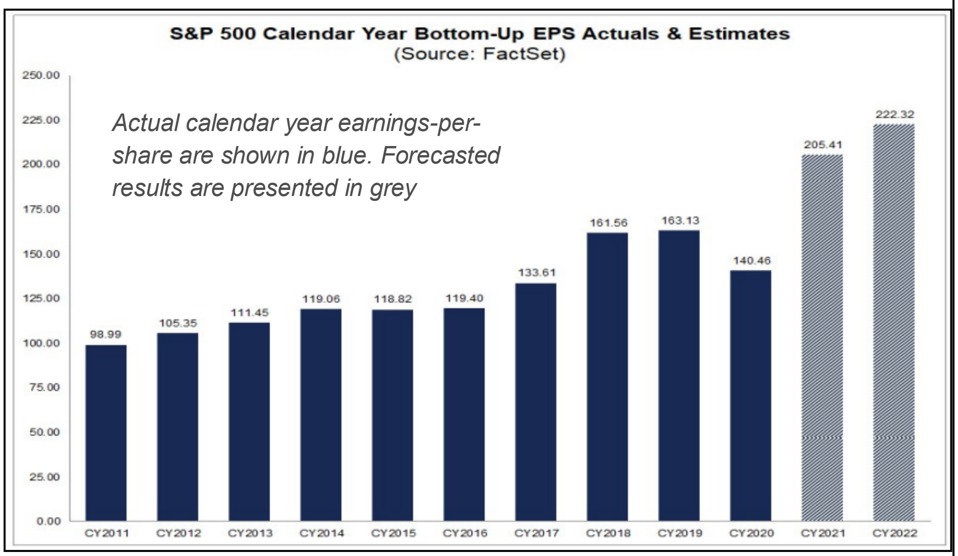
Gore Capital Management

Our only client is you.

When we started making the initial notes for this edition of our newsletter back in early November, the market was surging to new all-time highs and nearly every analyst was forecasting a clear path for the rise to persist through year-end. Then Omicron came along and Federal Reserve Chair Jerome Powell admitted inflation may be a little less "transitory" than his group had anticipated, prompting a sharp 4%+ decline on the S&P 500 over a period of just a few days. Never a dull moment on Wall Street…

We begin as always with earnings. Corporate earnings are on fire, with full year profits expected to grow 45% over last year and approximately 25% over calendar year 2019 (which we think is the better comparison). On a quarterly basis, the best performing sectors include materials (+90%), industrials (+70%), and information technology (+38%). Laggards include consumer staples and utilities, each with earnings growth of 10% or less versus the third quarter of last year. With strong results from nearly every sector, it's not exactly surprising we're experiencing demand-driven supply chain challenges! This success is prompting analysts to raise full year 2022 earnings and price forecasts as well, with expectations for another 8-10% in earnings growth next year and an implied price increase for the S&P 500 of about 15% by year-end 2022. Valuation for the S&P 500 on a price-to-earnings basis remains solidly higher than the 5- and 10-year averages (about 20 vs 18.4 and 16.6, respectively), but the fact that earnings growth has outpaced the increase in price means valuations are lower than they were at the beginning of the year. This is a good thing because stable valuations help to justify the market's position. (all data from Factset, 11/5/21 and Factset, 12/3/21)

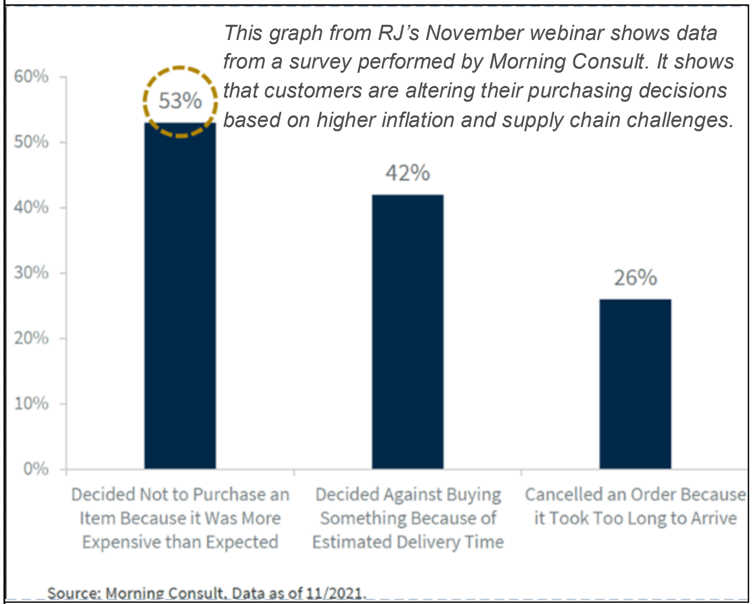
Unfortunately, COVID doesn't seem to be going away any time soon. The good (if you can call it good) news is that, at least from what we've heard and read so far, this new Omicron variant presents milder symptoms and a shorter recovery time than earlier variants. There's no guarantee that future mutations aren't more dangerous, but we believe scientists are well-equipped to study these mutations and produce new variant-specific vaccines at a rapid pace going forward. It is likely that COVID, in one form or another, will be sticking with us for the foreseeable future.



