

UCI Paul Merage
School of Business

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2022 Economic and Financial Update

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Boundedfinance.com

September 10, 2021

Sometimes I Feel Like Ron Burgundy...

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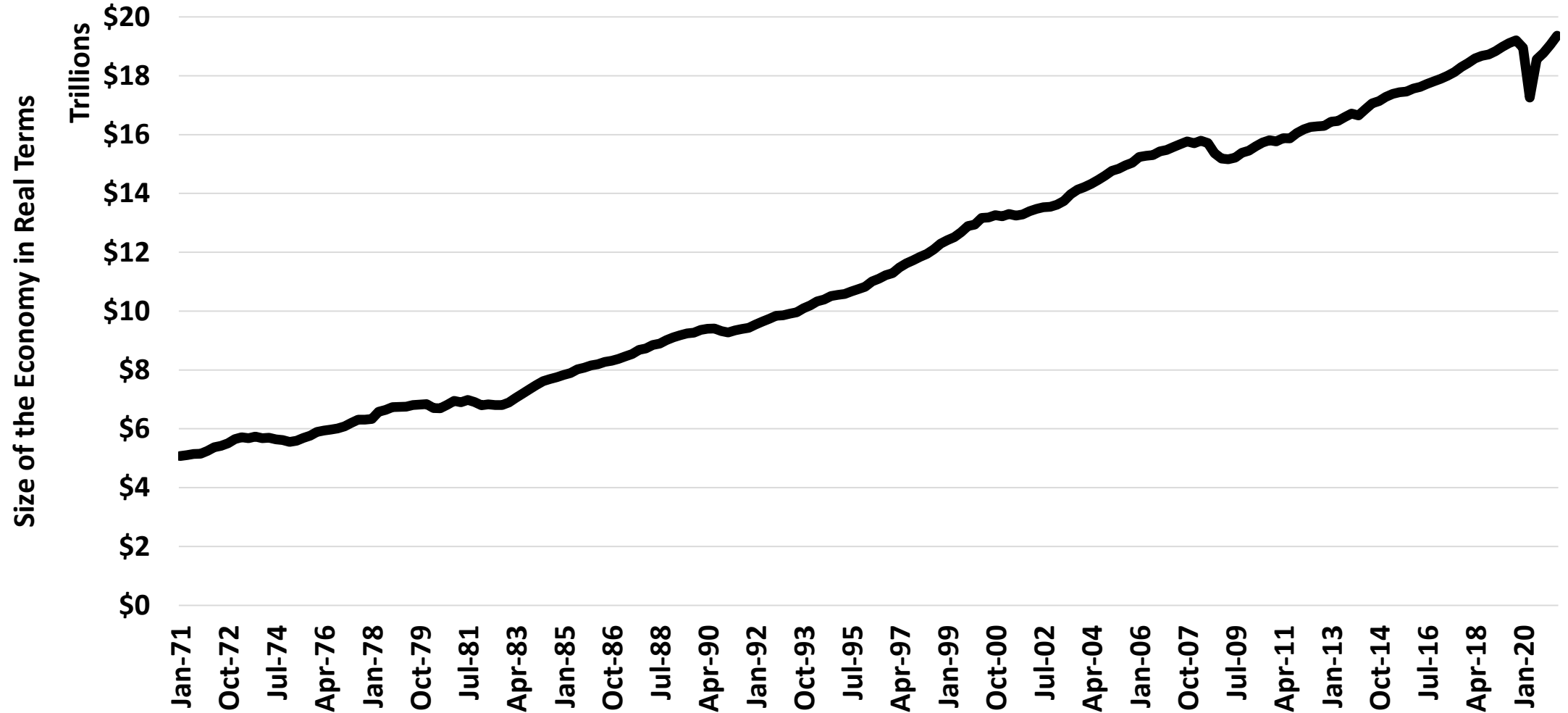
Sometimes I Feel Like Ron Burgundy...



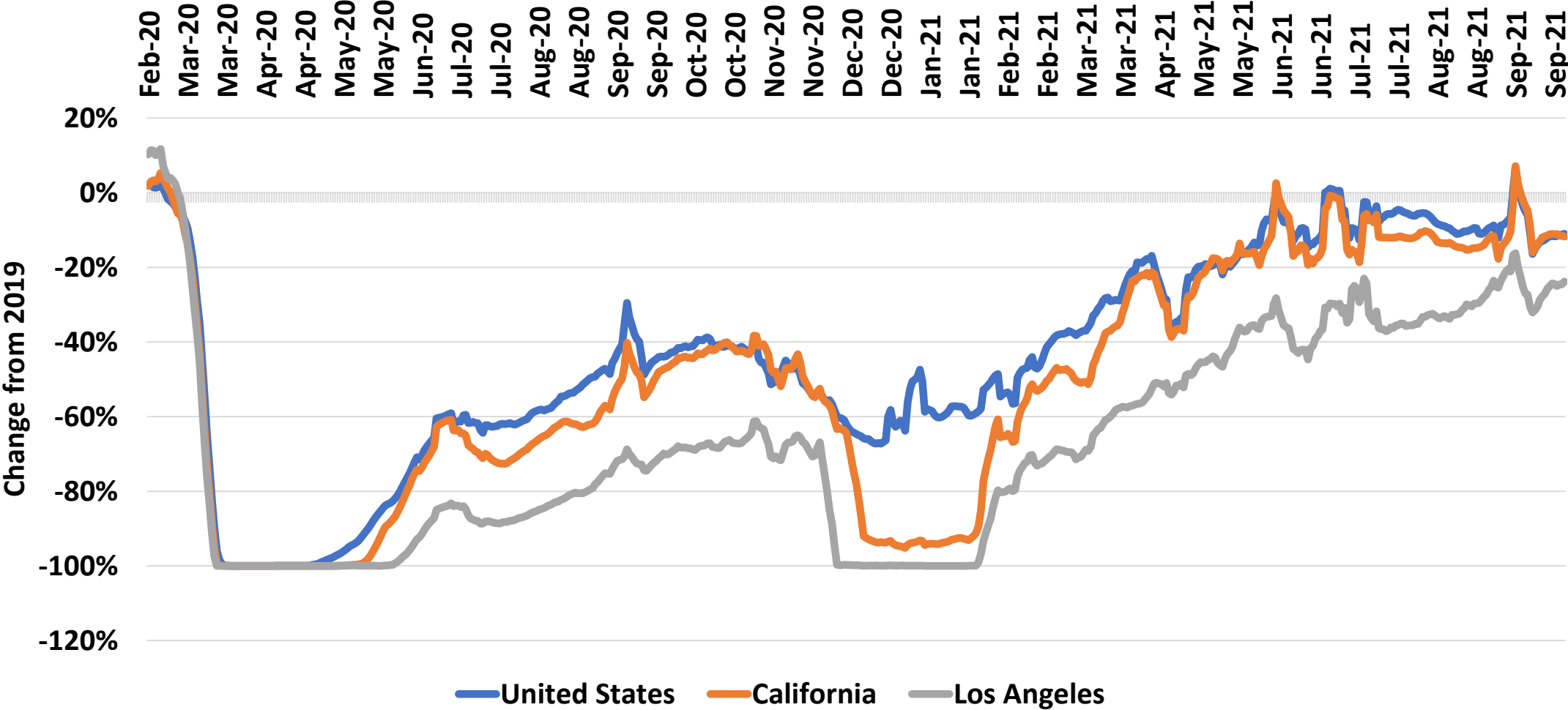
Length of COVID Recession...

2 Months

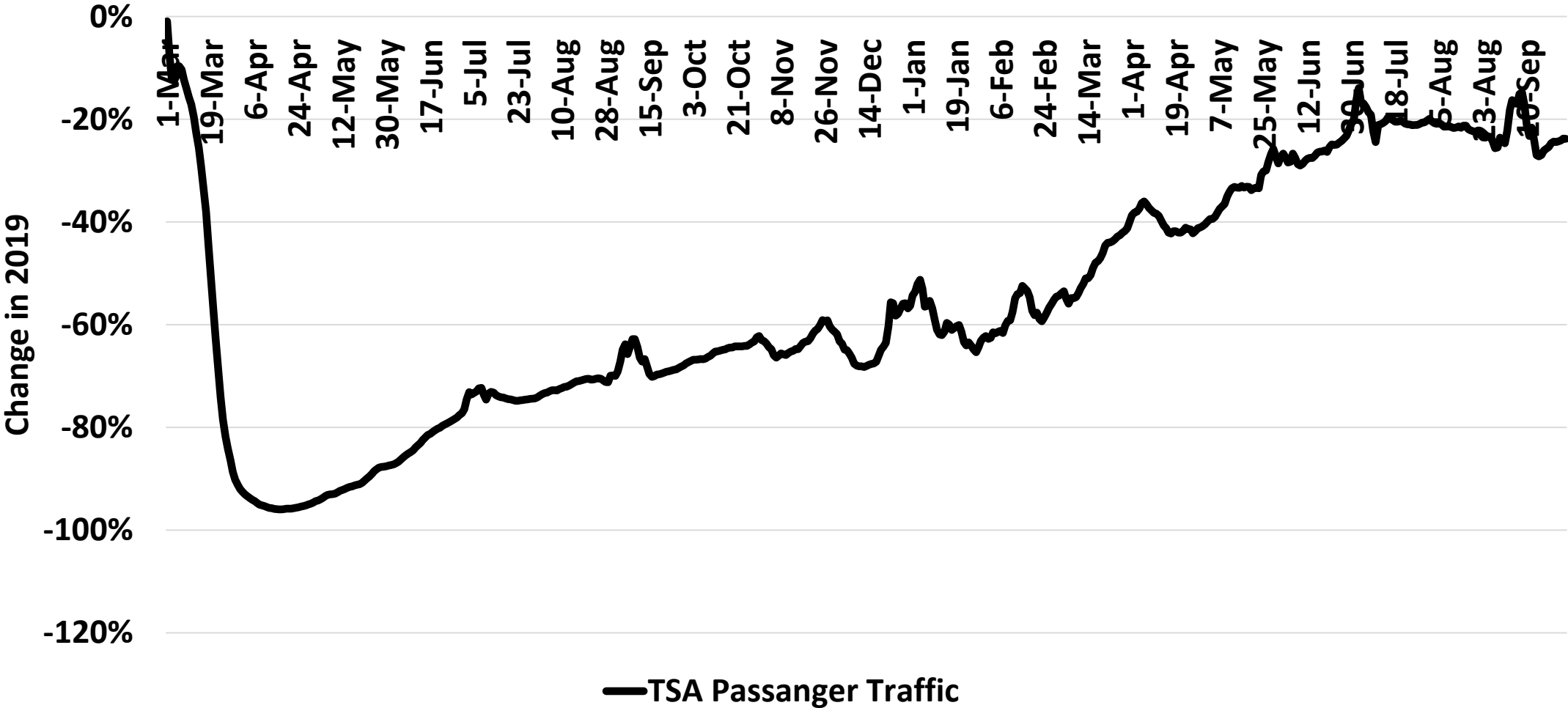
We're Back Already!



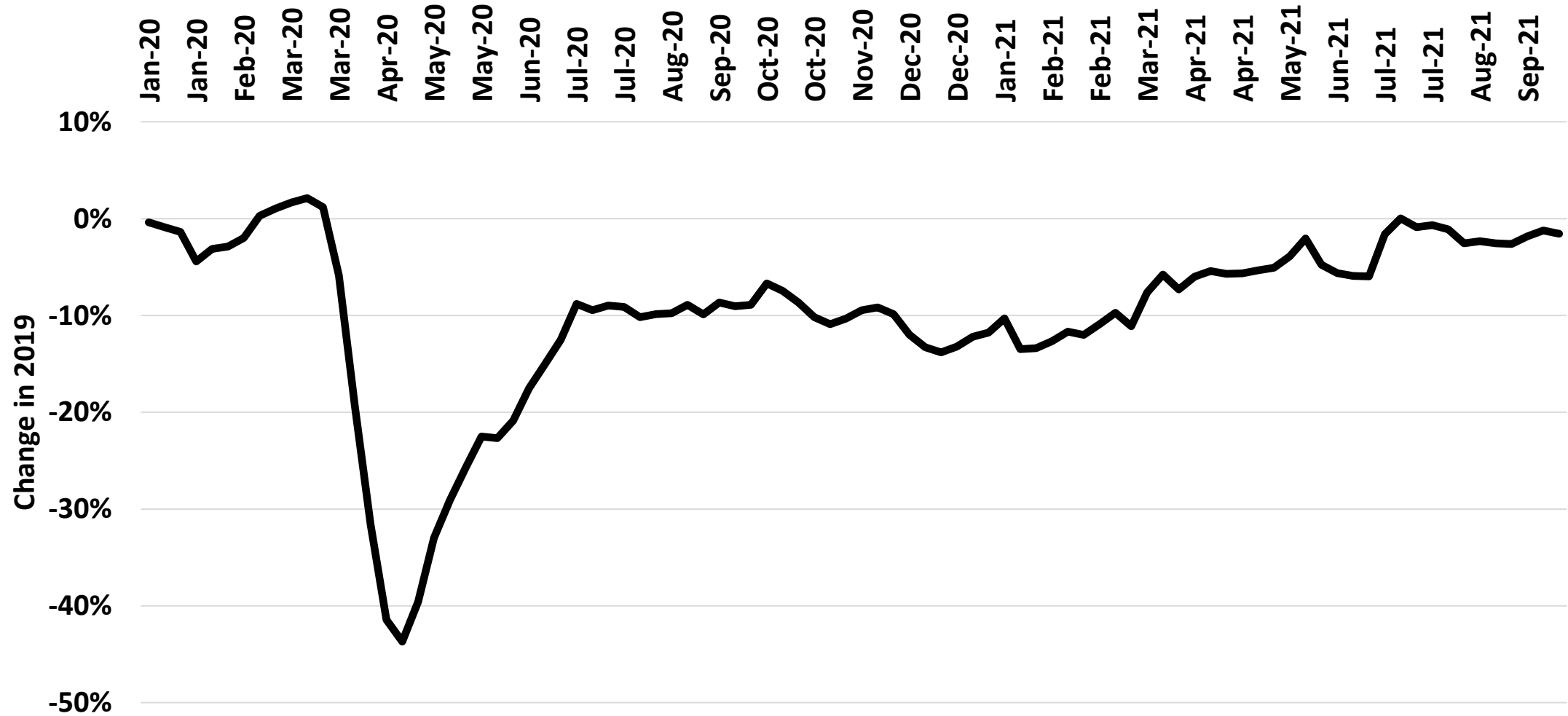
Even Restaurants and Travel Are Largely Back



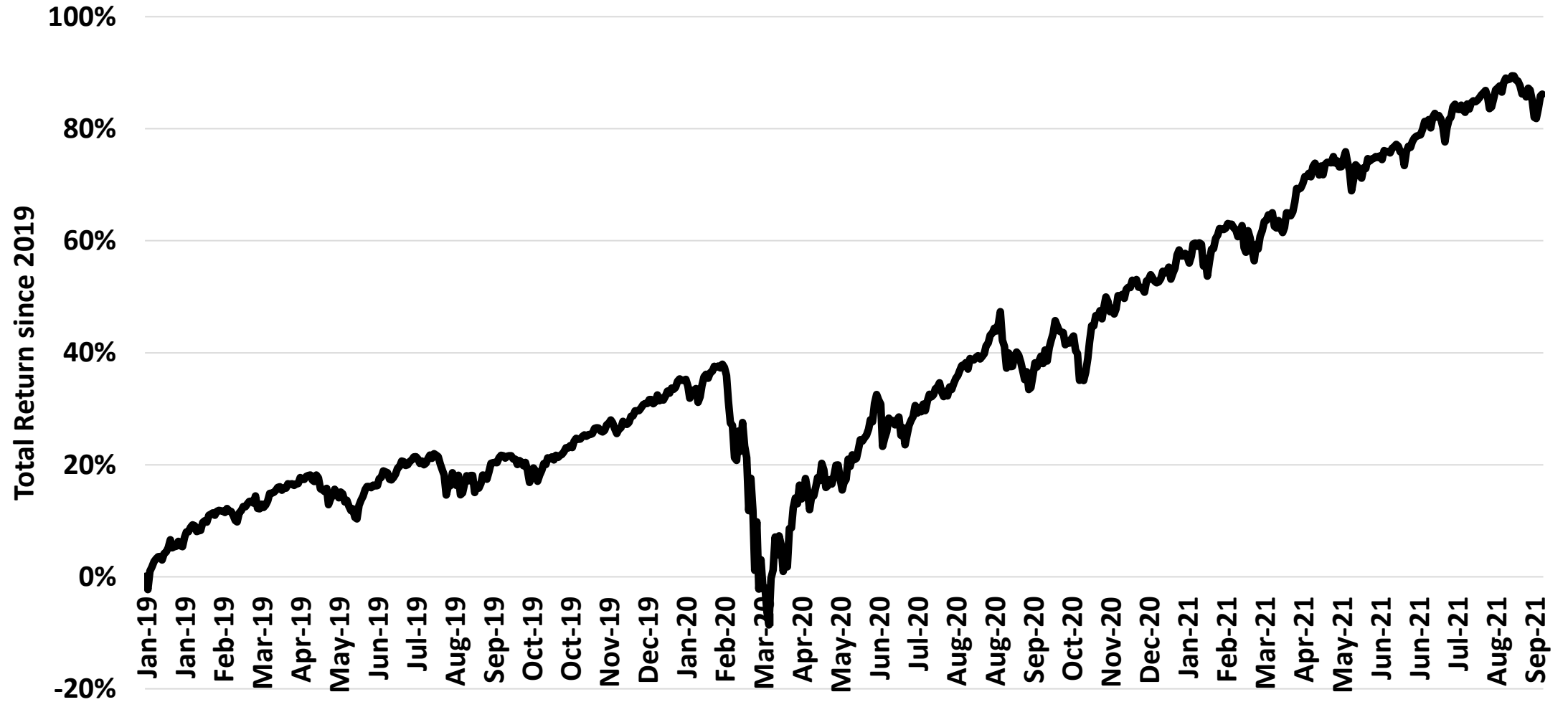
TSA Passengers



Gasoline Deliveries



And the Stock Market is.. WAY Back



So... Are You Like Doc Brown?



