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OBERMEYER WOOD **NEWS**

SUMMER 2021

MARKETPOINT

By now, we have realized that restarting the economy is not as simple as rebooting a computer. Following more than a year of COVID-19 restrictions, nearly every state has fully reopened and the nation is experiencing new, market-driven constraints. Supply and demand imbalances are occurring worldwide. Delivery times for everything from furniture to pickup trucks have soared. The Laz-E-Boy chair you wanted to give Dad on Father's Day is taking an unprecedented 5 to 7 months to reach his living room. Buffalo Wild Wings tweeted in May that some of its sports bars were out of wings due to a nationwide poultry shortage. Dealership inventory of new cars is down by a third, driven by shortages in computer chips and other automotive components.[1]

Stepping back, it is nothing but good news: economists are forecasting U.S. GDP growth to be above 7% on an annual basis, the best rate since 1951. New applications for unemployment benefits dropped to a pandemic low of 364,000, driving the national unemployment rate to a reasonable 5.9%. Money is flowing freely, and CEOs are reporting an increase in capital investment. All of this is driving renewed consumer confidence and buoyant investor sentiment, too. The stock market is dancing – the S&P 500 and MSCI All Country indices have returned 16% and 12% for the first 6 months of the year.

Yet there is friction, and some investors are wondering if it is enough to derail the recovery. Many companies intentionally ran down inventory levels to conserve cash during the pandemic. Rebuilding inventories and restarting supply lines takes time. Getting them up and running has not been a smooth process, especially in the wake of changing consumer behavior that is driving unprecedented demand for housing-related goods and recreational activities. Several companies are reporting that they cannot keep up and, in some cases, the imbalance is expected to last for years. For instance, Brunswick CEO David Foulkes explained that boat sales are being held back by low inventories, supply-chain disruptions, and labor shortages, stating, "We believe it will be 2023 or 2024 before we can materially build back [inventories]...to satisfy these historic levels of retail demand."

The effects of the once-in-a-100-year pandemic were compounded by additional rare events, adding to supply chain issues. The Ever Given, a container ship that is roughly the length of the Empire State building and the width of a New York City block, became lodged in the Suez Canal for 7 days, blocking nearly 370 vessels. Observers around the globe watched the drama play out and were entertained by light-hearted memes. The situation could not have been more dire for global trade, though, and the world narrowly missed a full-blown catastrophe. Today, container ships account for 70% of the value and 80% of the volume of global trade. With so much cargo bobbing through the waves, any disruption becomes a serious one and can have cascading effects, as the Ever Given debacle shows.

The severity of recent weather has intensified the interruption. In February, Winter Storm Uri blanketed the southern U.S. in snow and extreme cold, leaving two-thirds of Texans without power and almost half of them without water for nearly two days.[2] The historic storm debilitated the region, affecting everything from cattle to chemicals. February's weather was particularly untimely, striking during calving season, a few-week period when beef producers ›

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INVESTMENT COUNSEL, LLLP

aim to birth calves and when nutrients and veterinary care are critical for livestock, potentially affecting beef supply. In addition, Texas is the center point for as much as 80% of the supply of chemicals needed to manufacture everything from wetsuits to rubbing alcohol to squeeze bottles. Winter Storm Uri disrupted production of key chemicals that are used for thousands of goods, putting even greater pressure on supply lines.

Labor shortages are the latest in a long list of disruptions over the past year and a half. Many blame the tight labor market on unemployment benefits that are generous relative to similar offerings in past crises for not motivating laborers to aggressively seek re-employment. Yet, it is not clear whether the benefits are the cause or an enabler. If the benefits are the cause, then we should expect the labor shortage to resolve within a few months as benefits expire or are pre-emptively canceled by governors and potential employees return to work.

If the benefits are an enabler, it is not as likely that things will return to normal until certain underlying issues are addressed. According to an interview of job seekers who were not urgently seeking employment by Indeed, more than 40 percent said it was because of COVID-19 fears or childcare responsibilities.[3] Vaccination rates in some states remain in the mid-30% to mid-40% range, far below the level needed to curb the spread of variants and the adjoining fears of infection. Workers may continue to stay home if they are concerned their health is at risk or have not found reliable childcare, so long as their financial situations are stable enough.

