

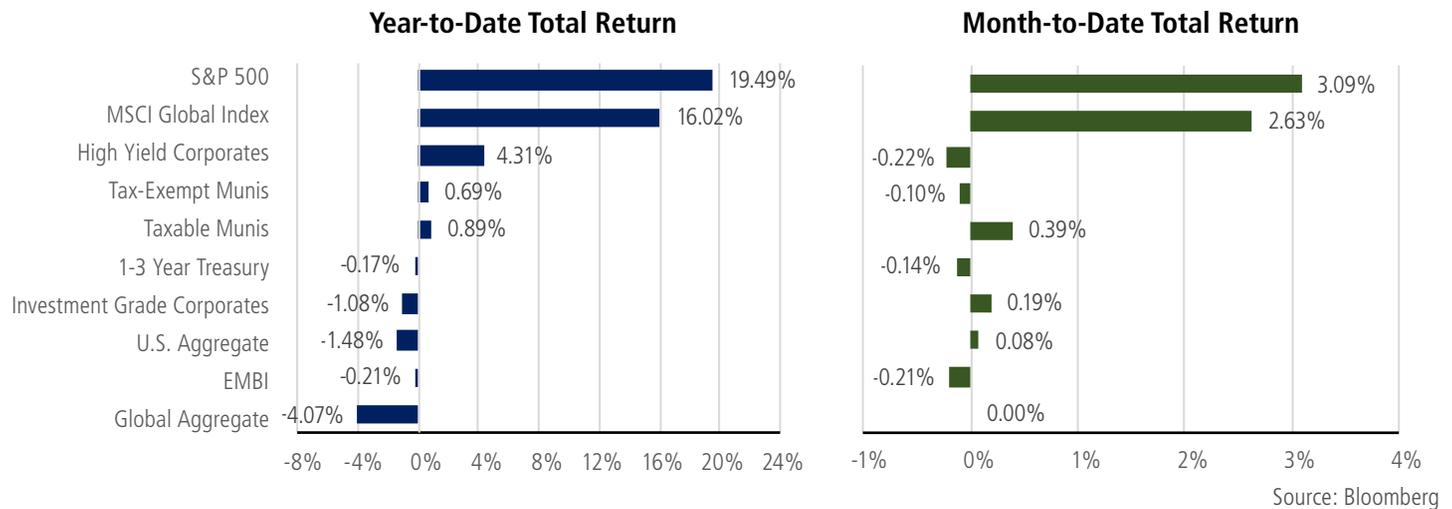
Week Ending: **October 15, 2021**

I Don't Think That Word Means What You Think It Means

Economic Overview:

The skyrocketing cost of moving a container of goods from Shanghai to L.A. set off a frenzy of media and investor attention on supply chains. As a result, news stories mentioning "stagflation" have exploded. While we understand investors' urge to find a historical analog, we doubt the "stagflation" moniker accurately describes our present predicament. Sure, economic growth has slowed, but Covid-related issues are primarily to blame, ranging from public health restrictions to staffing shortages. But during the stagnation of the 1970s, unemployment was high, unlike the 4.8% unemployment we see now. Additionally, core inflation was way above the September 2021 reading of 4% year-over-year from 1973 to 1983. During that time period, inflation exceeded 10% year-over-year for 23 months! Of course, things can always get worse, but the best we can do is try to gauge in real-time whether production bottlenecks have peaked. [And from what we can tell, we might be close.](#)

Total Returns by Asset Class



Highlights of the Week:

- High Yield:** The high yield market is down -0.64% since the peak on September 14th, while the high yield energy index is up +0.26%. Opportunities for active management are abundant across market environments, especially when interest rate volatility is elevated.
- Corporates:** The third quarter (Q3) earnings season kicked off this week as JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Morgan Stanley, and Goldman Sachs all took the stage. Despite numerous macroeconomic headwinds such as inflation, the Delta variant, and supply-chain constraints, these banks all handily beat bottom line expectations in addition to providing strong forward guidance.
- Securitized Products:** Investors welcomed the dulcet tones of an Aria this week in the commercial mortgage-backed securities (CMBS) market, specifically a \$3.15 billion deal backed by the Las Vegas Aria Resort & Casino and Vdara Hotel & Spa. Despite some lingering effects from Covid, recent property performance has been strong with weekend occupancy for July and August 2021 registering 97% and weekday occupancy ranging between 73% and 83%.
- Municipals:** As a result of severe drought conditions affecting the Western United States, Southern California water agencies have created a sharing agreement. The agreement stipulates that the Los Angeles Department of Water and Power (LADWP) will give a portion of its water from the State Water Project back to the Metropolitan Water District to help provide resources to smaller districts facing greater challenges and shortages.
- Equities:** The U.S. equity market rallied for the second consecutive week on a strong start to the third quarter corporate earnings season. Companies from the banking and health care industries handily beat consensus quarterly earnings estimates, which provided some relief of slowing economic growth concerns. The real estate and materials sectors led markets higher, while the communications and healthcare sectors lagged the broader market.