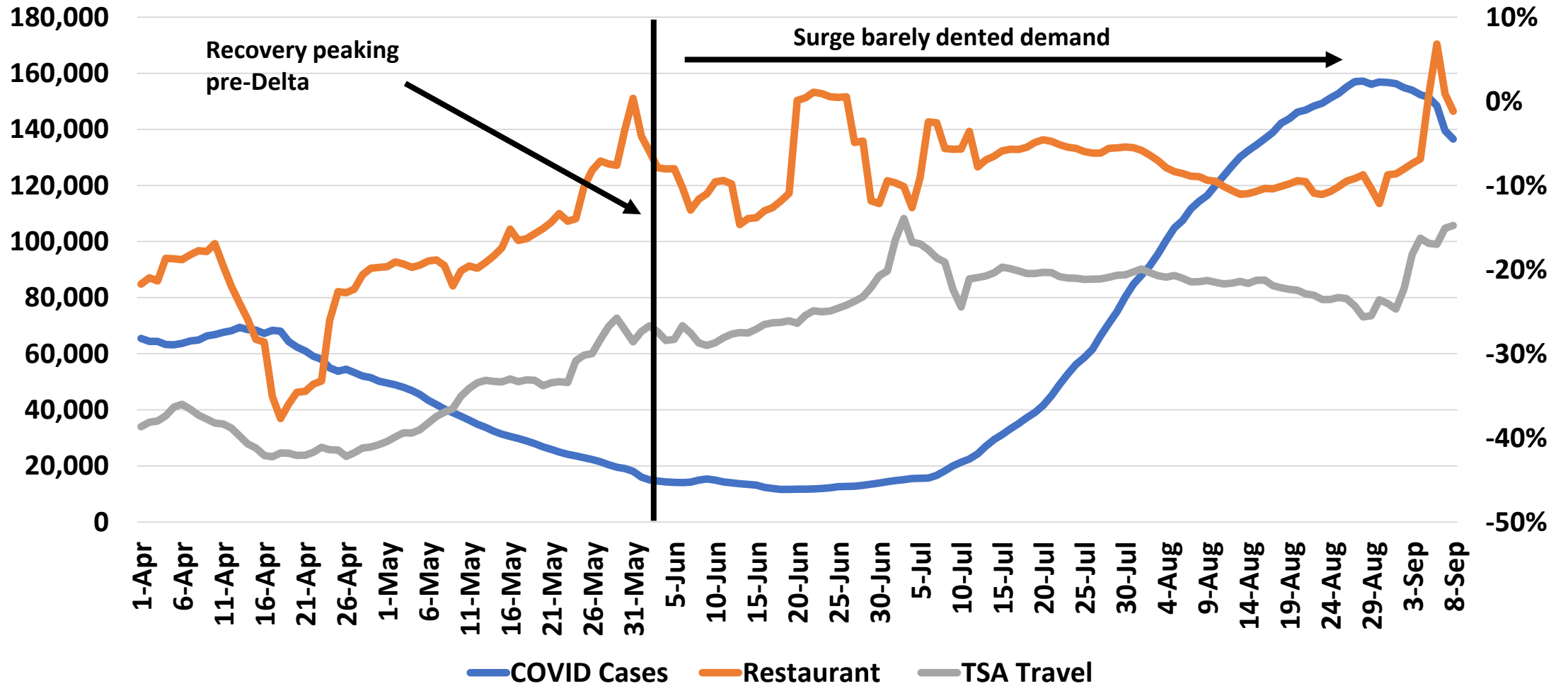
When Looking at the Future, People Are Focused on:

- The Fed
- Tapering
- Interest rates
- US COVID cases
- Jobs
- Unemployment
- Consumer spending
- Crypto
- Stock market crash

Starting to Look Like My Swing Thoughts



But Data Shows These Like US COVID Don't Matter



I Kind of Feel Like Lloyd

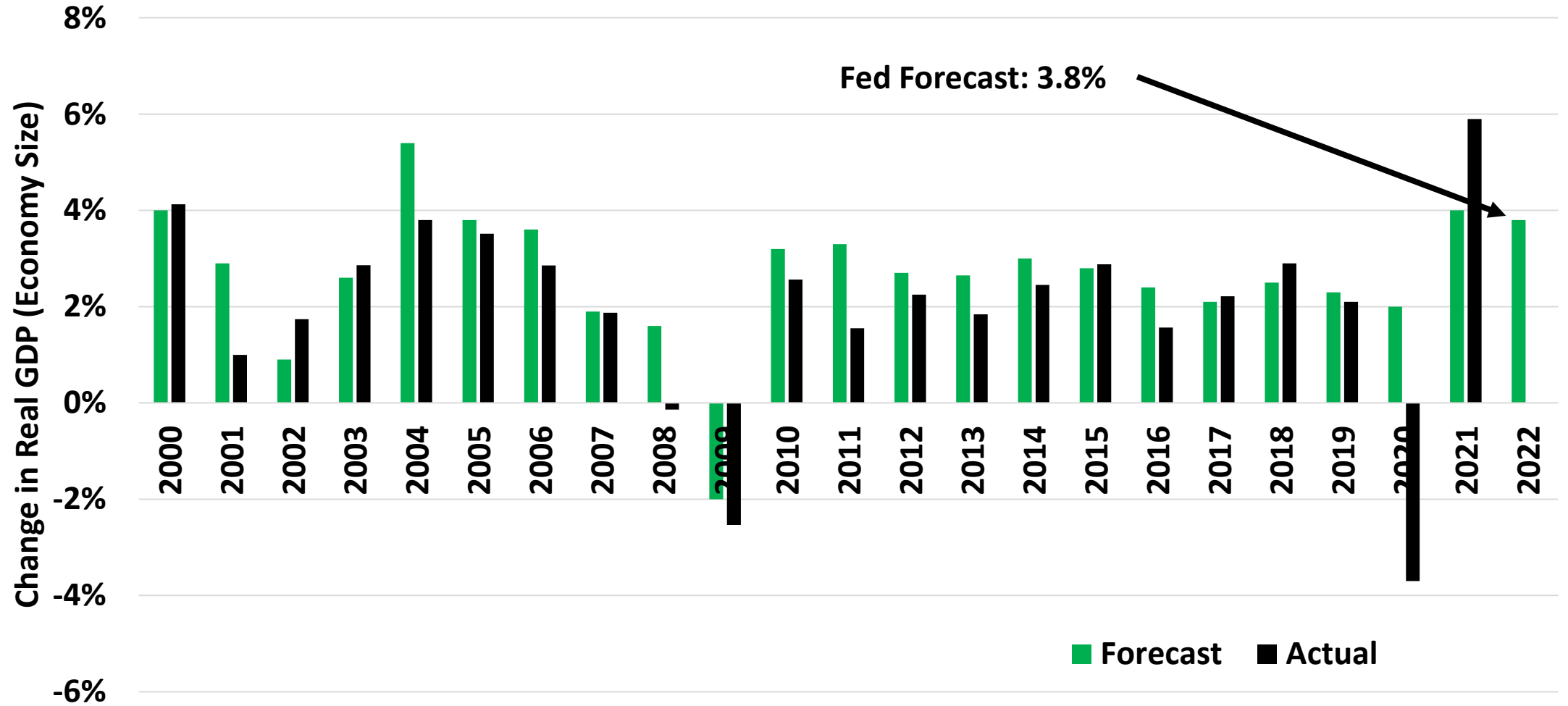
I Kind of Feel Like Lloyd



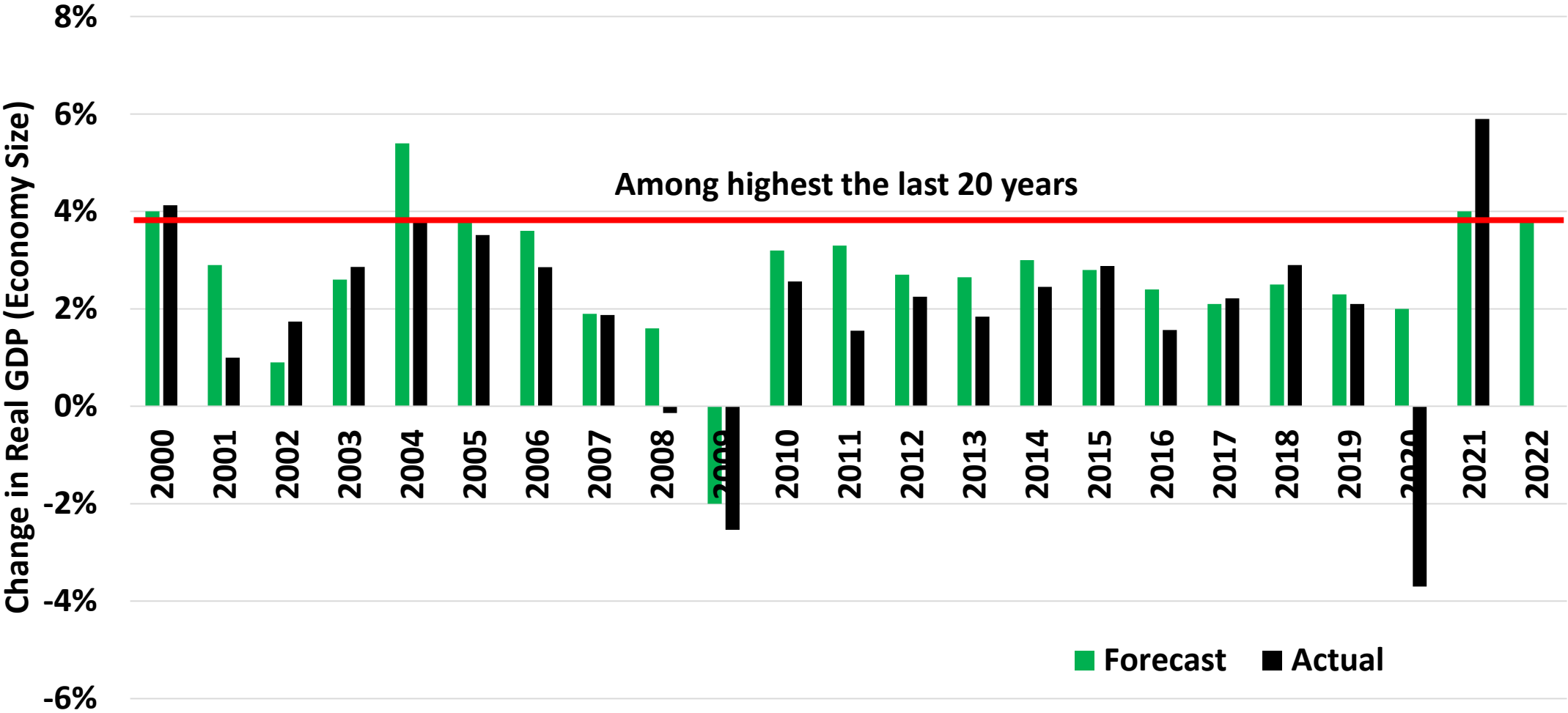
What I Think the Keys Are

- Supply issues
- Supply issues
- Fiscal hangover

But Before We Get There... GDP Forecast



But Before We Get There... GDP Forecast



My Thoughts on that Forecast...

My Thoughts on that Forecast...



Why? Let's Start with Q3 2021 GDP

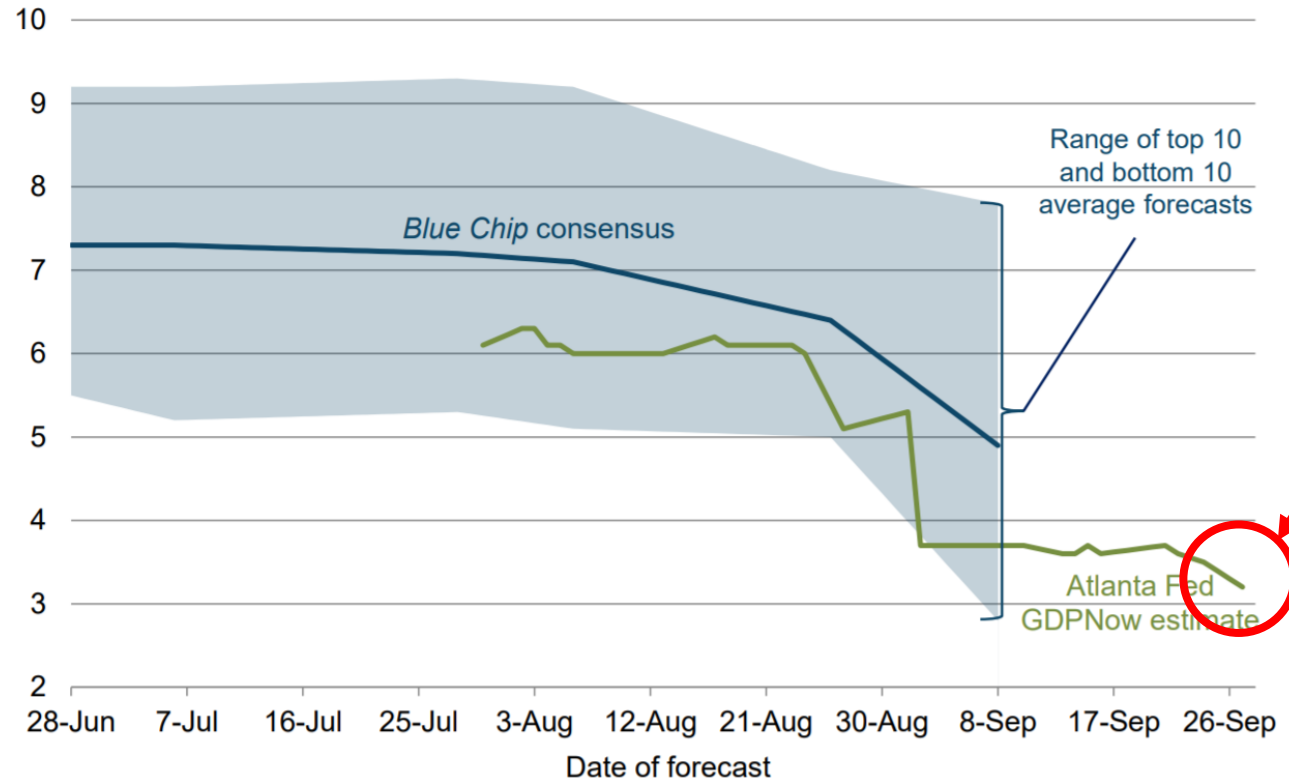


GDPNowTM

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, **it does not capture the impact of COVID-19 and social mobility** beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q3
Quarterly percent change (SAAR)



Down to 3.2%

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

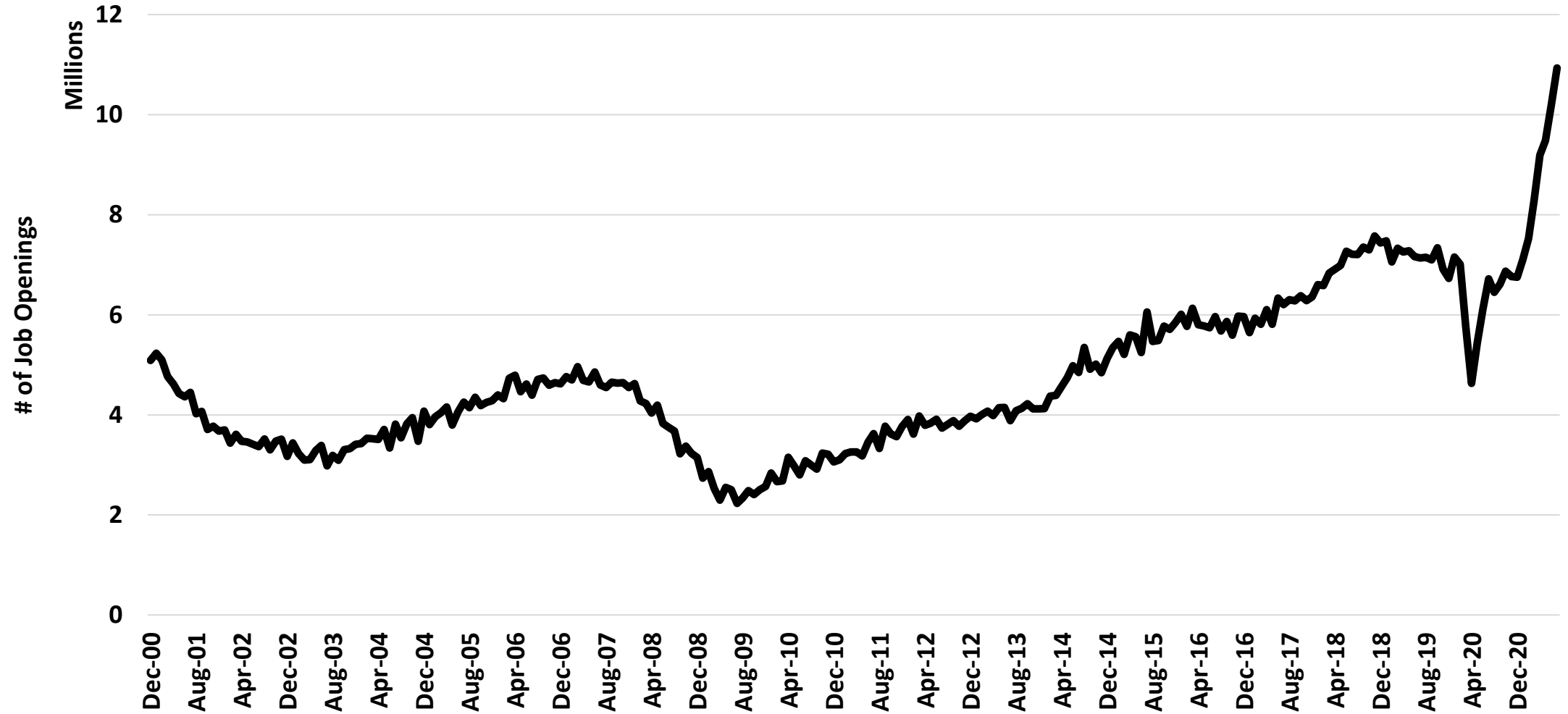
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip

But Bigger Problem is...

