Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – October 1, 2021

Better late than never. ~ Titus Livius, The History of Rome, Book IV

Livius was a Roman historian writing early in the first century A.D. He coined the clever phrase above (in Latin, of course) when discussing an intractable conflict pertaining to the election of consuls from patricians or plebeians. In Livy's mind it was better late than never for the ruling class to begin to oppose the more radical of the demands made on them.

The phrase stuck. It has been in near constant use as an idiom since then, spanning languages and continents – used in *The Canterbury Tales* or in reference to our family members who reliably arrive sometime after the start of the Christmas gift exchange.

In a like manner, Federal Reserve Chairman Jerome Powell at last acknowledged this week that inflationary pressures are greater and longer lasting than he originally thought. In his testimony during a Senate hearing, he said that elevated inflation might last well into 2022. Powell attributed the stubbornness of the inflation surge to supply constraints intersecting with high demand for goods.

True enough. But his analysis only captures a part of the cause. It fails to address the potential for a longer lasting effect of government policies on people's willingness to produce. We have argued that to the extent pandemic policies of rampant fiscal spending become permanent, they exacerbate the problem. Our companies make less stuff and fewer services while demand is buttressed by enhanced transfer payments.

Which brings us to a second recent example of *better late than never*. As of this writing (a phrase we use more often due to the minute-to-minute shifts in policy), the $1.2 trillion infrastructure bill and the $3.5 trillion redistribution package look less likely to pass. Just two months ago enacting them was all but certain. It seems that after returning home to their districts during the summer recess, some elected representatives and at least one senator have decided that expanding social programs further may have negative consequences on a range of issues.

And we have a third example of *better late than never* playing out in Washington. With hours to spare, an appropriations bill to fund the government into December was passed to avert a shutdown. Now attention turns to horse-trading to determine whether or how much to raise the debt ceiling to avoid a technical or outright default in

October. We never give much weight to the risk of shutdown or default arguments. But we are onboard with criticizing those formerly great deliberative bodies for waiting so darn long to address a known issue. Planning a budget for the next fiscal year ought to be a priority. Alas, a budget for our federal government's spending has NOT been passed on time for over 20 years. You read that right. We've operated on cobbled-together continuing resolutions and piecemeal appropriations bills since then.

But in the positive spirit of Livy's *better late than never* quotation, we are slightly more optimistic of relatively favorable outcomes in two of the three above examples.

First, even though Powell has yet to see or admit another underlying cause of inflation, he does recognize that prices are increasing. Each month that brings elevated data will likely spur members of the Open Market Committee to take positive action.

Second, paring back the social spending bills or a failure in their entirety might be in our future. Either result will dampen inflation when compared to full passage.

Third, given the political climate, we think rancor in Washington will be the rule. We expect extreme proposals and last minute, albeit temporary, resolutions. We will likely get through the current confusion with some bumps and bruises. No lessons will be learned. Our elected leaders will see fit to repeat it again.

Finally, a word on the coming earnings reports. The third quarter is officially behind us, and corporations are tallying results. Expectations for 3Q earnings have increased over the last few months to a 27% growth rate over last year's depressed numbers. We believe these forecasts are aggressive. We expect solid growth to be sure, up double digits. But considering the massive bottlenecks in supply of goods and labor, we think costs will begin to eat up some of those potential earnings. As a result, we expect elevated volatility this autumn as investors get used to the new rate and cost regimes.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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