HUDOCK CAPITAL GROUP, LLC

WEALTH PARTNERS WITH PURPOSE®

# Hudock Capital Group Newsletter

Issue 26
November 2021

*Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.*
*~Hudock Capital*

## Inside this Issue



## Economic Commentary

### *Five Things You Should Know About Q3*

**1. Covid Delta Variant Triggers Growth Concerns**
In July, global growth concerns resurfaced as the Covid Delta variant spread rapidly around the world, threatening the pace of the global economic recovery.

**2. China Growth Slows**
The Chinese economy demonstrably slowed in Q3, adding to global growth fears and causing emerging stocks to underperform.

**3. Fed Tightening Fears Fade**
As growth concerns related to the Delta variant and China set in, expectations for a Fed tightening/tapering subsided, prompting a surge in bond and stock prices, particularly tech stocks.

**4. Inflation Continued to Climb**
Inflation in the US continued rising throughout Q3, creating doubts that "temporary" Covid induced price spikes might normalize any time soon.

**5. Delta Fears Fade and Fed Tightening Fears Resume**
By September, Delta variant market fears largely subsided. This triggered renewed concerns about potential tightening/tapering. In response, bonds fell along with equities (lead by tech stocks), reversing prior gains to end relatively flat.

## Important Tax Information

**Pershing Advisor Solutions**
• Dates of mailing for tax documents: Initial is January 31st, 2022 and will go as late as **March 15th, 2022**.

**Fidelity**
• Dates of mailing for tax documents: Initial is January 26th, 2022 and will go as late as **March 8th, 2022**.

**FYI's**
• All tax documents from Pershing, Fidelity or any other custodian should be held for your accountant. Additionally, K1's that you receive should be held for your accountant.

• As in the past years, when your accountant calls us requesting information or personal data, we are required, ***unless we already have your permission on file***, to call you to get your permission to speak with them.

## *Q3 2021 — Fed Watch Drives Mixed Results*

The third quarter began with bad news, as the new Delta variant spread quickly around the world, threatening a new round of lockdowns and the global growth recovery. Soon thereafter the Chinese economy, now comparable to the US in size and global importance, began to slow as authorities there attempted to deflate ongoing debt and real estate bubbles. Paradoxically, this bad news for growth was good news for markets as expectations the Fed would keep rates "lower-for-longer" created a surge in stock and bond prices through July and August, led especially by tech stocks. Meanwhile, throughout Q3 inflation continued to rise at the fastest pace in decades, as Covid induced supply chain disruptions proved persistent— even as global economies reopened.

By September, Delta variant concerns relaxed but market fears grew that inflation might compel the Fed to reconsider tightening policy again. This caused bonds to fall and triggered a modest decline in stocks and commodities, especially in tech stocks and precious metals. By quarter's end, the net result was that most asset classes ended the quarter largely flat or with minor losses, with precious metals and Chinese/emerging markets performing worst.

Looking forward, we see strong economic growth conditions continuing together with inflation pressures. We expect market action to continue to be driven by expectations about future Fed policy, and whether or not inflation will compel the Fed to accelerate its current policy tightening plans in order to combat it. The November statement from the Federal Reserve left rates on hold and announced that tapering will begin in this month, with purchases being reduced by $15B per month, as expected.

The FOMC statement, however, incorporates several changes. First, the increase in inflation is said largely to be due to "factors that are expected to be transitory"; the September statement just said these forces are "transitory", so this is a modest hawkish shift. But it is immediately offset by the second substantive change, adding a new line arguing that "an easing of supply constraints [is] expected to support continued gains in economic activity and employment as well as a reduction in inflation". We expect to hear more about this after future Federal Reserve meetings.

Finally, after announcing the details of the tapering, the statement says that "The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook." This can be spun either way, but at this point it reads to us like a bone is being thrown to the hawks, in exchange for the beefed-up language on easing supply constraints in the previous paragraph.

## *Inflation & Liquidity Risk*

Inflation pressures today are a combination of temporary and structural effects—separating and quantifying both is challenging. What does seem clear is that transitory pressures now appear sticky (perhaps into late 2022), creating an increasingly tricky environment for policy makers, with inflation likely to be well above stated Fed targets for longer.

The longer inflation persists, no matter the cause, the more inflation expectations seep into the consciousness of consumers and workers. Corporations are becoming more willing to pass along price increases. While consumers may accept them, they are also likely to demand higher wages to offset them (or not return to work until they get them). The combined effect is positive for demand but keeps a lid on supply growth, which can add sustainable upward pressure to prices. This is how inflation can spiral to become self- reinforcing and over time a much more difficult problem to solve.

While central banks have plenty of ammunition to fight inflation via rate hikes, the political will in the current environment is weak. The path of least resistance from a policy perspective is to slow-roll any inflation fighting moves until absolutely necessary, since stomping out inflation also carries with it the risk of inadvertently snuffing out the economic recovery at a time when interest rates are already zero.

While any comparison of today's inflation pressures to the 1970s may seem like hyperbole, there are plenty of similarities. Then (as now) the big decision policy makers faced was the will to fight inflation in a period of weakening growth. In that era, it was an oil shock that sent inflation skyrocketing— while also causing the economy to slow sharply. By comparison, today we have the inflationary effects of Covid radiating from supply chain disruptions and labor shortages at a time when economic activity is in the process normalizing and still considered fragile. We wouldn't want to be Jay Powell.