But Bigger Problem is... Where is Everything?!



Where are the Unemployed People?

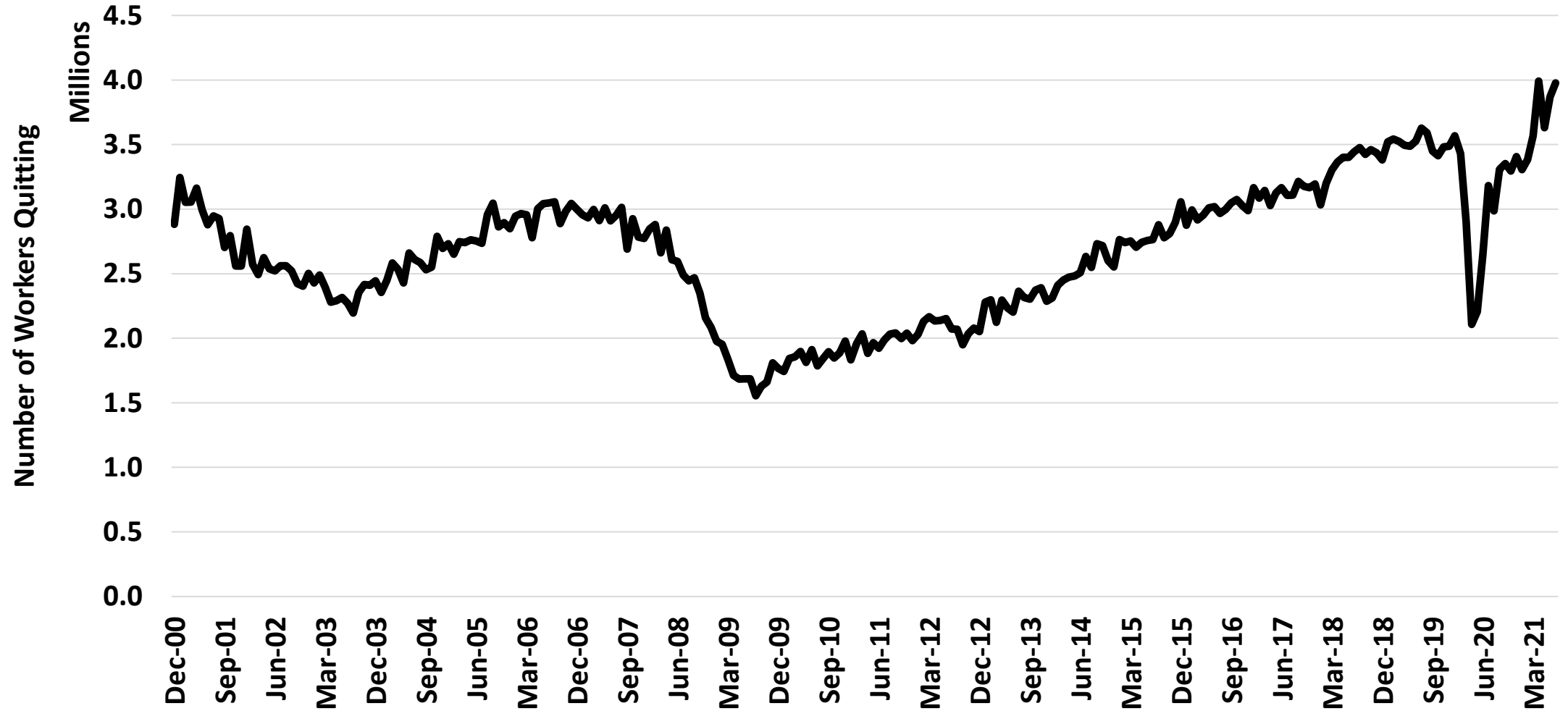


Meanwhile People w/ Jobs Doing the Peter Gibbons

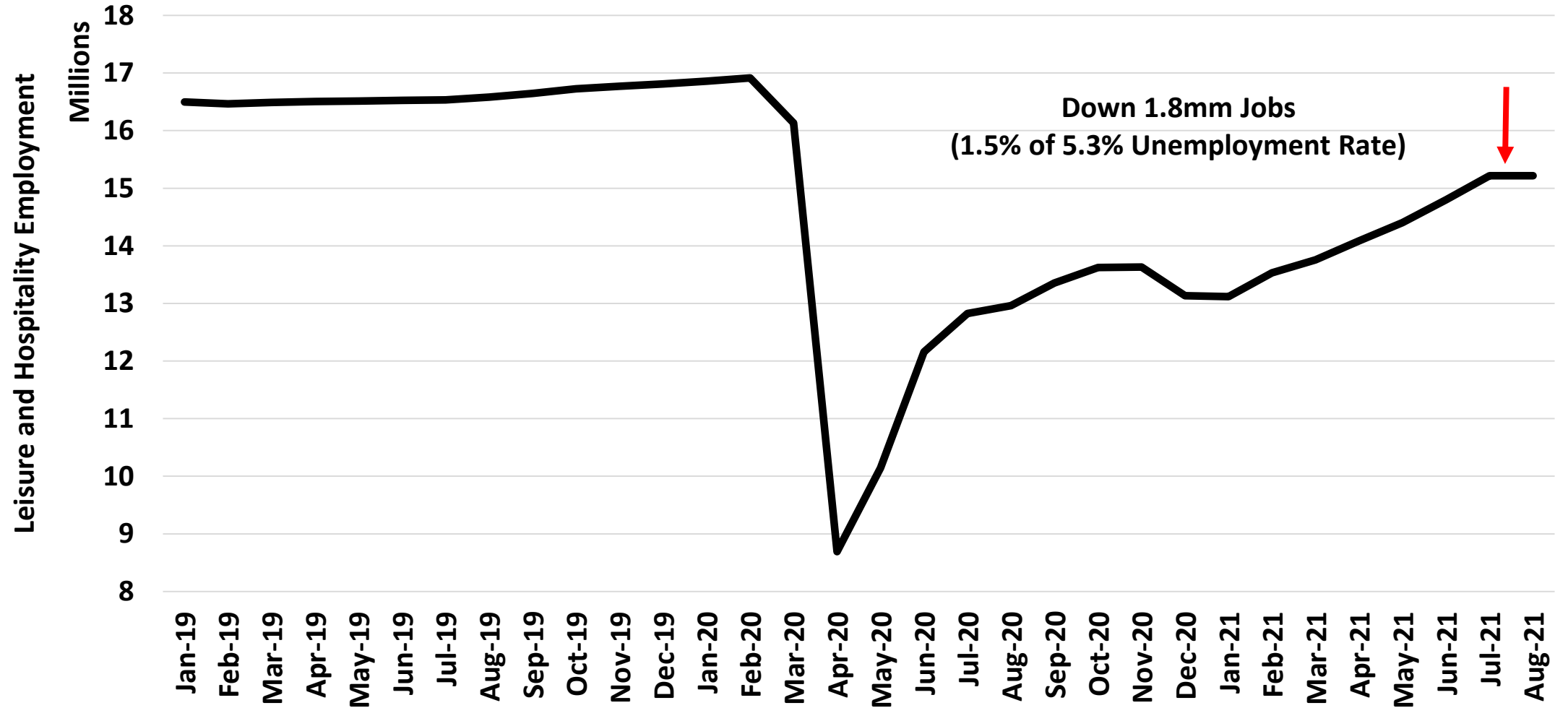
Meanwhile People w/ Jobs Doing the Peter Gibbons



Number of People Quitting



Example: Leisure and Hospitality



If I Could Only Wish for Those 1.8M Jobs



Example: Leisure and Hospitality (Cont.)

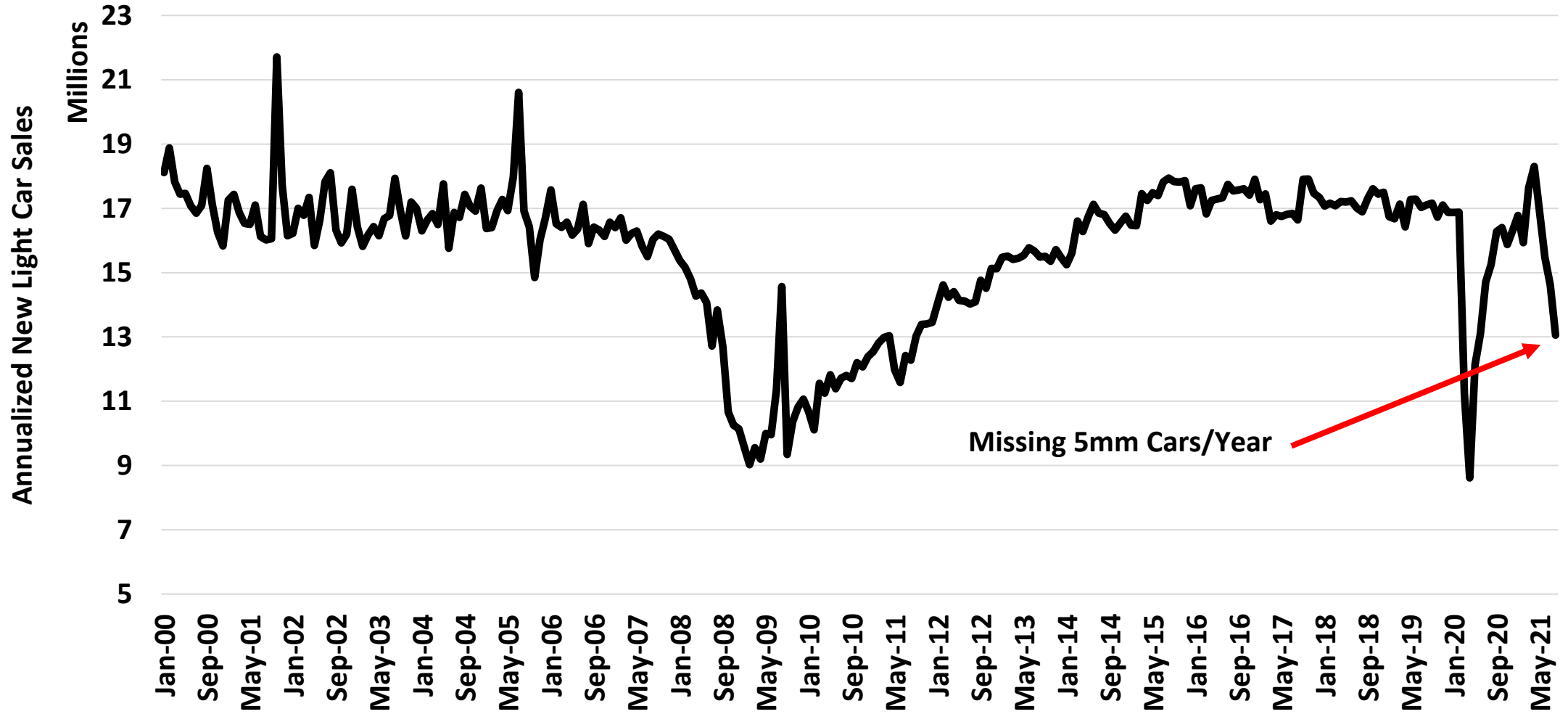


Wait. What?

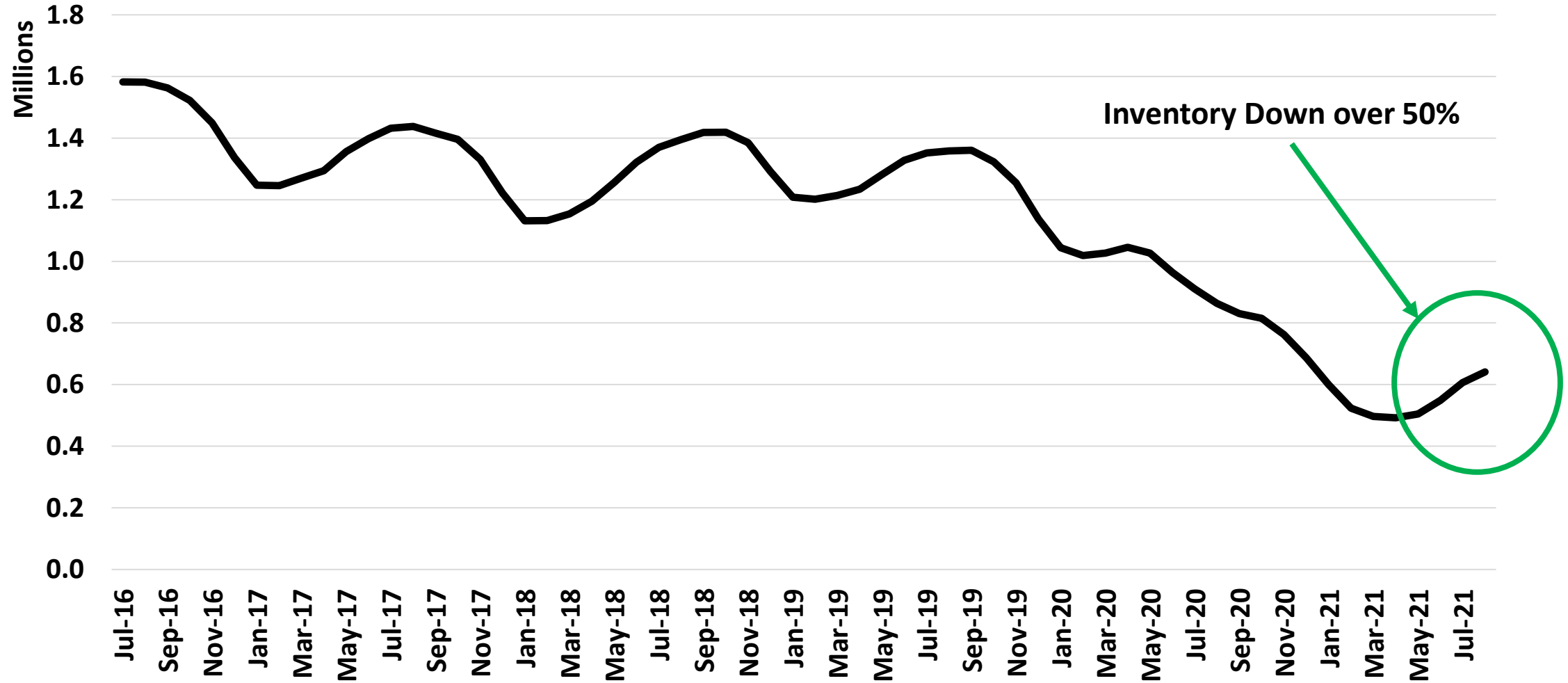
Wait. What?



Where Are the Cars??