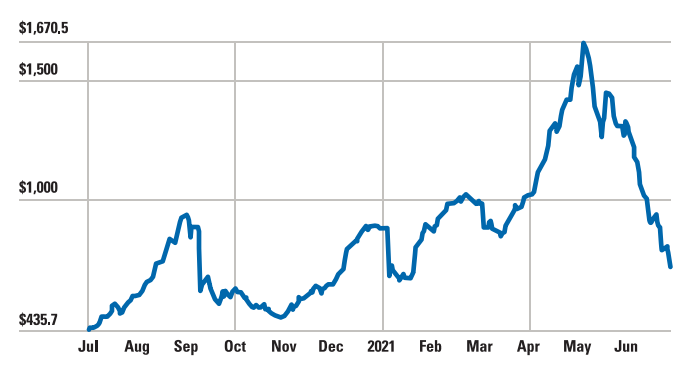
Certain causes of the labor shortage may be permanent. Due to demographic and social factors, labor force participation has been declining since its peak in 1999. The pandemic accelerated the decline. Despite the reopening, the U.S. is running 2% below the participation rate pre-pandemic, and there are no indications of a near-term reversal. Moreover, 2020's sharp and deep recession forced many laborers into early retirement, and harried parents (particularly moms) decided to take a break from their careers to address the childcare gap caused by school closures.

Given the confluence of issues – elevated demand, supply chain disruptions, and labor shortages – what can investors expect going forward? For one, we anticipate some period of elevated prices. Impatient customers who are flush with cash after a year of forced savings and greater wealth from the strong stock market returns are willing to pay more today to avoid waiting for the product they want. Last month, more than half of homes sold above asking price, demonstrating consumers' ability (and desperation) to pay higher prices.[4] Travel-related expenses, such as rental cars and airline tickets, are up double digits from a year ago. Bizarrely, some used cars are selling for more than backlogged new ones because customers are willing to pay a premium for something that is available now.

The imbalance between supply and demand is likely causing microbubbles of price inflation. As the supply chain untangles itself, allowing supply to meet demand, the microbubbles will start popping. Lumber is a recent cautionary example. After lumber futures' stunning ascent this spring – rising 6.5x pre-pandemic levels to $1,670 per 1,000 board feet – prices dropped 40% in June. The global supply chain is like a delicate ballet – everything needs to work in harmony or the whole thing is thrown off. With time and repositioning, shortages will fade, along with the inflation.

As many of these imbalances will likely correct in the coming months or year, patience will be important both for consumers and investors. As investors, staying grounded and focused is critical as we look for high-quality companies that are innovative and strategic, and whose products and services are highly sought after by their customers. Of course, the most important news is that global economic activity is rebounding after a surreal year. We recognize that challenges remain, including inflation concerns, potential tax changes, and lofty valuations in certain assets. However, the healthy earnings of the companies our clients own underpin our focus on staying invested and navigating each of these obstacles as more information comes to light.

Lumber suffers worst month on record back to 1978
Futures price per 1,000 board feet

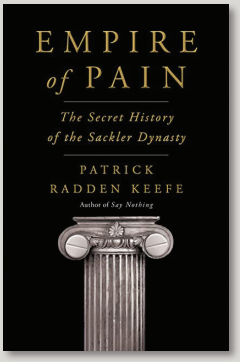


Source: FactSet

CNBC

[1] https://www.nytimes.com/2021/04/16/your-money/cars-sale-price-trade-in.html
[2] https://uh.edu/news-events/stories/2021/march-2021/03292021-hobby-winter-storm.php
[3] https://thehill.com/policy/finance/561043-jobs-report-poised-to-boost-or-hinder-bidens-agenda
[4] https://lbmjournal.com/report-more-than-half-of-homes-sold-above-asking-price/

RECOMMENDED READING: *Empire of Pain* by Patrick Radden Keefe



The Smithsonian, The Louvre, The Metropolitan Museum of Art, The National Portrait Gallery, and a handful of the world's most prestigious universities are all among a long list of revered institutions that at one point proudly displayed "The Sackler Family" on their walls. The family's philanthropy was pervasive by the 1990s, but the origins of its money, which flowed into museums and charities, was shrouded in mystery. The Sacklers, private in business but public with their giving, were eager to display their name in pursuit of noble causes while keeping quiet about their stewardship of the family business that made them wealthy: Purdue Pharma, maker of the powerful opioid OxyContin.

