

Heacock & Jones Financial Services, Inc.

Market Commentary - September 2021

Following are the year to date results of the major market indexes:

	<u>YTD</u>
Dow Jones Industrial Average	10.58%
Standard & Poor's 500	15.92%
NASDAQ Composite	12.11%
Wilshire 5000	13.99%
MSCI EAFE (International Index)	6.23%
Barclays Aggregate Bond Index	- 1.55%

HELP WANTED. NOW HIRING. We have seen the signs. There is a labor shortage. What effect will this have on long-term economic growth?

Conclusion: Gross Domestic Product (GDP) is still growing, albeit at a slower rate. The formula for the potential growth in GDP is:

Growth in *labor force* + Increase in *worker productivity* = *Potential GDP growth*

Labor Force (Nonfarm employment in millions):

<u>Aug. 2001</u>	<u>Feb. 2020</u> (<i>pre-pandemic peak</i>)	<u>Aug. 2021</u> (<i>current</i>)
132,028	152,523	147,190

- **0.55% average annual growth rate over 20 years.**
- 3.5% below pre-pandemic high.

Labor Productivity: During the prior 10 years, growth rate averaged 1.09% per year. 2021 will be the first time in 10 years that worker productivity exceeds 3% and peaked for this cycle. Normally, growth in productivity peaks at more than 5%. Therefore:

$$\begin{aligned} &.55\% \text{ estimated growth rate of } \textit{labor force} \\ &+1.09\% \text{ estimated growth rate in } \textit{worker productivity} \\ &= \mathbf{1.64\% \textit{Potential growth rate in GDP}}, \text{ compared to } \textit{historical average of 3.0\%} \end{aligned}$$

The Federal Reserve recognizes future GDP will grow at a slower rate, which causes them to keep interest rates low for longer. In addition, the Fed's mandate is to control inflation. They believe current inflationary pressures are "transitory" and will soon recede. Any increase in inflation and interest rates is very likely to be temporary.

The \$7.2 trillion in Government stimulus funding programs introduced in the past 7 to 19 months have achieved the maximum impact, and near-term growth will soften. The investment strategy will begin shifting from growth to an emphasis on income.

Paul Heacock, CFA

"Laughter is timeless, imagination has no age, dreams are forever." — Walt Disney