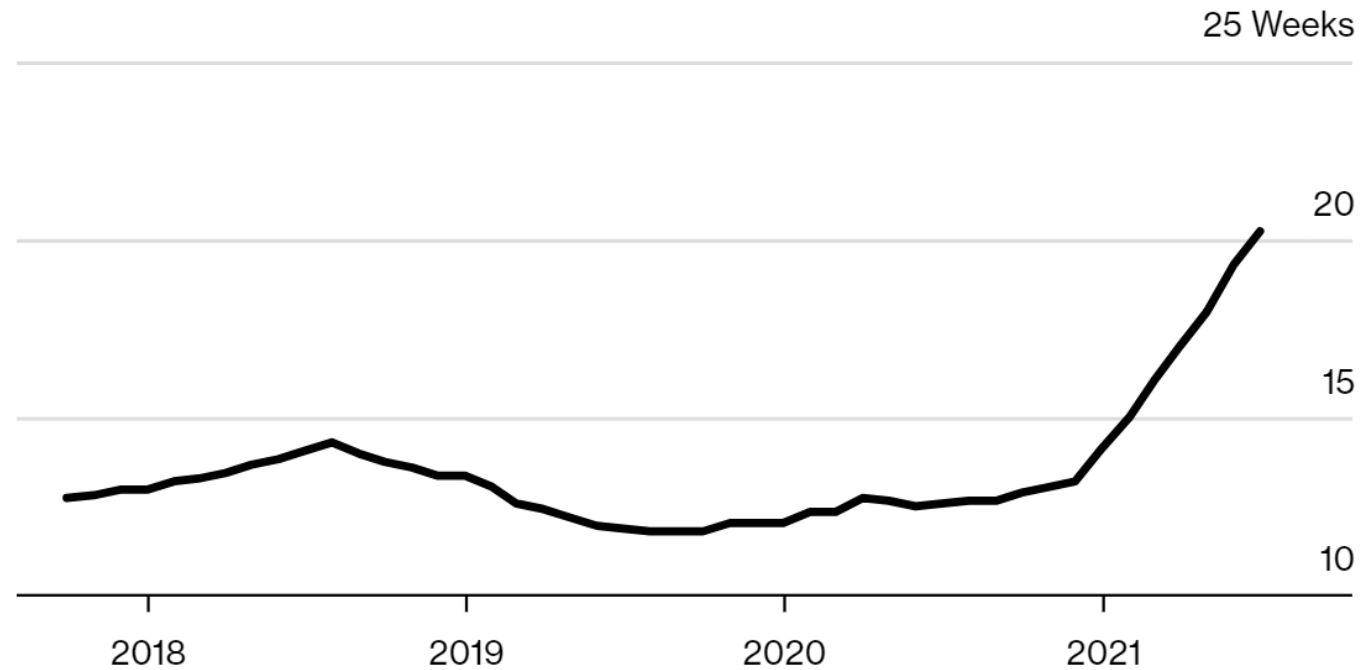
Where Are the Houses?



Where are the Chips?

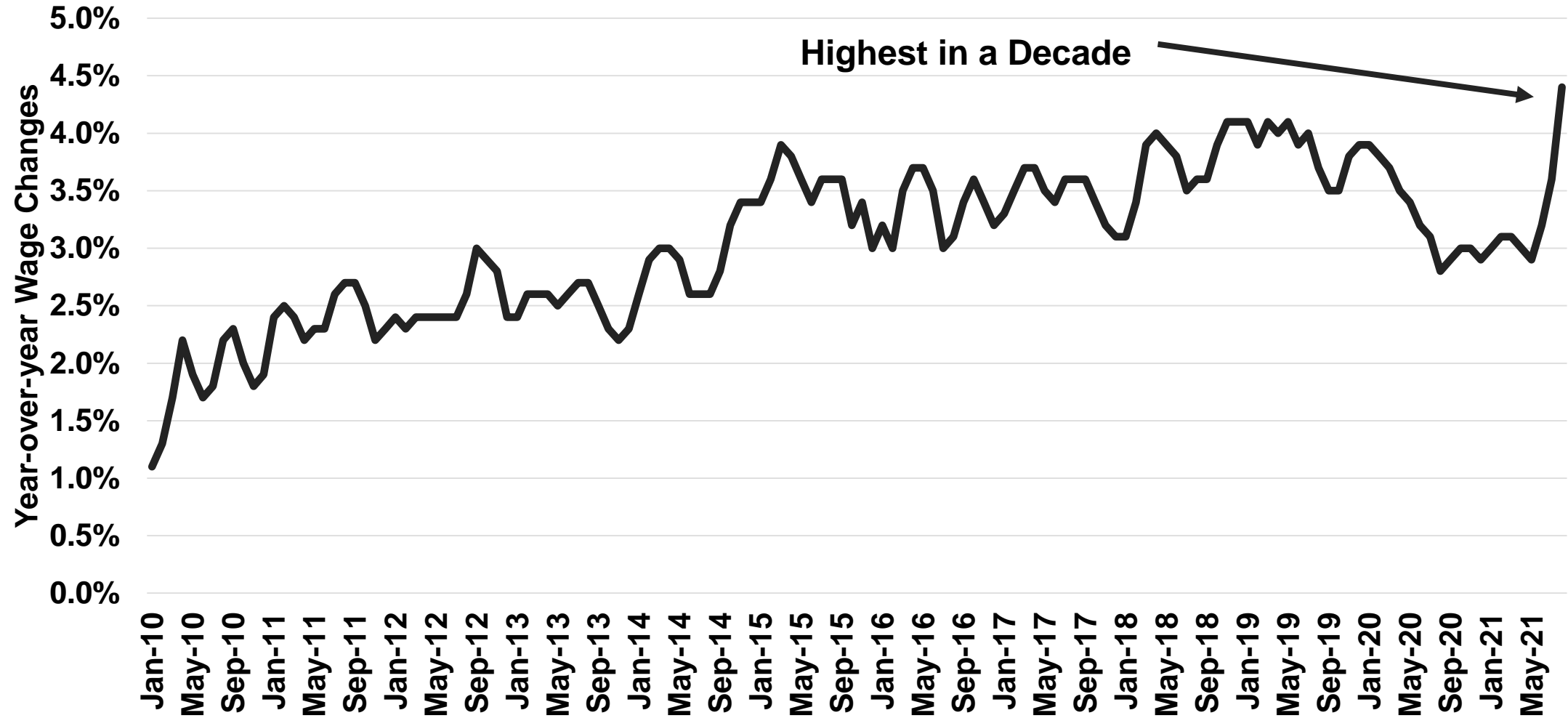
The Long Wait For Chips

The gap between ordering a chip and delivery is still growing

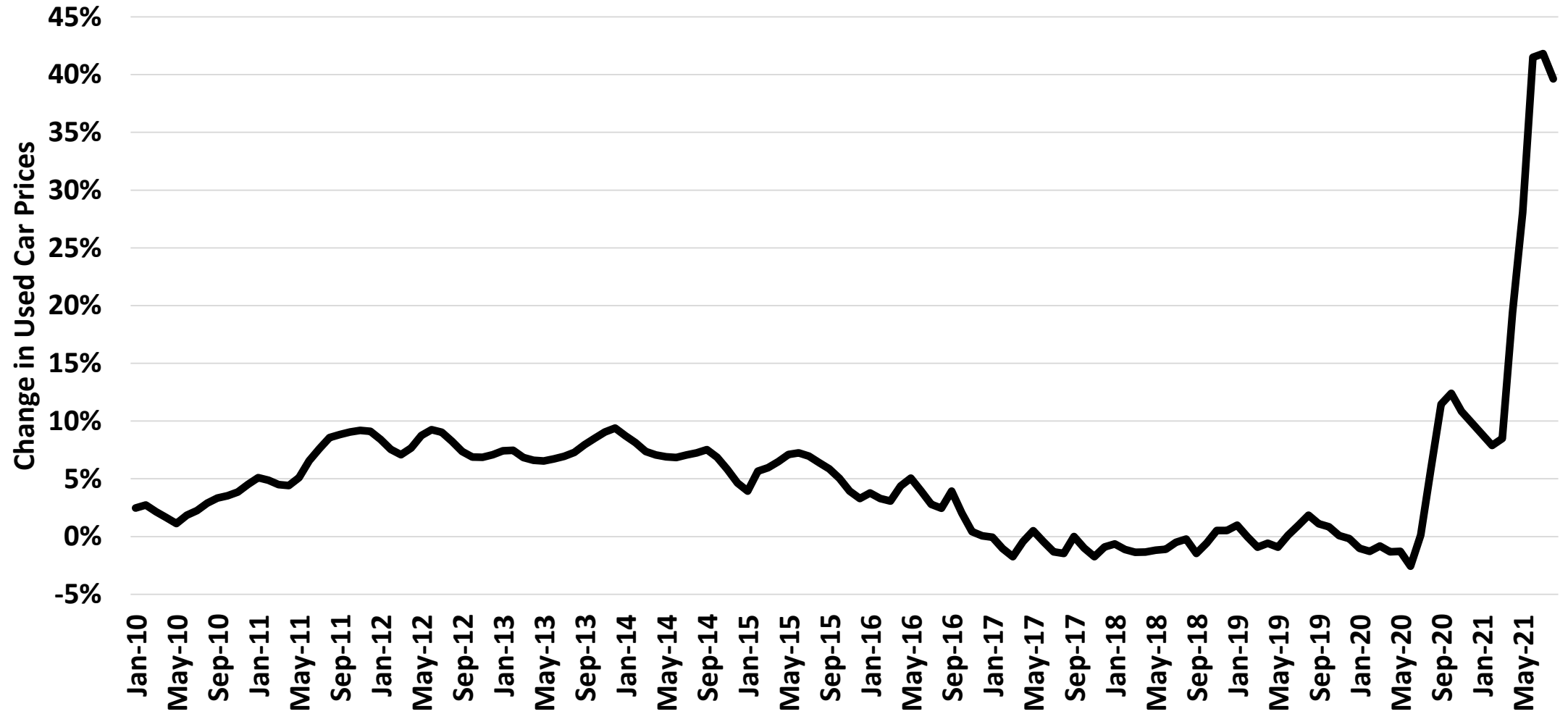


Source: Susquehanna Financial Group

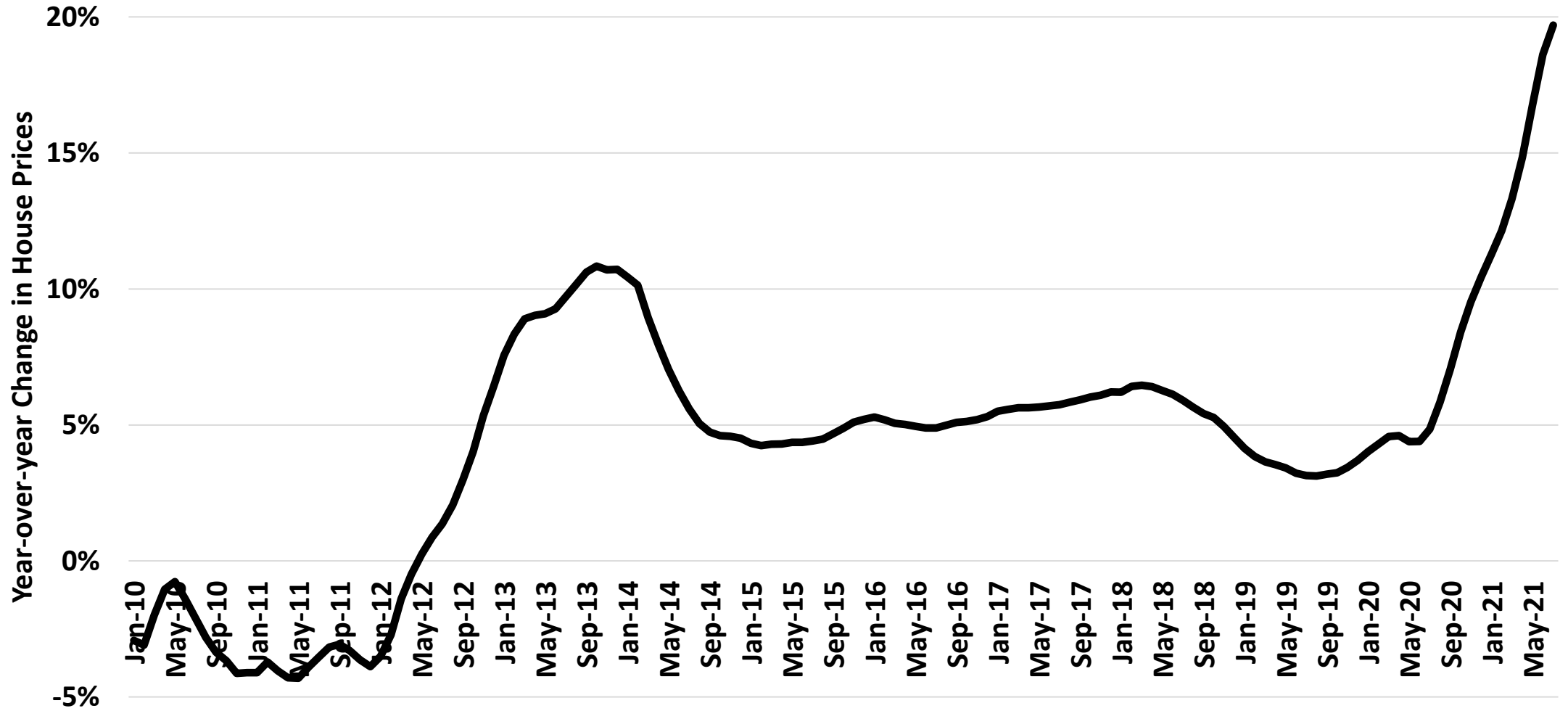
Limited Supply = Inflation



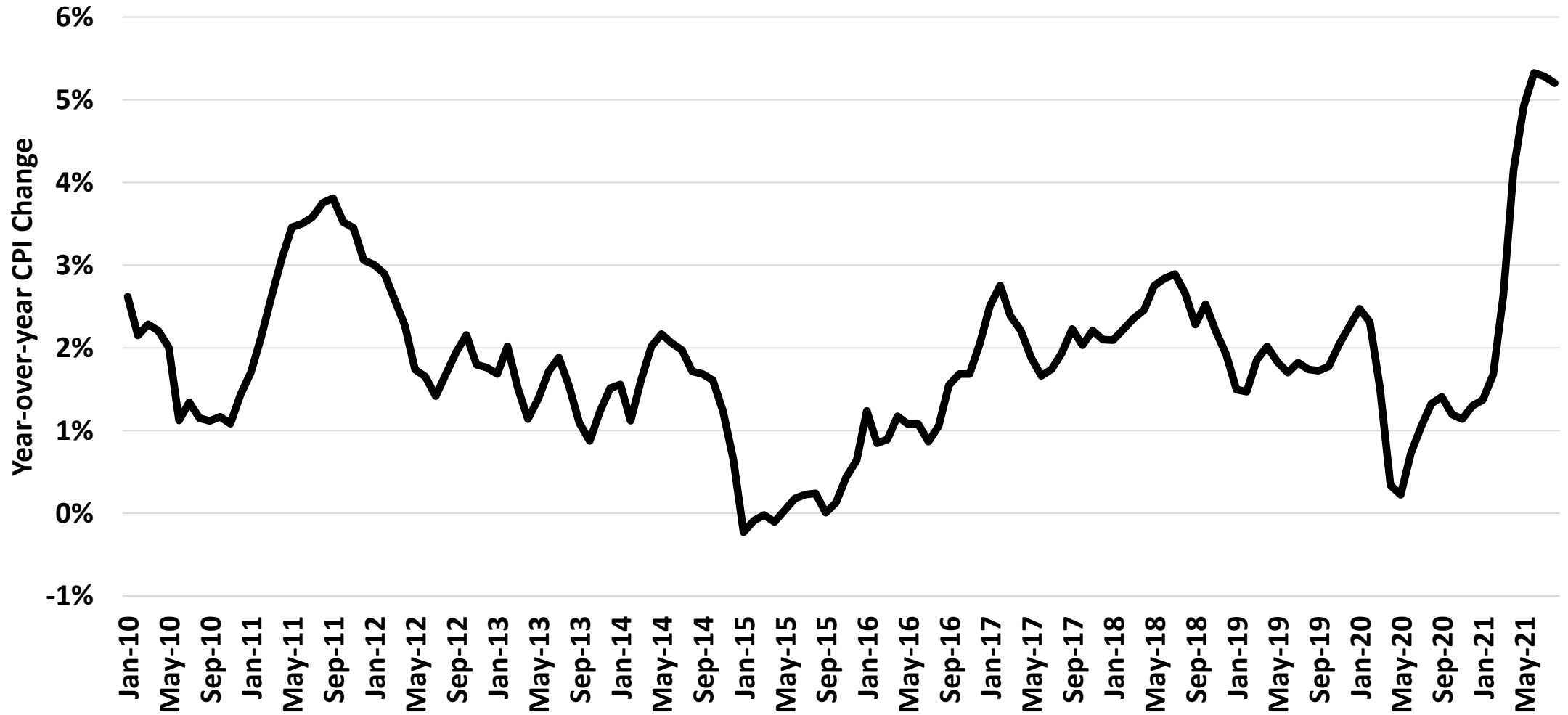
Limited Supply = Inflation (cont.)



Limited Supply = Inflation (cont.)