To the extent inflation pressures are a result of supply chain disruptions, tightening policy (e.g. raising rates) would have a marginal impact on these prices. Meanwhile the trajectory of growth, which is strong right now, continues to increase the pressures on secular inflation. The dilemma for the Fed is how to slow growth enough to tamp down secular inflation, while waiting for transitory inflation pressures to burn themselves out.

# Market Outlook

## *The Risk of Tighter Monetary Policy*

Tapering bond purchases usually means less liquidity and higher bond yields, since the Fed has been buying most of the Treasuries issued since Covid began. US stocks have benefited from a host of extraordinary government measures, but low bond yields and massive liquidity probably lead the list. Any tightening would convert these tailwinds into headwinds. We continue to see a liquidity-induced market correction as the greatest risk confronting all asset classes.

US stocks are probably the most liquidity and rate sensitive asset class in the world today. They have benefited the most from the flood of USDs that have been printed, as everyone from institutions to stay-at-home traders have piled into the US market. As we discussed in the prior section, Q3 market action was substantially driven by waning and waxing fears about the pace of Fed tightening. We expect more of the same in Q4 and beyond.

The liquidity situation is changing. The flood of money being pumped by the US and other central banks is now subsiding. While there is still a large liquidity pool from this prior flooding supporting markets, the effect is fading. Putting it all together, the biggest market risk we see is that inflation pressures will continue to rise, potentially forcing an even faster withdrawal of liquidity conditions by the Fed. While withdrawing liquidity would have a slow-moving impact on actual economic conditions, the response from markets will likely be fast and furious.

*Reference: Economic Commentary with permission from Almanack, October 19, 2021. Redistribution is prohibited.*

# Hudock Happenings


Some members of our team and their families recently participated in a fun (and safe) team building activity— ax throwing!

Leslie married Kevin Crooks on October 11, 2021 in Williamsport, PA. The happy couple celebrated their honeymoon in Iceland.

*Congratulations to the new Mr. and Mrs. Crooks!*

# Upcoming Events

**White Christmas**
Community Theatre League
Thursday, December 2nd
Pre-show reception: 6:30 pm
Show: 7:30 pm

**Holiday Event**
The Club at Shepard Hills
Tuesday, December 7th
11:00 am – 2:00 pm

**Holiday Event**
Williamsport Country Club
Friday, December 10th
11:00 am – 2:00 pm

**Holiday Event**
Williamsport Country Club
Saturday, December 11th
11:00 am – 2:00 pm

**Don't forget to visit our website to watch the recordings of our Virtual Events:**
**https://hudockcapital.com/videos/**

**Available Recordings of our 2021 Virtual Events Include:**

- **Cyber Security Presentation**
- **Cryptocurrency Virtual Event**
- **Medicare Virtual Event**

HUDOCK CAPITAL GROUP, LLC
WEALTH PARTNERS WITH PURPOSE®

PLEASE PLACE STAMP HERE

400 Market Street
Suite 200
Williamsport, PA 17701

509 S. Main Street
Athens, PA 18810
*(by appointment only)*

Phone: 570-326-9500
Toll Free: 866-855-0569
Fax: 570-326-9577
www.hudockcapital.com

Find us on
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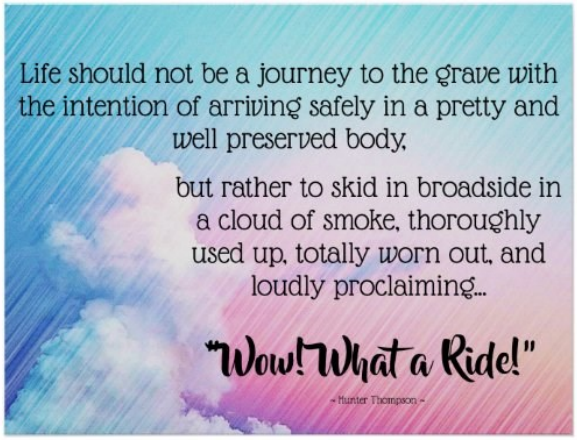
**If you have any suggested topics or feedback about the Hudock Capital Newsletter, please feel free to call us and share!**

# After the Closing Bell

## What a Ride!

As December approaches, I'm reminded that this year — which seemed to go by so quickly — was another year without Jane. There isn't a day that goes by that I don't think about — ok, talk to!!! - Jane. Having been her friend and colleague for 45 years, she was my constant source of advice and guidance and she always made me smile, and usually laugh.




Jane was one of those rare souls who touched people deeply simply by her presence. Jane was a legend, working until she was 90 years old and still dancing circles around me. I once bought her a tea towel that was embroidered with "You'll always be my best friend. You know too much." After I gave it to her, she made me sign it, framed it, and hung it on her dining room wall. It is now hanging in my office.

Jane was my mentor, my surrogate mom, my coach, my cheerleader… I never would have found the success I know if Jane hadn't been there to cheer me on and tell me it was ok to be a little unconventional. I miss her and reflect on her life's lessons everyday.

I'd like to share again the message Jane asked me to send to our clients when she passed in December 2019 (can you believe it's been almost two years?!). It says everything you need to know about Jane and is a reminder that as time races forward, it's all about the ride. May we all be so lucky to enjoy a ride like Jane's and, in the end, be able to proclaim "Wow! What a Ride!"

Warmest,

*Barbara*