



Schulz Wealth Economic Overview- Q3 2021

Q3 2021 was a rollercoaster ride of a quarter. The quarter started out with a robust jobs report showing growth of 943,000 compared to the estimate of 845,000. In early July, we started seeing COVID numbers fall to the lowest level since the pandemic began. The market continued to price in an economy that was roaring back with serious pent-up demand. Then the Delta Variant showed up.

The spike in new cases from the second half of July into August cooled off a heating economy. As a result of the spike in cases and escalating fears, the August jobs report posted an increase in 235,000 jobs versus the expected 720,000. The leisure and hospitality sector previously leading the hiring spree saw the industry unemployment rate tick up as uncertainty remained with the new variant.

Even though Delta cases look to have topped in late August/ early September, the September jobs report released in early October was too disappointing. The posted increase of 194,000 jobs was against a backdrop of a 500,000 increase expectation. Even though the numbers were lower than expected, we did see the employment rate tick under 5%. With employment levels rising and current job openings exceeding the unemployed, we have continued to see a material wage increase, north of 4% on a year-over-year basis.

With the tightening labor market and rising wages, we have continued to see meaningful inflation. What was initially expected by the Fed to be primarily transitory, inflation has persisted longer than anticipated. The sustained inflation has the Fed discussing taking action prior to what they previously indicated.

As many companies work through their labor issues, the central pain point of supply chain issues has gotten bigger. Western countries came out of the lockdown eager to spend money on finished products. Since many raw materials and inputs are sourced from much harder hit Asian countries, many of whom are still in states of slowdown, supply chain bottlenecks have been compounding and feeding on each other. Some high-volume freight rates have doubled between Asia and North America, with many ships sitting outside ports waiting for their turn to load and unload their goods.

With the busiest buying season of the year right around the corner, shipping experts believe if the current goods are not already on the water, they may not make it to the shelves in time for the holidays. As great companies have always looked for ways to overcome obstacles, retailers like Walmart, Target, Costco, and Home Depot have begun chartering private ships to circumvent current shipping woes. The Port of Los Angeles has also moved to 24/7 hours to unload ships quicker and relieve some of the supply chain bottlenecks.

The Market Reaction

The stock market over the quarter became highly correlated with COVID concerns. As it looked like the worst was behind us, the market continued its rise in July and August. Then while rising Delta cases drove headlines and more uncertainty, the market began to crest, not knowing how the new variant would play out. While looking around at how the Delta variant has played out in other countries, the market appears to have digested this news and believes companies can continue their robust recovery.

Please reach out with any questions or further dialogue!

-Austin Smith, CFA
Schulz Wealth