Overall Inflation



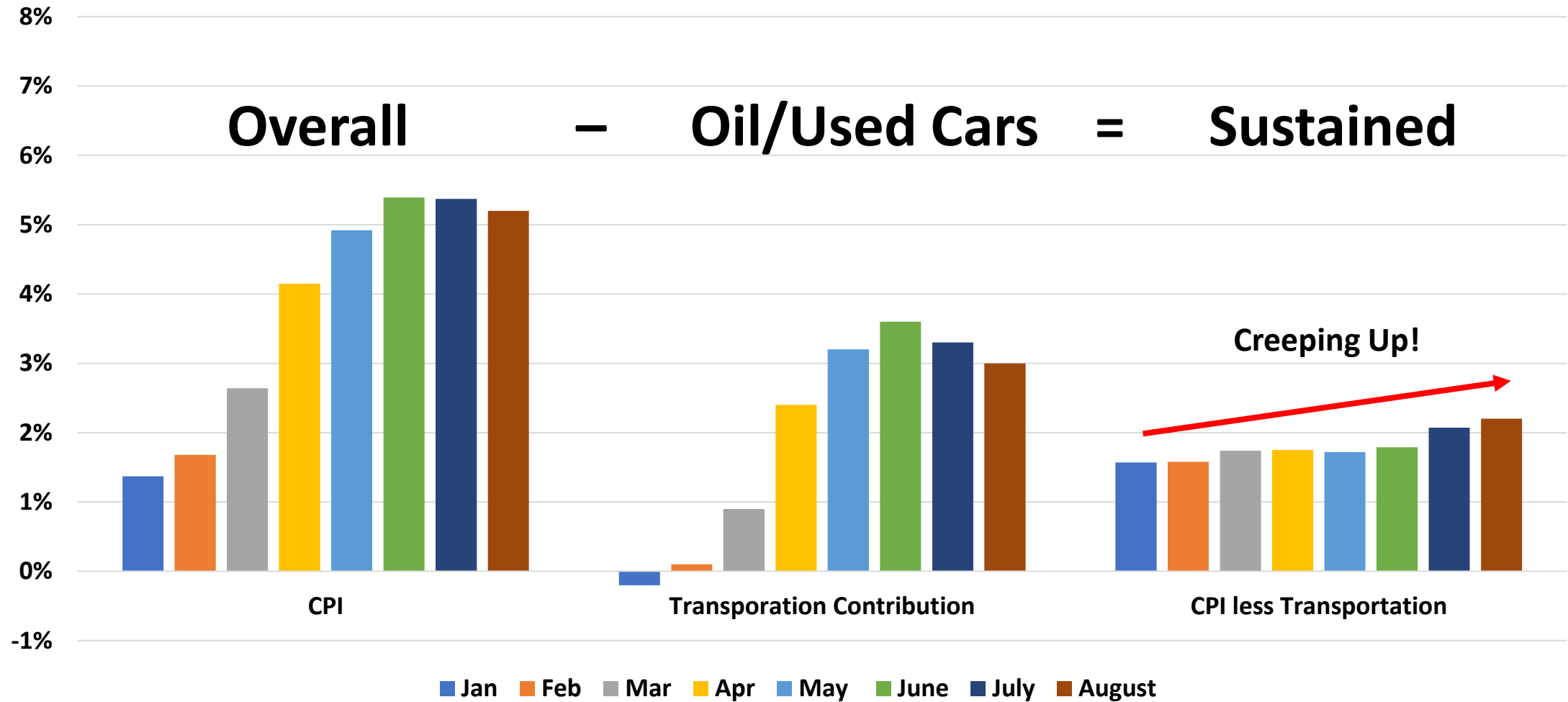
It's Transitory Right?

ECONOMY

Fed Chair Powell to warn Congress that inflation pressures could last longer than expected

PUBLISHED MON, SEP 27 2021•4:55 PM EDT | UPDATED 4 HOURS AGO

Seemed to Be a Few Months Ago

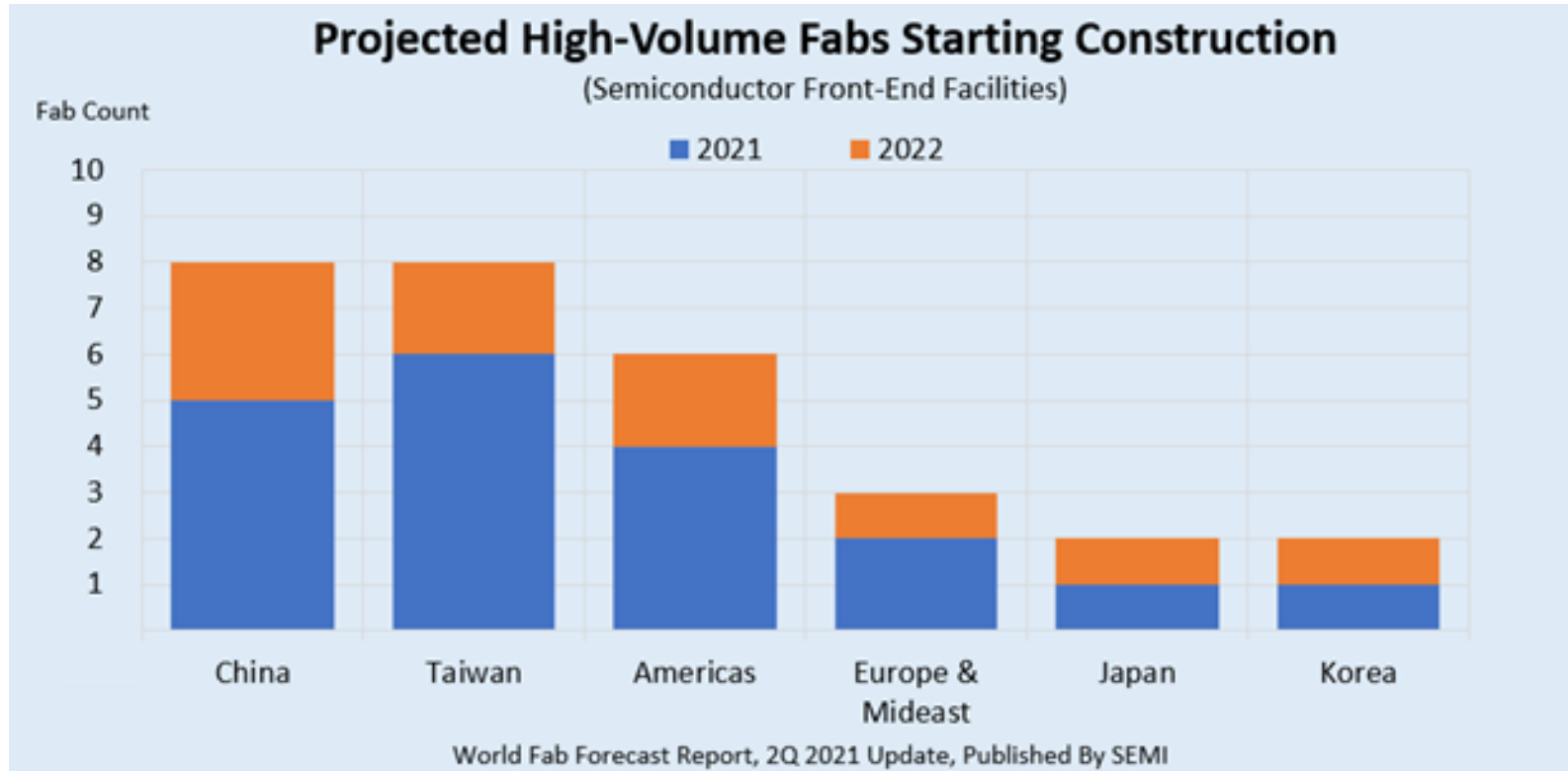


How Long is This Supply Issue Going to Last?

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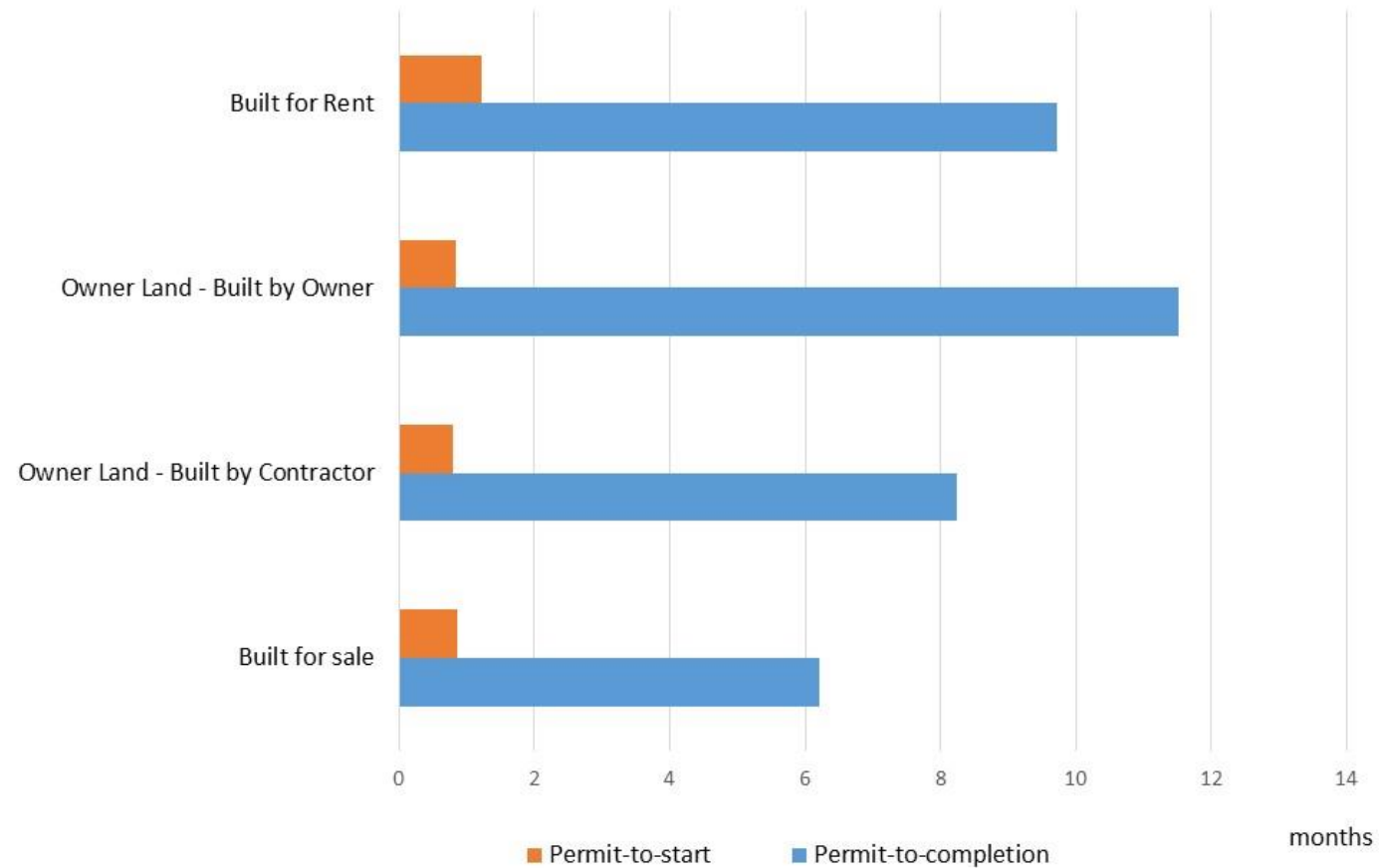
Number of New Fabs



Of the semiconductor makers beginning construction of new fabs this year, many won't start installing equipment until 2023 since it takes up to two years after ground is broken to reach that phase, though some could begin equipping as soon as the first half of next year.

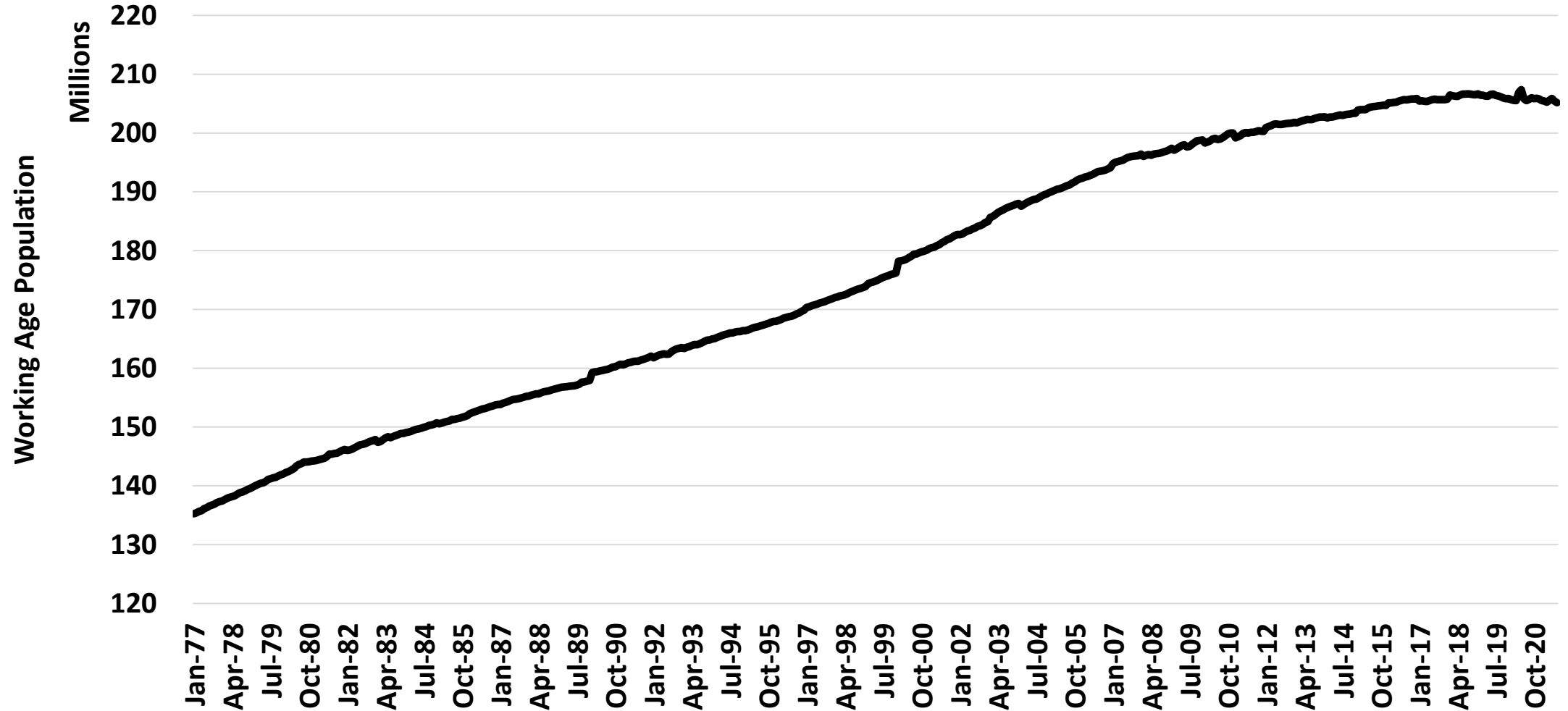
Houses Don't Just Pop Up

How Long Does It Take to Build a Single-family Home?



