THE COOK REPORT

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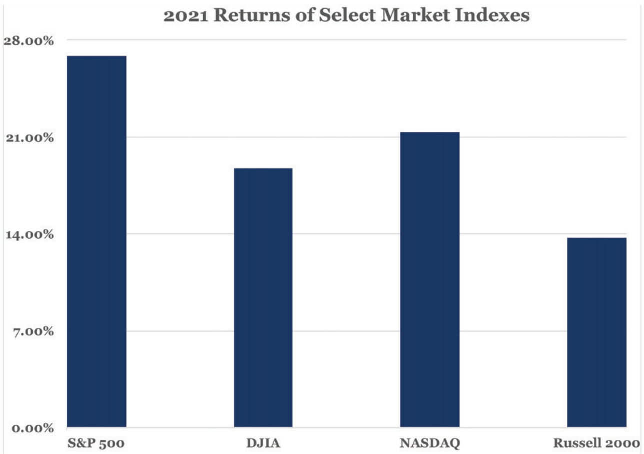
RIDING A SUGAR HIGH

Happy New Year! We hope you had a wonderful holiday season and wish you all the best for a happy, healthy 2022. While 2021 proved to be less chaotic than the pandemic year of 2020, the year was still marked by the pandemic and the effects of policies implemented to address its effects. Nevertheless, good spirits reigned and a corner has been turned. Even Patience and Fortitude, our favorite lions flanking the steps of the New York Public Library, dropped their blue masks for more festive holiday attire as the year ended.

Photo credit: Dave Mcklveen

Buoyed by continued low interest rates, the Federal Reserve's quantitative easing program, and fiscal stimulus measures, equity markets finished the year strong (see chart). The same factors contributed to the return of inflation as a concern, supply chain disruptions, and an out of whack jobs market where available jobs were plenty, yet employers had difficulty filling open positions.

As with most years, 2022 promises to be a year of change. The economic situation that arose from the pandemic has shifted. Monetary and fiscal policies will be adjusted to meet the challenges of a post-pandemic world. Business and individual behavior will adjust accordingly. We welcome these changes and envision them somewhat as we do a four-year-old on a sugar high—lots of energy and fun at the start, followed by a tantrum, maybe a nap, then a return to a healthy sugar-free norm. We suspect a similar pattern is likely for the markets and broader economy over the months ahead.



INSIDE THIS ISSUE:

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RIDING A SUGAR HIGH (cont.)

THE HIGH

Equity markets and the broader economy have been riding a sugar high of monetary and fiscal stimulus since late spring 2020. On the monetary side, interest rates have been at zero since early in the pandemic. These have been bolstered by the Federal Reserve's monthly purchases of treasury bonds and mortgage-backed securities. Such actions stimulate the economy by encouraging borrowing because the servicing of new debt is relatively cheap. Added to that, Congress passed multiple stimulus measures that put money into peoples' pockets.

Such stimulus stoked consumer demand across the spectrum of goods and services. Investors, looking for yield, continued to pour money into equities (not to mention meme stocks). Vaccines helped open sectors of the economy that were battered at the height of the pandemic. All of this and more led to a booming economy and sent equity valuations to new records. Indeed, since the bottom of the brief pandemic-caused recession in spring 2020, the S&P 500 has returned 106.7% through the end of 2021. Other equity indexes have seen similar jaw-dropping returns.

THE TANTRUM?

As the sugar high continued, it became apparent that there were some disconnects that would exacerbate the inevitable post-high tantrum. Consumer demand for some products snapped back more quickly than many businesses were prepared to meet. Labor shortages and supply chain disruptions caused headaches for the movement of goods. Stories of container ships sitting idle outside ports were common. Changing labor markets saw wage increases as employers looked to keep the employees that they had, while at the same time some sectors were unable to find people to hire.

The result was inflation levels not seen since the early 1980s. Initially predicted to be short-lived, inflation has proved to be sticky (we addressed inflation in the July 2021 issue of *The Cook Report*). Policymakers, eager to prevent a future diabetes diagnosis, have signaled that the era of stimulus is ending.

After the Federal Open Markets Committee meeting in mid-December 2021, Fed Chair Jerome Powell signaled that the Fed's quantitative easing program would wind down by March 2022, several months earlier than originally predicted. He also foreshadowed three interest rate increases in 2022.

On the fiscal side, it appears that Congress may be finished passing large bills after failing to pass the Build Back Better bill before the end of the year. Political focus will quickly turn to the midterm elections in the U.S., likely hampering the chances of major legislation passing. It is possible pared down bills may pass in the new year, but for now some stimulus measures such as the increased child tax credit payments are finished.

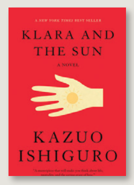
Like a child whose candy has been taken away, it is likely markets will throw a tantrum over the removal of stimulus measures. When the tantrum will start, how deep it will be, or how long it will last is difficult to predict, but a bumpy road is likely for a time. In the end, we believe the economy will come out on better footing as it adjusts to a new post-pandemic normal.

FINAL THOUGHTS

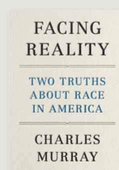
As the new year begins, we would like to take a moment to thank you for your trust and confidence in us over the years. It has been a joy to return to meeting in person with many of you and we thrill at hearing your stories and updates. We look forward to seeing many more of you in the coming months.

We are optimistic as ever that good days are ahead and that 2022 will be a year of growth and opportunity, regardless of market and economic conditions. Happy New Year!

READER'S CORNER



Klara and the Sun, by Kazuo Ishiguro (Alfred A. Knopf, New York, 2021) is a futuristic drama of highly sophisticated androids purchased to serve as companions to children of wealthy parents. Some rather chilling insights.



Facing Reality: Two Truths about Race in America, by Charles Murray (Encounter Books, New York, 2021) identifies differences in racial crime rates and differences in distribution of cognitive ability that influence our perception of racism in our society. He argues that people should not be judged by race, class, or creed, but as individuals.

IN THE NEWS

- "10 Podcasts for Older Adults That promise To Entertain—and Enlighten," by Diane Cole (*The Wall Street Journal*, October 24, 2021) highlight issues that are of direct interest to older adults.
- "The Language of Cybersecurity: Test Your Vocabulary.," by Cheryl Winokur Munk (*The Wall Street Journal*, December 6, 2021) offers a quiz (and answers) to the language used in this increasingly important part of our online lives.
- "Should You Pay Off Your Mortgage Before Retiring? Usually.," by Glenn Ruffenach (*The Wall Street Journal*, November 8, 2021) identifies exceptions to the general rule.
- "8 Things to Know When Choosing a Medicare Plan," by Neal Templin (*The Wall Street Journal*, October 17, 2021) provides a useful review of this extremely important decision for those who are Medicare eligible.