In his latest book, *Empire of Pain*, author Patrick Radden Keefe provides a detailed, fascinating, and at times infuriating examination of the now infamous family and its business. Purdue Pharma had been in the Sackler Family since the 1950s. Still, it was not well known until recently, when it dominated headlines for producing, marketing, and distributing OxyContin, a drug that is widely credited with causing the American opioid crisis. The company and the family have spent the better part of the last 15 years fighting legal battles from those seeking to hold the company accountable for Purdue's role in the crisis, which has claimed the lives of at least 450,000 people in the United States over the last two decades.

Keefe, a *New York Times* bestselling author and a longtime *New Yorker* staff writer, was our guest for our June virtual event. He shared fascinating first-hand details of his yearslong reporting for the book, including efforts by the family to block its publication. *Empire of Pain* is a harrowing yet important work of investigative journalism. We are recommending this book because we believe it serves as a timely cautionary tale that shines a light on important themes related to corporate greed, social responsibility, and our justice system. Please let us know if you are interested in reading *Empire of Pain*, and we will send you a copy.

VIRTUAL EVENT RECAP: THE NEUROSCIENCE OF BEING YOUR BEST SELF: WHAT GOOD SLEEP, MODERATE STRESS, AND POSITIVE EMOTION CAN TEACH US ABOUT LIVING WELL

This spring, our firm hosted Dr. Jessica Payne, professor and internationally recognized cognitive neuroscientist and psychologist, for her insightful hourlong workshop "The Neuroscience of Being Your Best Self: What Good Sleep, Moderate Stress, and Positive Emotion Can Teach Us About Living Well."

The webinar looked at ways to harness the brain's strengths to achieve optimal performance and wellness in the context of three neuroscience principles: sleep, stress, and emotion. Using research and analysis gleaned through her work directing the Sleep, Stress, and Memory Lab at the University of Notre Dame, Dr. Payne demonstrated how all three principles are interconnected on the neurobiological level. She also provided event attendees with simple exercises and tips to improve sleep, brain, and emotional health in each area of focus. Her actionable tips to improve sleep include:

- Focus on getting 20 extra minutes of sleep each day
- Don't underestimate the power of afternoon naps that last no longer than 20 minutes or shorter than 90 minutes
- Minimize distractions (like cellphones) at night and avoid alcohol, caffeine, and exercise close to bedtime

Please reach out to our team if you would like to learn more about Dr. Payne's workshop and her additional actionable recommendations for moderating stress and improving emotions. We believe that educating and informing our clients and community is about more than just discussing investment markets and numbers; we are proud to host events that we believe can contribute to overall wellness. Please let us know if there are topics on your mind for future virtual events.

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FIRM UPDATE

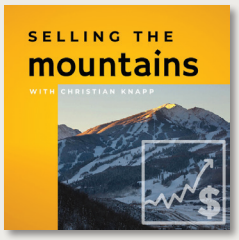
NEW TEAM MEMBER: NICK BARNES, CFA

We are thrilled to welcome Nick Barnes, CFA, as our newest team member. Nick is a dedicated research analyst focusing on multiple industry sectors. He sits on the Investment Committee, advising on and supporting security selection and portfolio construction. Nick is a chartered financial analyst (CFA) and has over seven years of experience in the financial services industry. Before joining Obermeyer Wood, he worked at Vantage Investment Partners in Kansas City, Missouri, where he held various roles, including operations specialist, trader, and most recently, investment analyst. Welcome, Nick!

OPEN FOR IN-PERSON REVIEW AND FAMILY MEETINGS

We have long been looking forward to safely seeing our clients and friends, and we are excited to offer in-person meetings for those who can conduct them with us in healthy ways. In addition to hosting regular review meetings, we like to remind clients that summer is a perfect time to schedule a family meeting. We find these meetings a productive venue for facilitating conversations about family and finances. If you have loved ones visiting you this summer, we would love to meet them. Please don't hesitate to reach out to our team if you are interested in getting together; we are open and eager to see you.

PHILLIPS, OBERMEYER WOOD FEATURED ON PODCAST



Ali Phillips, Executive Vice President and Partner, was a recent guest on the *Selling The Mountains* podcast hosted by Christian Knapp. The podcast series focuses on the booming mountain town real estate economy and the unique personalities fueling it. Each episode is an insider's perspective on market trends, lifestyle, success stories, and the business of buying and selling property in the mountains.

In this episode, Phillips covered a wide range of topics, including the Obermeyer Wood investment philosophy, finding a career in a mountain town, and wealth-building strategies for real estate professionals coming out of one of the hottest housing markets in recent memory. If you would like to listen to the episode, please visit the *News* section of our website, or search for *Selling The Mountains Episode 17* on your preferred podcast platform.

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