Source: NAHB tabulation of data from Survey of Construction, 2014

Not Getting Any New People Anytime Soon



Supply Issues Bottom Line

Global Supply Chain

+

Just in Time Inventory

+

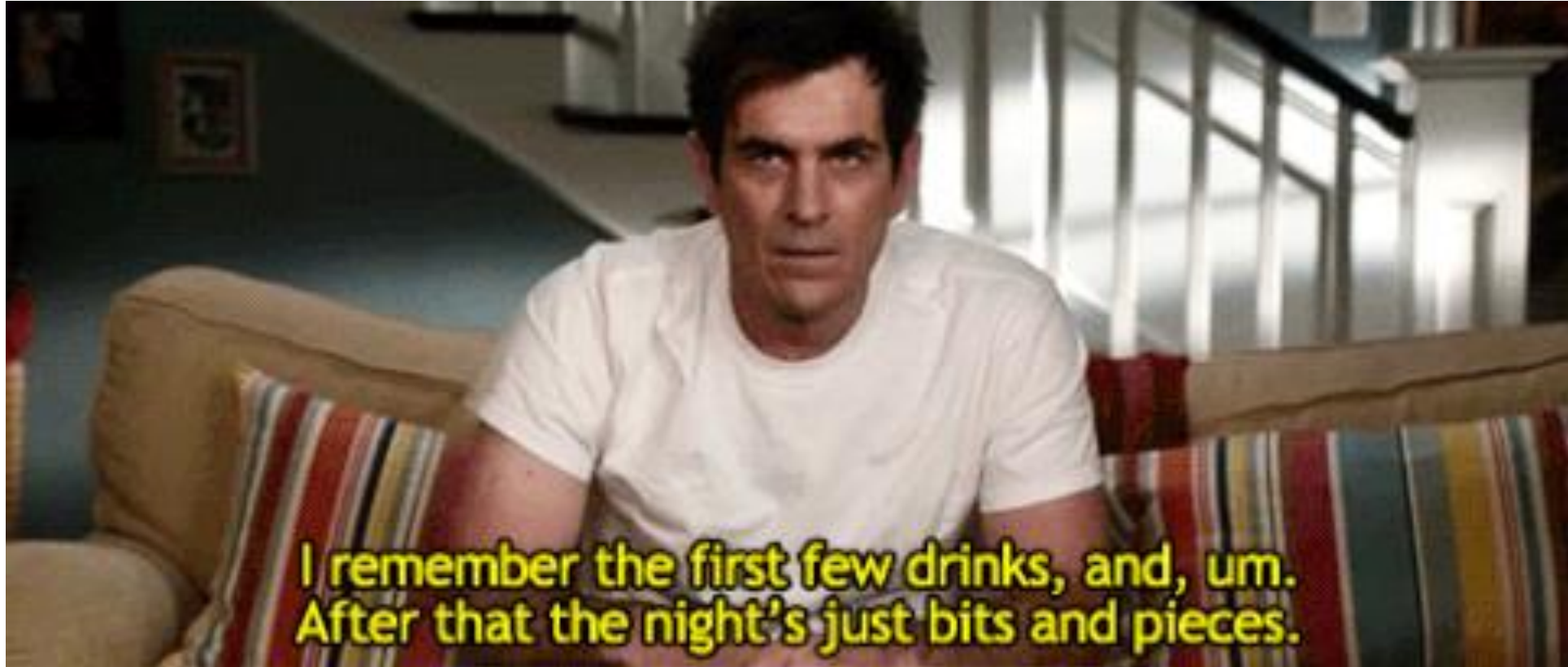
COVID

=

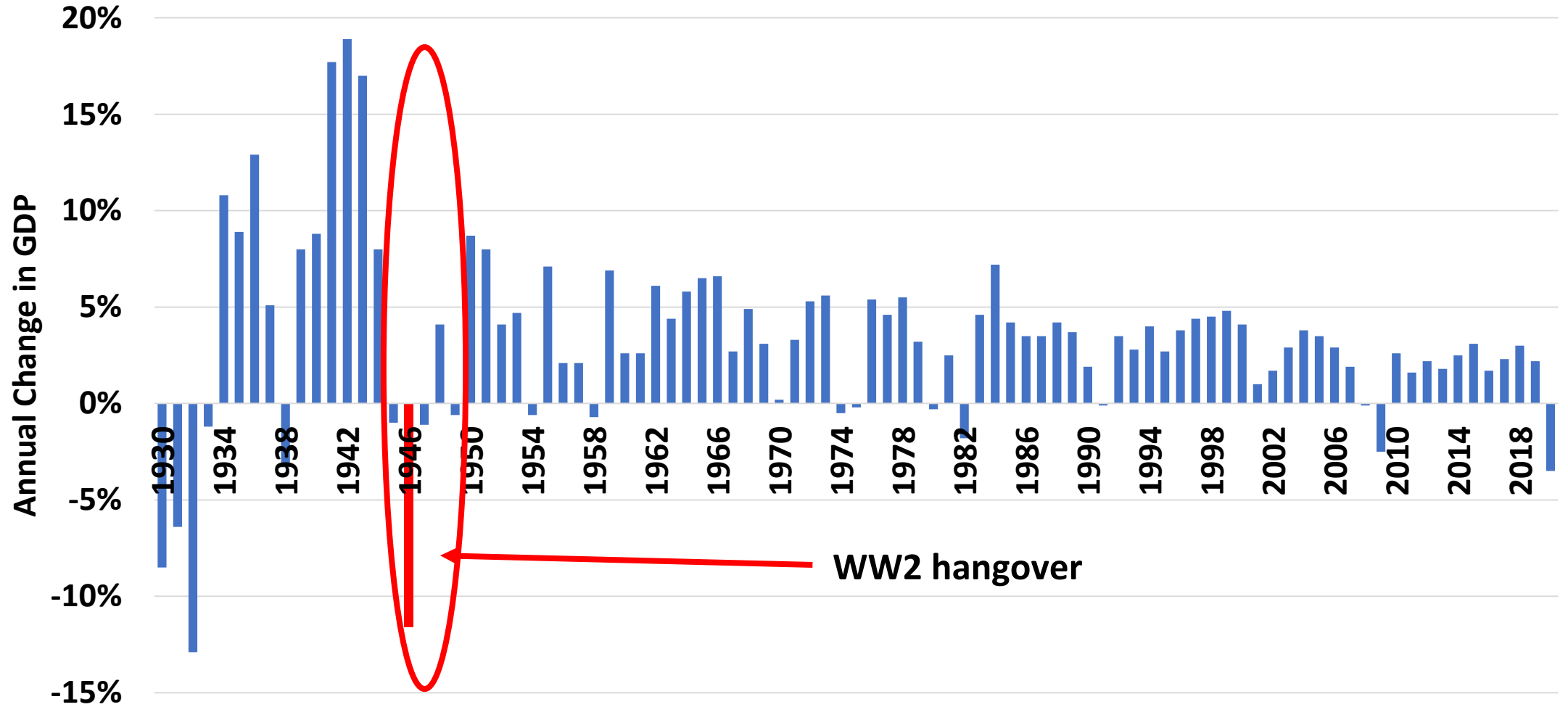
Huge Problems

What about this Fiscal Hangover Thing

What about this Fiscal Hangover Thing



Past Hangover



Economy Summary

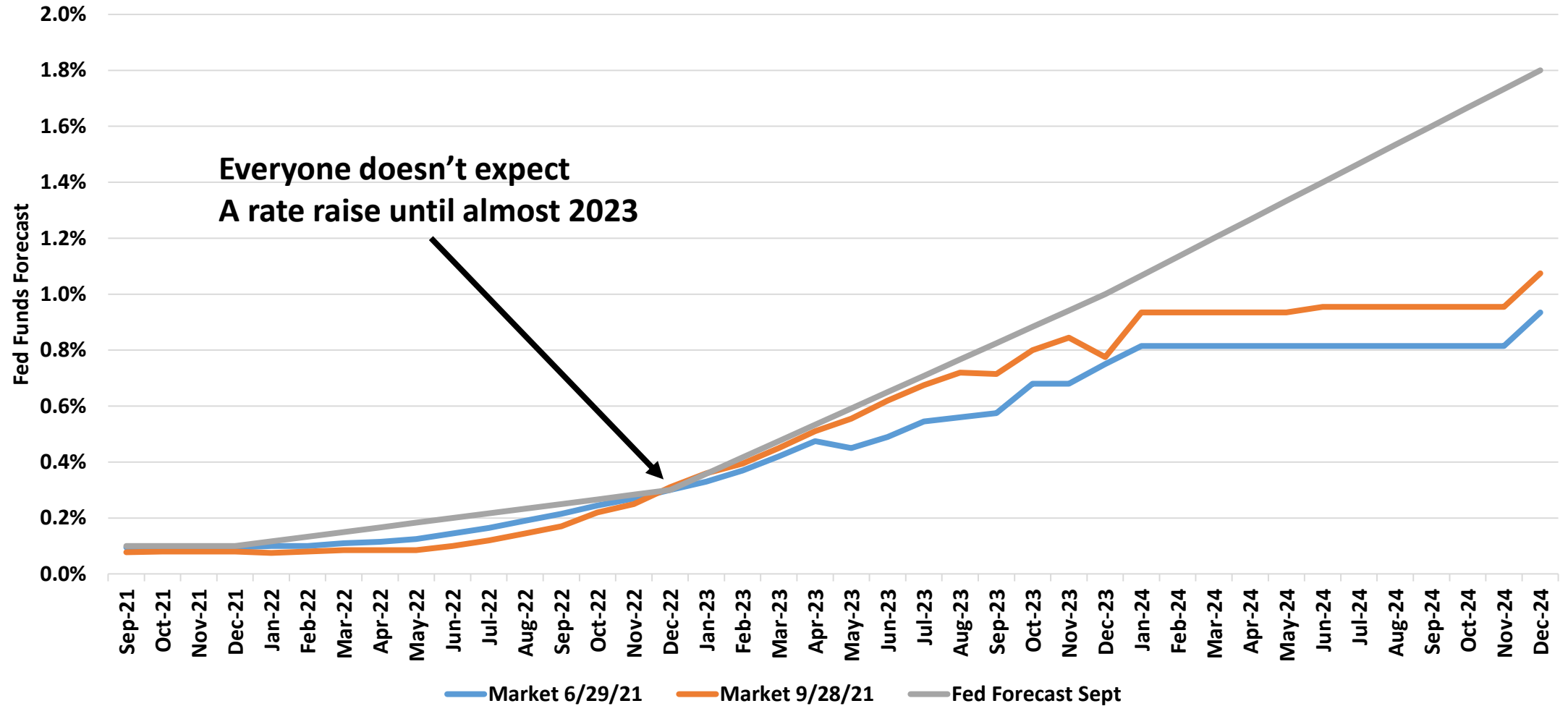
- 2022 will be a growth year for the economy
- However, supply issues will drag down growth
- Unfortunately many of these issue will take time to resolve
- ... and my guess is will lead to a glut of supply in 2023/24

So What about the Fed? Powell Many Days

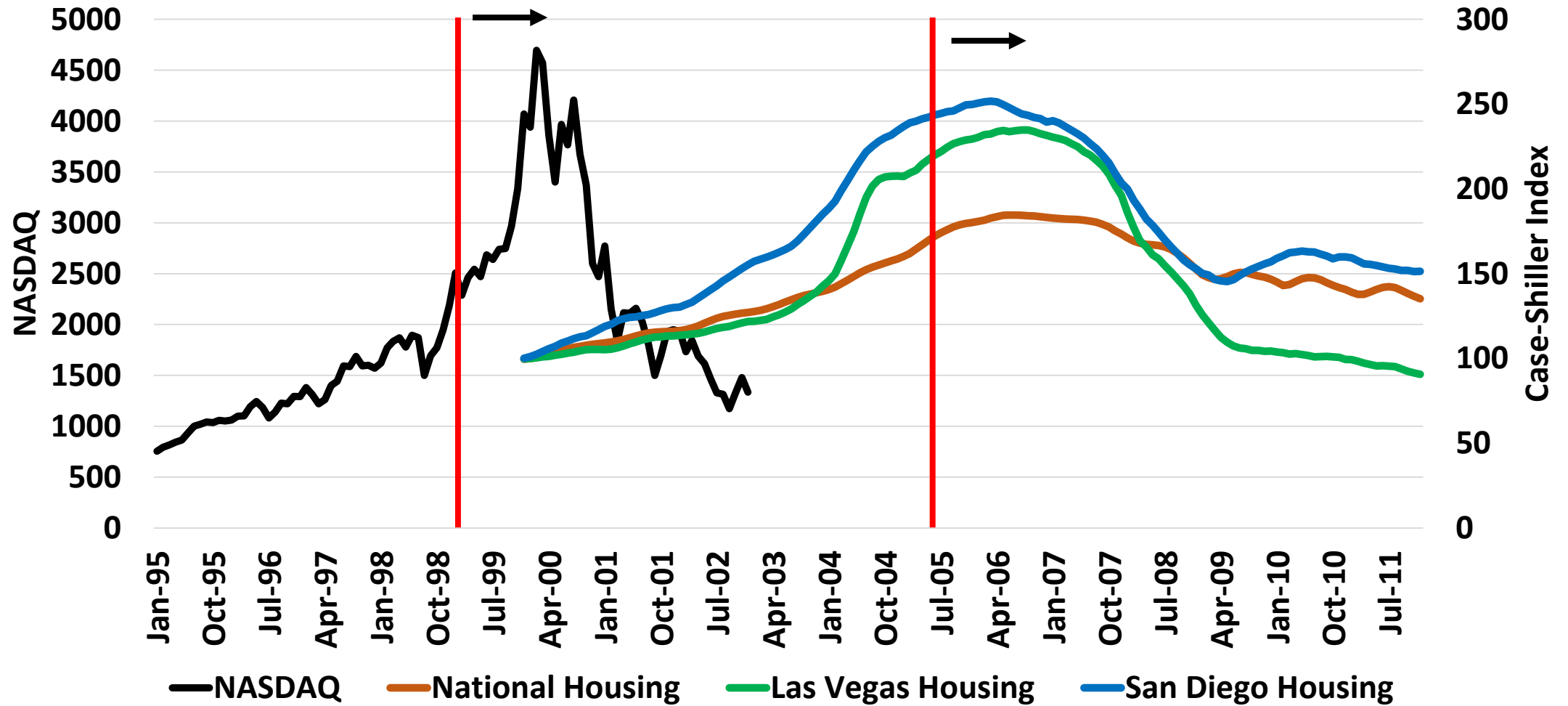
So What about the Fed? Powell Many Days



Fed Funds Forecast



Fed Impact is Usually Very Delayed



So Unless Something Radical Happens

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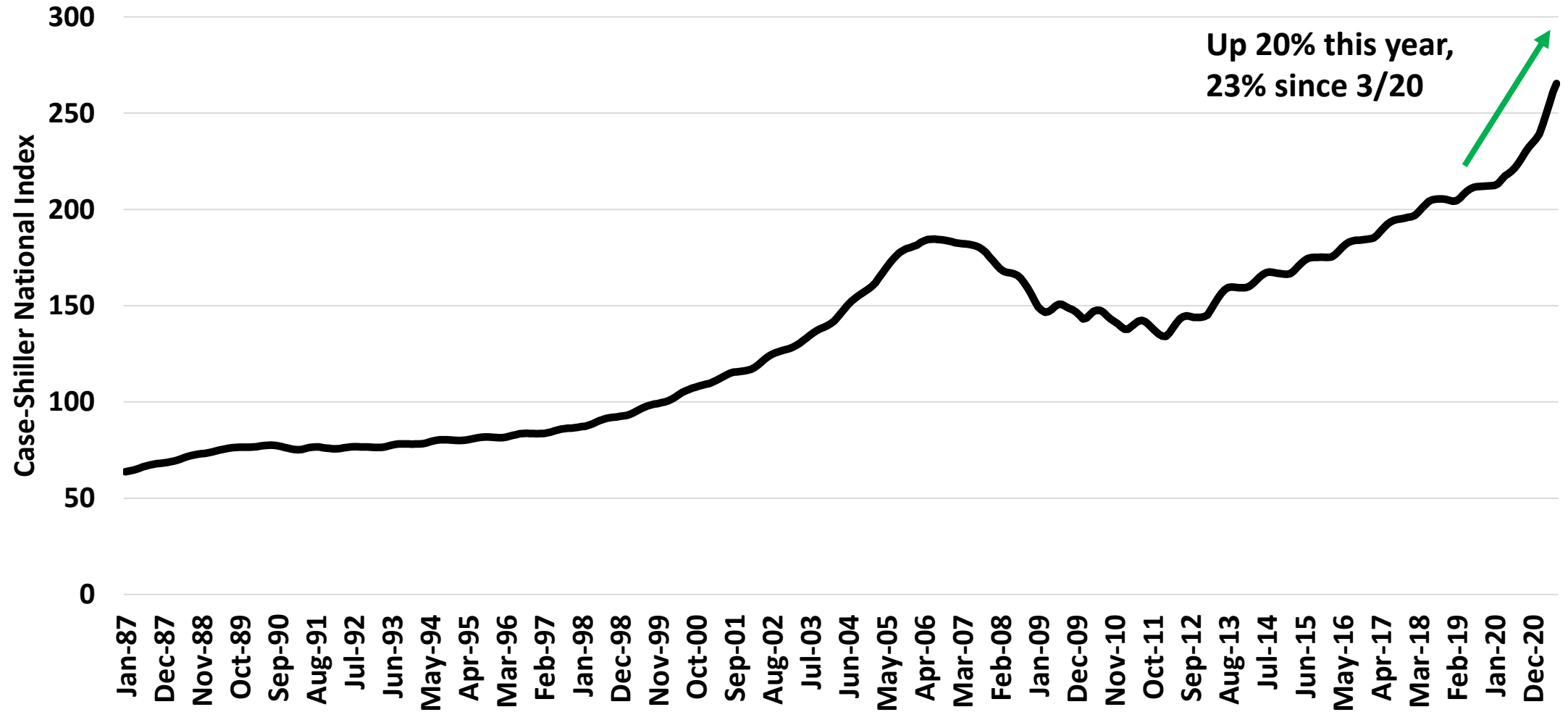


