

MARKET COMMENTARY – November 1, 2021

Faster than the Speed of Night! ~ Jim Steinman (sung by Bonnie Tyler)

Confession. We love songs composed by Jim Steinman. They are big, bombastic, orchestral rock affairs written over the course of a five-decade career. And when they were penned, they sounded distinctly different than the popular music of the day. Before passing away earlier this year, Mr. Steinman had written songs for Celine Dion, Air Supply, Bonnie Tyler, Barbara Streisand, and most famously for Meat Loaf.

Producers of his work have said that Steinman would come up with outlandish titles, and only then sit down to write the music and lyrics to justify them. Those of you of a certain age might remember some of his songs. *It's All Coming Back to Me Now*, *I'd Do Anything for Love (But I Won't Do That)*, *You Took the Words Right Out of My Mouth*, *Paradise by the Dashboard Light*, *The Future Ain't What It Used to Be*, and *Making Love Out of Nothing at All* (and dozens of others). Any readers who are not familiar with Steinman's work might find themselves with a new guilty pleasure if they are willing to have a listen – we'd start with Bonnie Tyler's *Total Eclipse of the Heart* and go from there.

While *Faster than the Speed of Night* could rightly be considered naughty as it describes a woman's attempts to seduce a younger lad, its pace and urgency got us thinking about the current fundamental, economic, and political states of our world.

Fundamental. Corporate results continue to be astonishing, especially in light of ongoing supply constraints. We anticipated strength, but must admit we were very wrong about the magnitude. With nearly half of companies reporting as of this writing, earnings growth in the US is running at 34% compared with the year ago quarter. Of course, the third quarter of 2020 was still depressed, but the current growth rate exceeds expectations by a whopping 12%! Topline revenue growth is solid. Margins are at records as companies have thus far been able to pass on rising costs to the rest of us.

We must expect growth to moderate as we move forward, especially when we consider that comparisons will no longer be to 2020, but to 2021. However, stellar growth results are not necessarily required, or even preferred, to maintain the current expansion.

Economic. We've written at length about our concern over rising inflation. We've also written at length that it is not yet set in stone that inflation must ramp into a hyper-zone

or that of the late 1970's. The risk is there, but small. We still think the most likely scenario is that inflation is higher than what our ruling elites expected and stays around longer. The Fed has acknowledged the issue, which is the beginning of the solution. The Congress and Executive branches, however, have not admitted their part in the problem, which brings us to our final topic.

Politics. It is human nature to turn a good many regularly occurring events into emergencies. Unfortunately, the shrewd individuals who occupy positions of power have learned that when situations can be classified as emergencies, there is a sudden urgency that "something must be done." Their shackles are removed and legislation can be shoved, administrative rules can be altered, mandates can be penned, executive orders rushed.

Such remains the case with the currently proposed social spending bill which is masqueraded as an "infrastructure" bill. Since it would pour its money into a hundred areas, it receives its breathless urgency from issues as wide-ranging as climate change and coronavirus and inequality. When coupled with the smaller infrastructure bill, the social spending bill's passage will make it more likely that inflation sticks around and perhaps escalates – consumption is fostered, production is crimped.

As an aside, it depends upon the day as to which provisions are in or out of the bill. Some of these proposals we would like to make sure stay out forever. Among the most egregious:

1. Bank Reporting Requirement – It was proposed that customer transactions of a certain amount be reported directly to the IRS. At any amount, this is a clear violation of the Fourth Amendment.
2. "Billionaire's Tax" – It has been proposed to tax the rich on UNREALIZED capital gains. Given our experience with the income tax, which only touched millionaires in its first year of existence in 1914, it seems likely that Congress would suddenly discover that rest of us are richer than they originally thought.
3. No stepped-up basis – With inflation, if such a proposal ever made it to the final bill, the result would be outright thievery of any middle-class asset holder who hopes to pass even modest assets on to heirs.

There are, of course, other issues with the spending bill, but we understand there is only so much time in our readers' days.

To summarize, there are a host of fast-moving pieces in our economy today. Many of them are quite exciting and good for all of us. But some of the issues racing faster than the speed of light have created an urgency to “do something” that is decidedly ruinous. And since the results so often seem to come down to leadership, we close with a sample of lyrics from yet another larger-than-life Steinman song.

Where have all the good men gone
And where are all the gods?
Where's the street-wise Hercules
To fight the rising odds?

Isn't there a white knight
Upon a fiery steed?
Late at night I toss and I turn,
I dream of what I need.

I need a hero
I'm holding out for a hero 'til the end of the night
He's gotta be strong
And he's gotta be fast
And he's gotta be fresh from the fight
I need a hero
I'm holding out for a hero 'til the morning light
He's gotta be sure
And he's gotta be soon
And he's gotta be larger than life
Larger than life

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Sincerely
Jason Born, CFA
President