are the result of chronic underinvestment in the "old economy" that has left insufficient supply to meet rising broad-based demand, fueled by more inclusive growth policies around the world. Though analysts do expect some reprieve from this year's massive commodity price increases, they do believe that price risks are sharply skewed to the upside, and that bouts of commodity-led inflation are likely to be more frequent in coming years.

It should be noted that demand for goods has also played a large part in stressing supply chains. Due to the lockdown restrictions, consumers shifted their spending from services (going out to eat, concerts, leisure travel etc.) to buying goods (cars, exercise bikes, home theater systems, laptops etc.). Once this demand impulse fades as people return to going out and doing things instead of buying things, many of the supply chain issues mentioned above will recede.

Despite higher Turkey prices, there are many things that investors can be thankful for this year, some of which include:

1. The stock market is trading near all-time highs. Thanks to the best brains running some of the largest corporations in the world, corporate profits are soaring - leading to healthy retirement and investment account balances.
2. Interest rates are still near all-time lows, meaning borrowers pay less interest.
3. Technological progress has enabled the production of a vaccine to mitigate a global pandemic in record time. Though recent reports of the new Omicron variant have spooked markets, firms like

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Moderna and Pfizer are already working on adaptations to their existing vaccine formulae to combat the new strain.

Most importantly, however, we live in a country which recognizes the value of family and celebrates the time we get to spend with loved ones.

We hope all our clients enjoyed time together with family and friends this wonderful fall weekend.



Matt Jones, JD, CFP
President



David Trent
Managing Principal

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