Watching CNBC is Like Streaming Top Gun

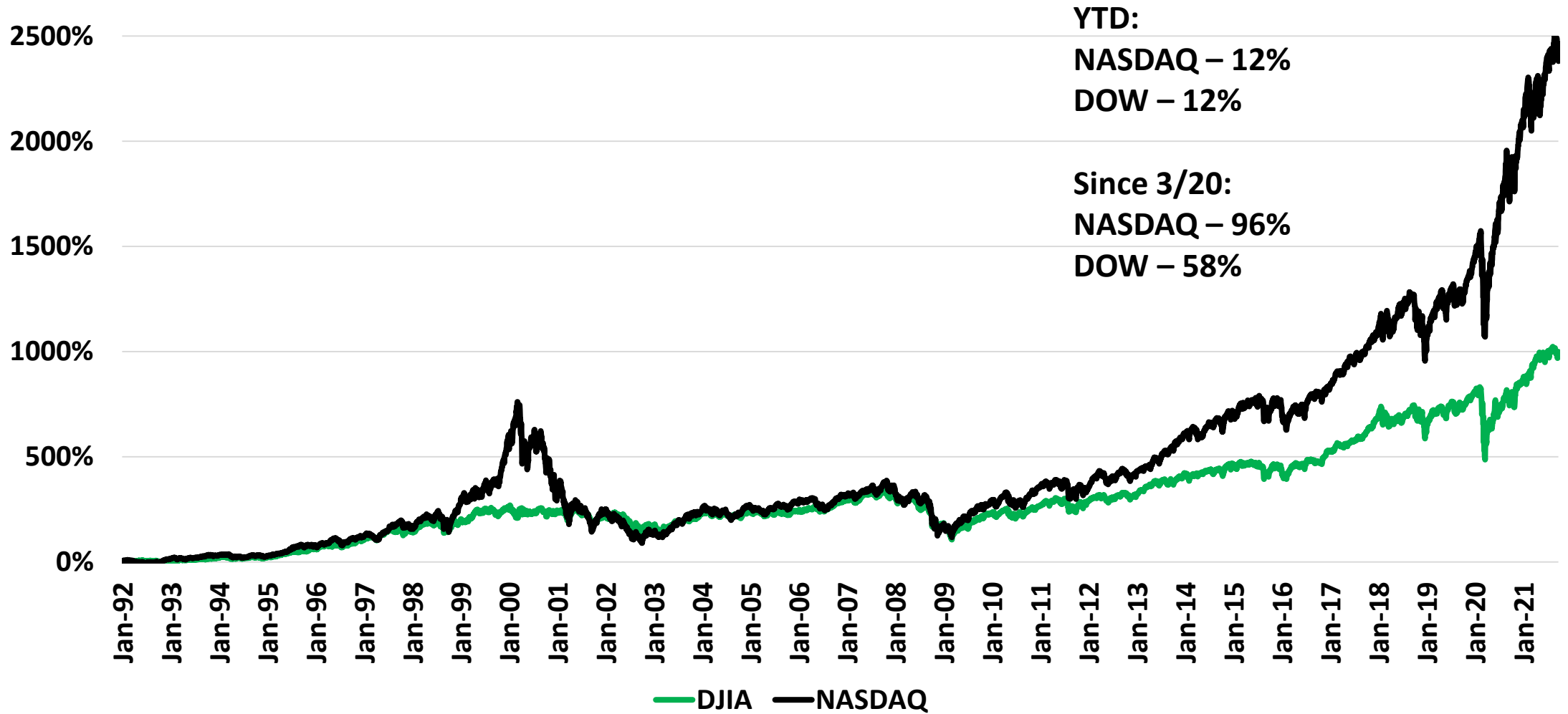
Watching CNBC is Like Streaming Top Gun



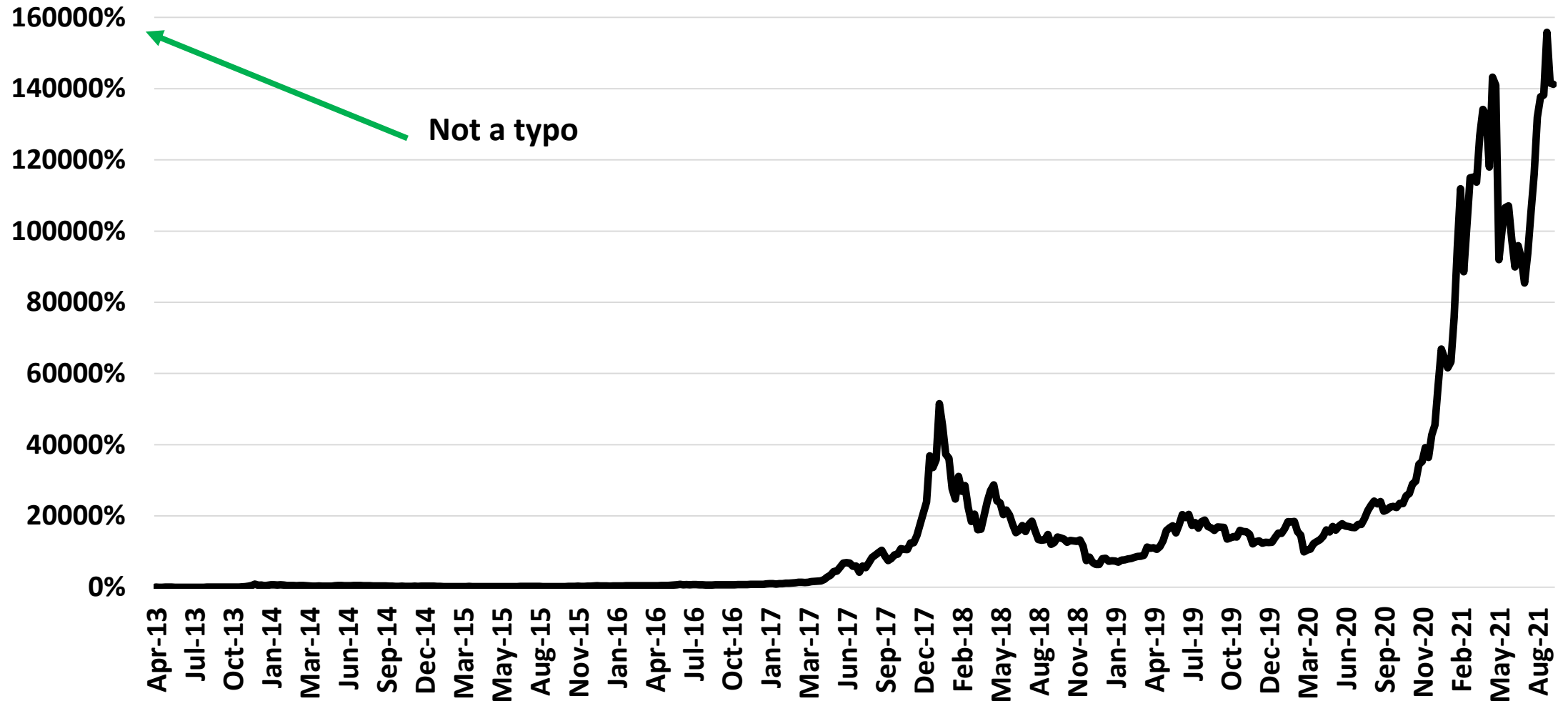
Residential RE is Insane



NASDAQ is Insane



Crypto is, well, INSANE



NFTs aren't even Insane. Should be Institutionalized

NFT bubble: The craziest nonfungible token sales so far

Someone paid over \$400 for a 52-minute recording of farts.



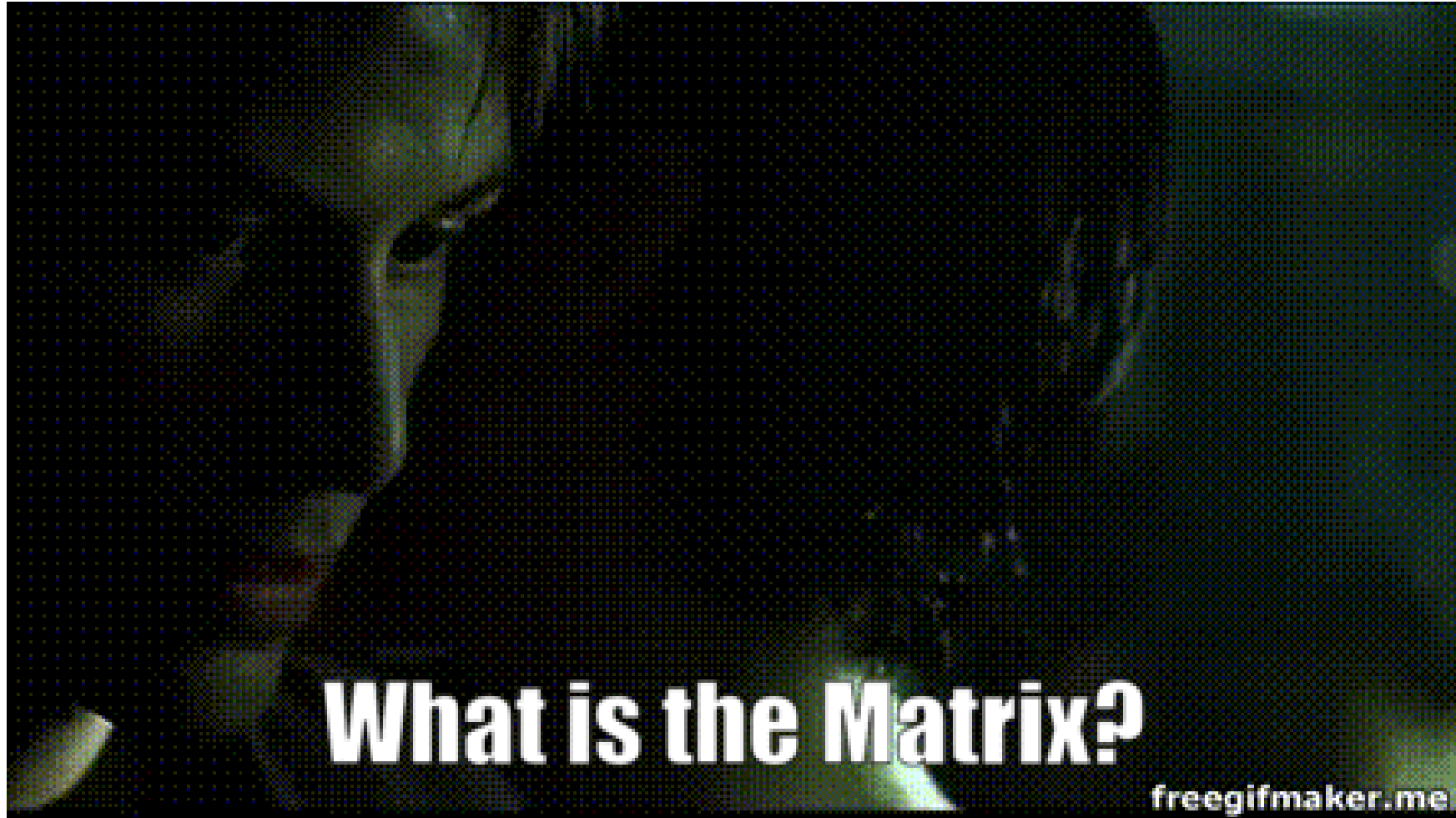
Daniel Van Boom  March 22, 2021 4:47 p.m. PT

 LISTEN - 05:54

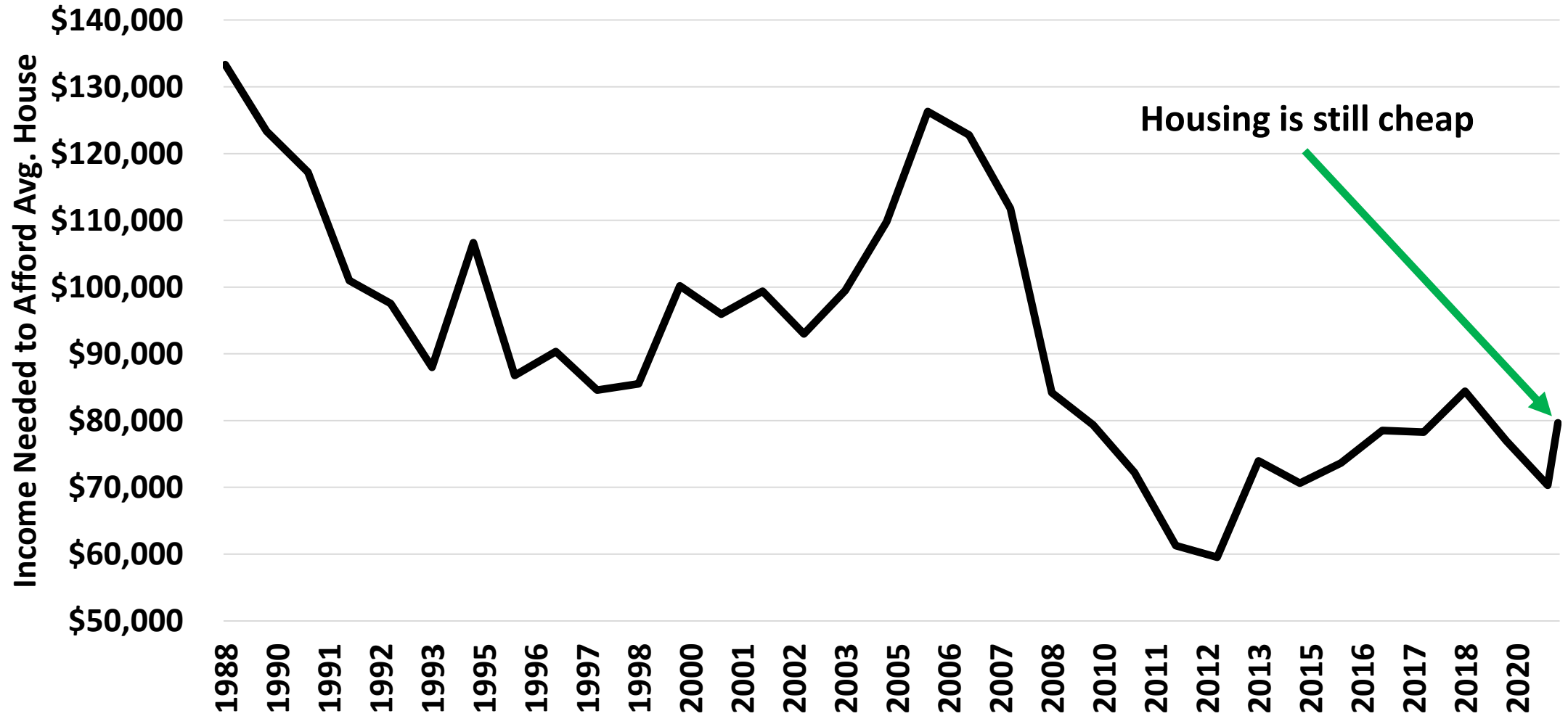


I've Had To Starting Asking My Self the Question

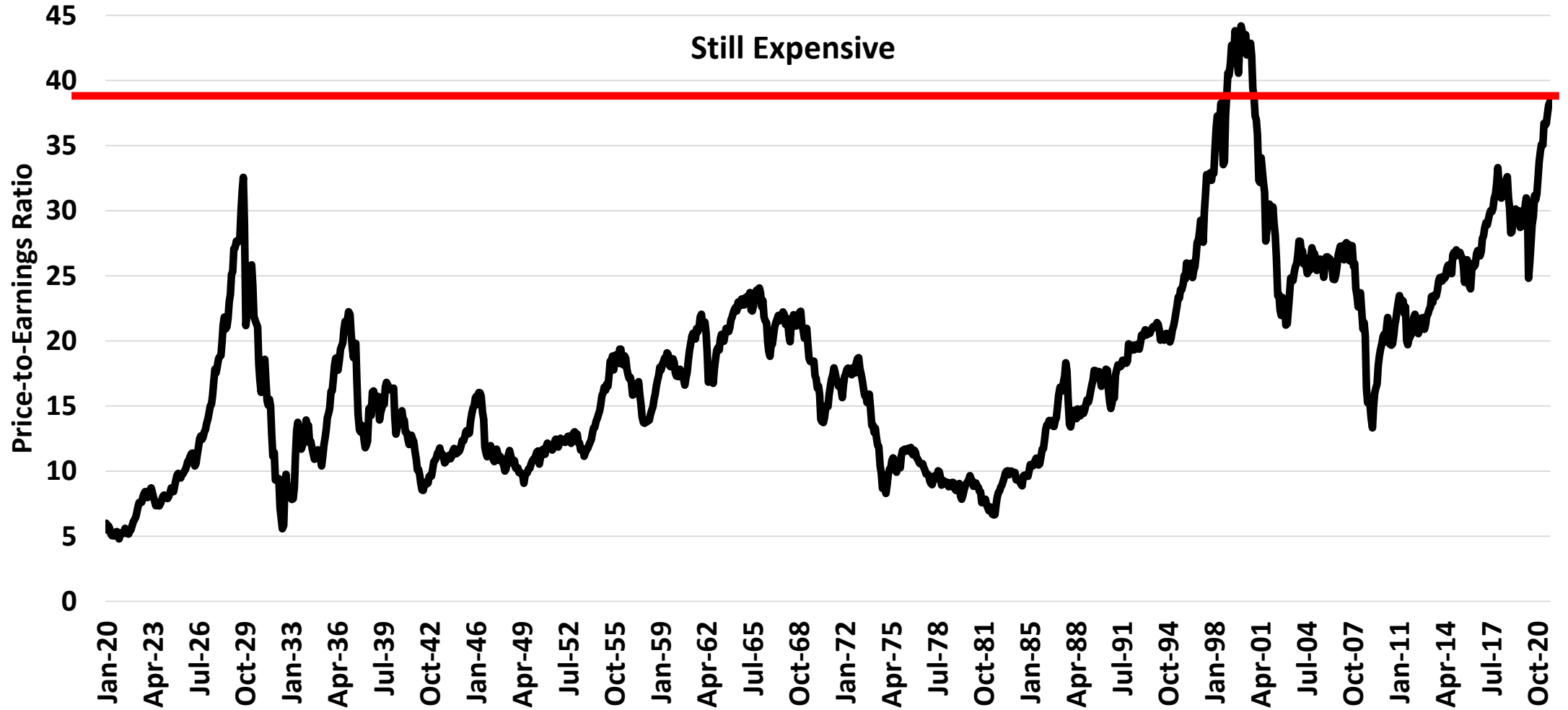
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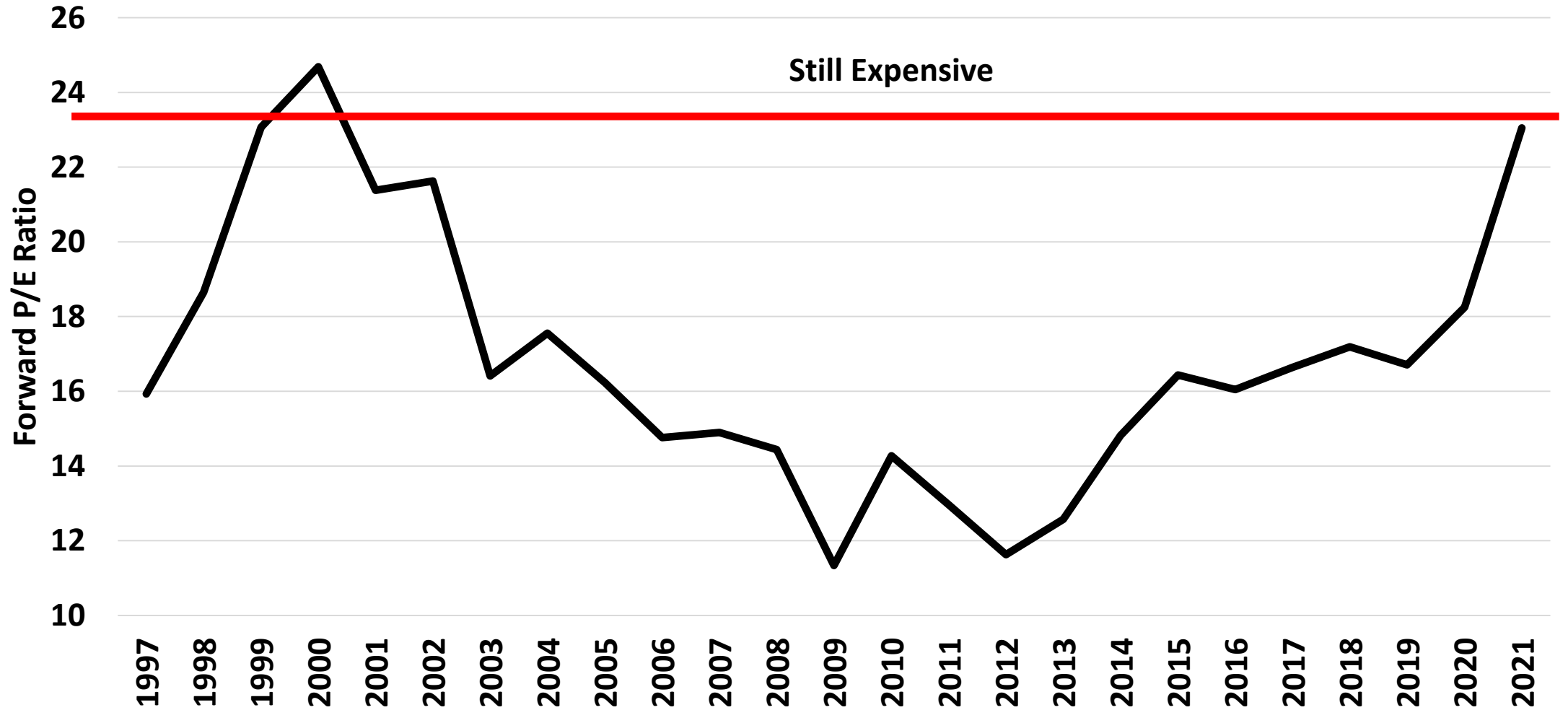
Expensive != Bubble: Home Affordability



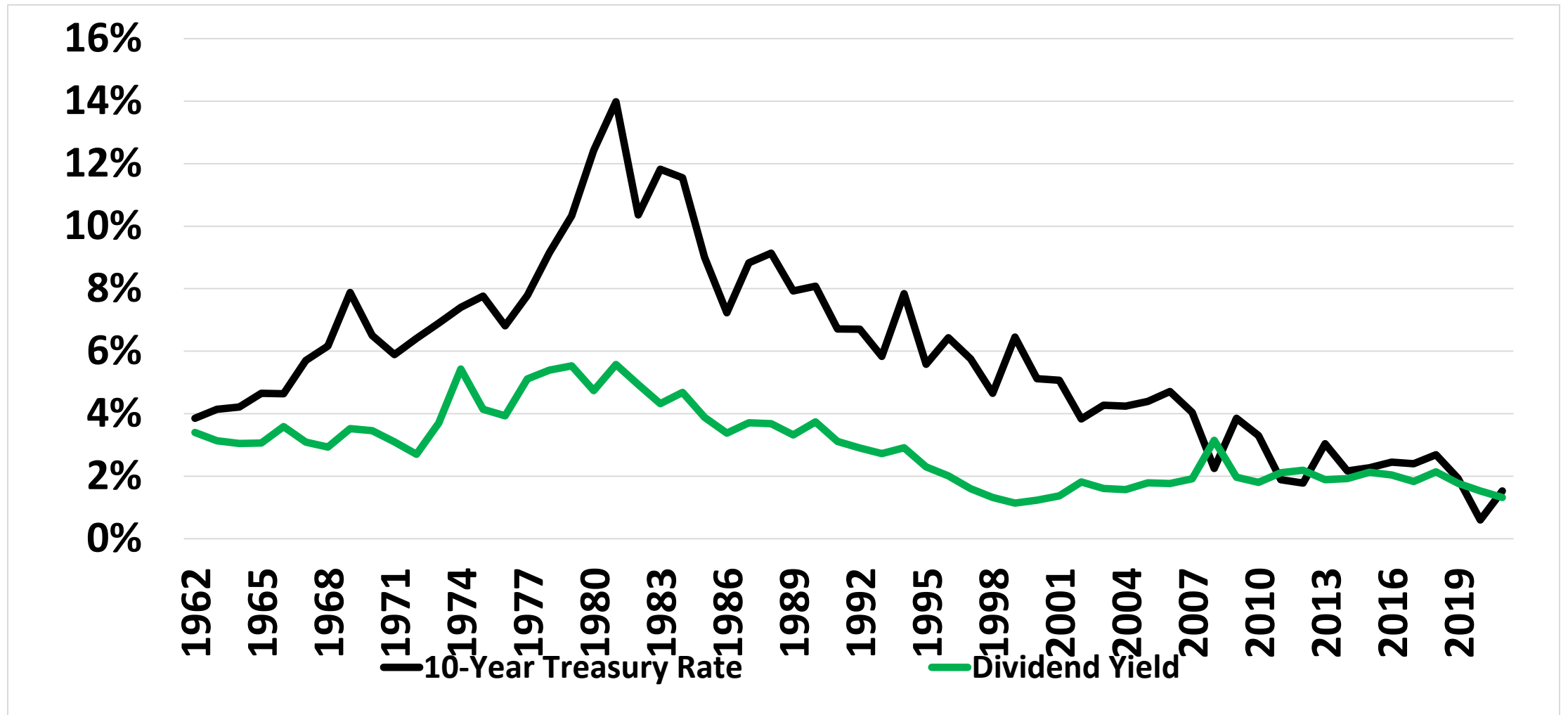
S&P 500 P/E Ratio



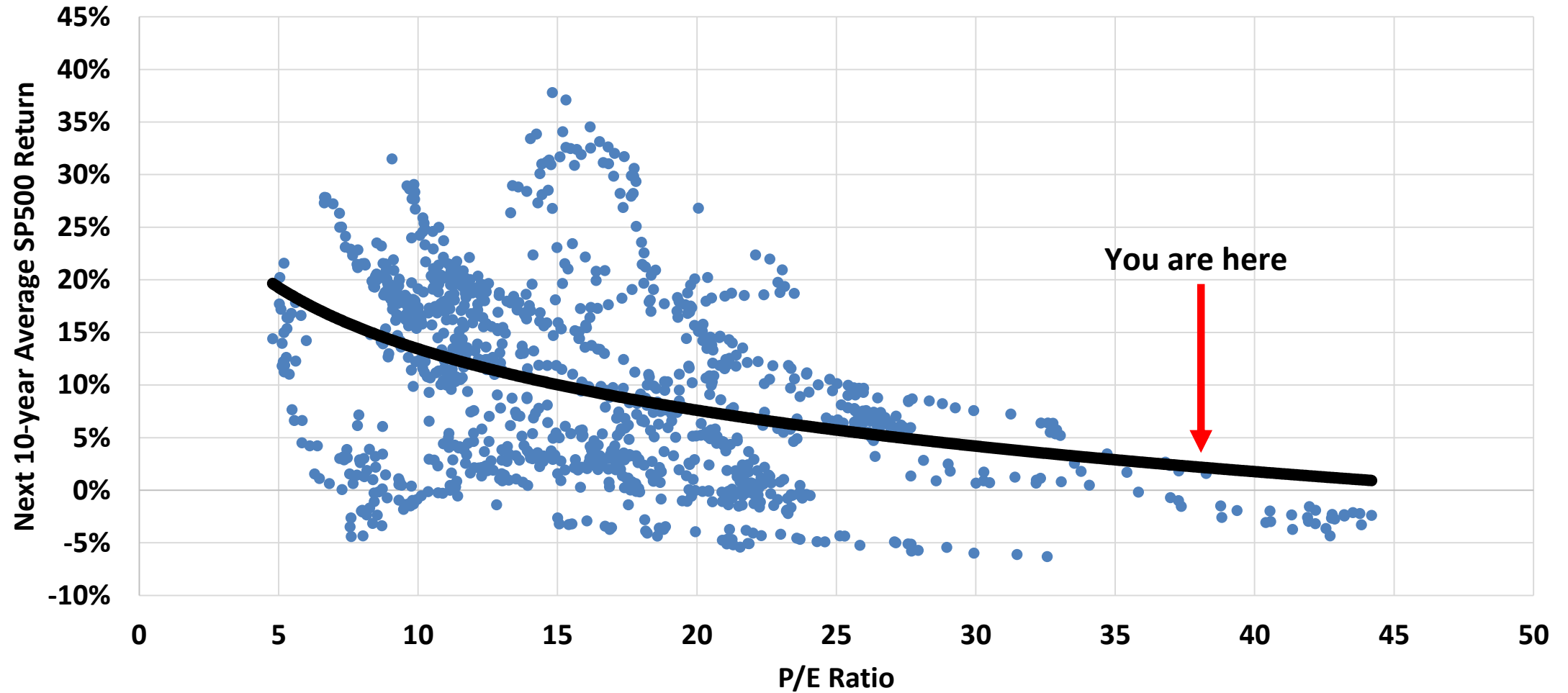
S&P 500 Forward P/E Ratio



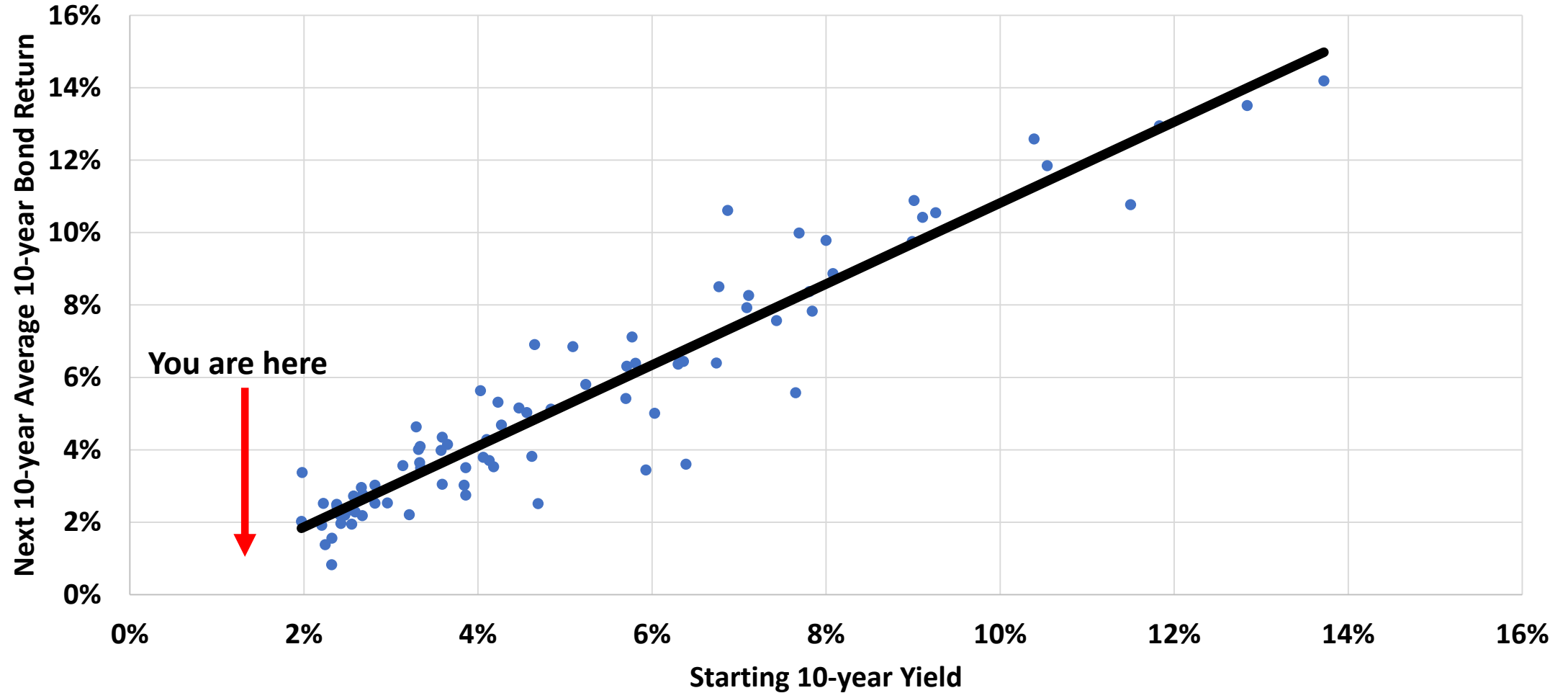
Expensive != Bubble: Interest Rates vs. SP500



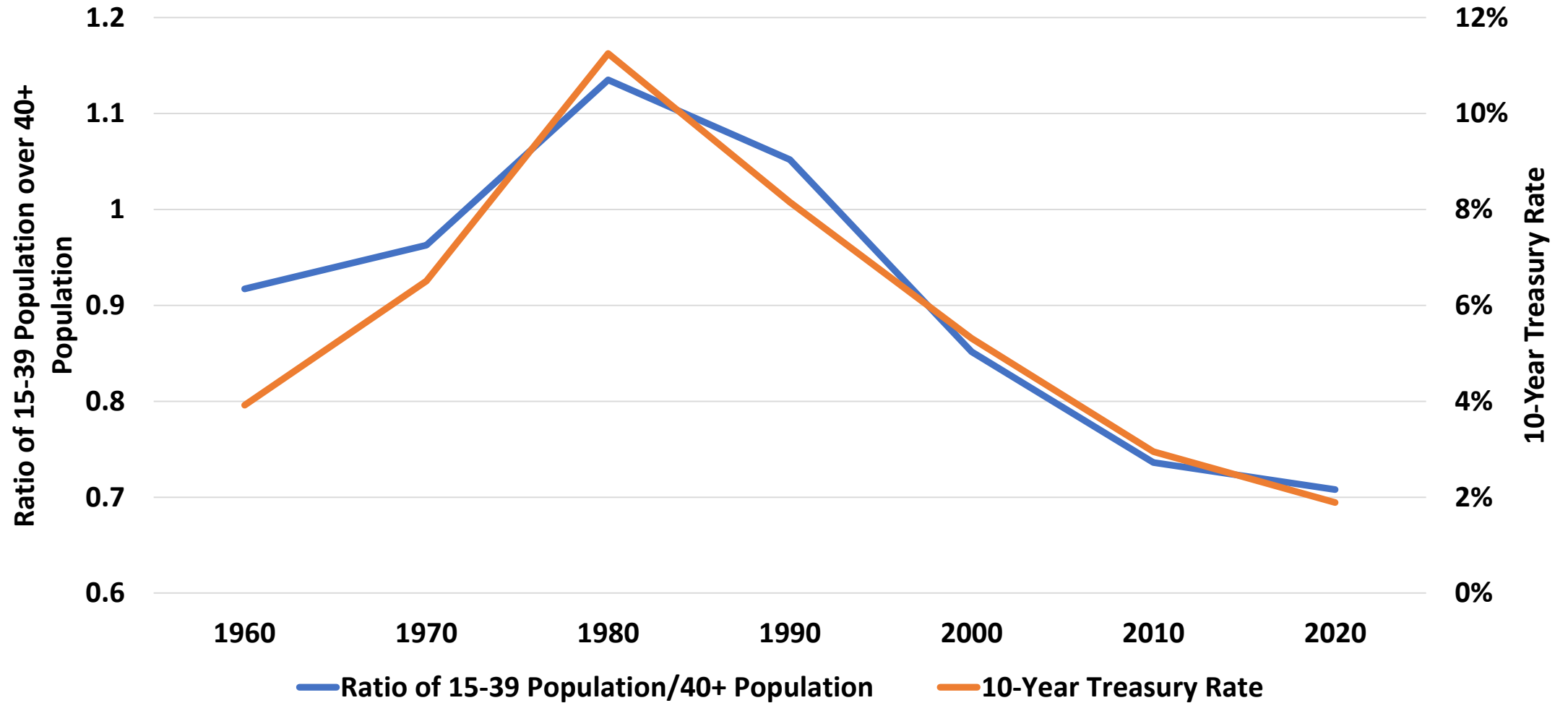
Expensive Does Mean Low Returns



Expensive Does Mean Low Returns (cont.)



By the Way, Low Rates Aren't Due to the Fed



Conclusions

- Economy will have a good year (2.5% – 3%)
- Supply will be the limiting factor
- Likely to have some “mean reversion” in financial markets this year
- Housing will be ridiculous until more homes for sale
- Asset returns on balance will be low next 10-years