At a hearing in front of Congress in early December, Fed Chair Jerome Powell admitted he thinks there is a greater risk of persistent inflation looking forward, but he and his team still believe

Market Statistics	Nov '21	YTD	2020	3-Year Annl.	5-Year Annl.
S&P 500	-0.69%	23.18%	18.40%	20.38%	17.90%
Dow Jones Ind. Avg.	-3.84%	12.37%	17.92%	16.46%	14.36%
Russell 2000 (Small Cap)	-4.20%	12.03%	19.50%	13.80%	11.72%
MSCI EAFE (Foreign)	-4.65%	5.84%	7.82%	9.83%	9.19%
MSCI ACWI (Global)	-2.41%	13.98%	16.25%	15.96%	13.99%
MSCI Emerg. Mkts. Equity	-4.08%	-4.34%	18.31%	9.27%	9.52%
Barclay's Aggregate Bond	0.30%	-1.29%	7.51%	5.52%	3.65%
S&P GSCI Gold (Spot)	-0.69%	-7.27%	23.68%	12.73%	8.17%

Source: Morningstar, as of 11/30/21



This graph from RJ's November webinar shows data from a survey performed by Morning Consult. It shows that customers are altering their purchasing decisions based on higher inflation and supply chain challenges.

the most likely scenario is that inflation begins to subside around the middle-to-end of next year. He also suggested the Federal Reserve may begin reducing their monthly purchase of bonds sooner than initially anticipated in an effort to keep the economy from overheating. On the subject of inflation subsiding, Raymond James's strategists seem to agree, with RJ CIO Larry Adam writing, "we continue to monitor real time data that suggests inflationary pressures are in the process of peaking and the realization of disinflationary pressures could be feasible by this time next year." On the subject of bond tapering and the potential for the Federal Reserve to start raising interest rates, Mr. Adam argues, "the decision would have to be justified by the strength of the economy," as the Fed has proven they are data-dependent and will not act without clear data to support their action. (Mr. Adam's quotes were taken from Weekly Headings, 12/3/21). The fact of the matter is, we want the Federal Reserve to slow their bond purchases and raise rates if the economy is strong enough to handle it, because it means the Fed can put those tools back in the toolbox and have them available for future crises.

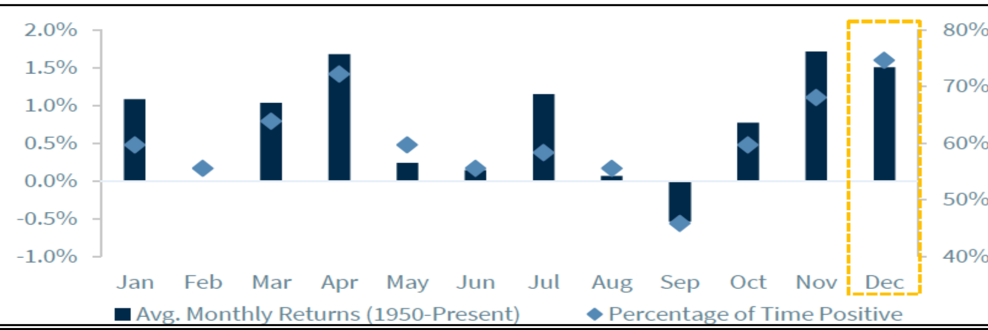
Onto the thorny subject of politics. With just over 3 weeks left in the year as of this writing, it seems unlikely that Congress will pass meaningful legislation that alters the tax code for 2021, though they have thankfully passed a stopgap spending bill to keep the government funded through February 2022. Given President Biden's low approval ratings, Democrats will likely be scrambling next year to campaign for the 2022 midterm elections in which all House members and roughly a third of the Senate (20 GOP and 14 Democrat) are up for (re-)election. According to Ed Mills, RJ's DC policy analyst, the incumbent party tends to lose an average of 23 House seats during the midterm election. Republicans currently hold 213 House seats and only need 5 more (218) for a majority. Should they gain a majority in the House, it goes without saying that a split Congress (Democratic Senate and Republican House) would have nearly zero chance of getting much done legislatively. As we've said before, Corporate America tends to like gridlock in Washington because it means a period of legislative stability for which executives can plan. (Mr. Mills's comments were drawn from The Washington – Wall Street Connection, 11/11/21).

Finally, to shopping! Now that we're about halfway through the holiday shopping season, you may have seen some headlines about disappointing results from Black Friday and Cyber Monday, historically the two busiest shopping days of the year. For Black Friday, in-store traffic was down almost 30% from 2019 but up nearly 50% over last year. For both shopping days, revenues were down about 1% compared with a year ago, the first time in history that revenues have declined year-over-year. On the surface, that sounds concerning. However, it's important to look at the big picture. Adobe estimates that consumers spent more than $100 billion online from November 1st through Cyber Monday, which represents an increase of nearly 12% over last year. In fact, Adobe believes "the entire holiday season will see record-breaking e-commerce activity." (From CNBC, 11/30/21) We won't know until fourth quarter earnings are released early next year, but we too believe this will be a strong holiday shopping season.

CHART OF THE WEEK

A December To Remember? Or One We Want To Forget?

The S&P 500 is having a volatile start to what is historically a cheerful time for investors, with the index up 1.5% on average and positive 75% of the time in the month of December since 1950.



From Weekly Headings, 12/3/21

Ben's Corner

One of the key principles we espouse repeatedly in our newsletters is the importance of staying invested and making financial decisions based on the headlines in your life rather than the headlines in the newspaper. Suggesting we've flogged this dead horse may be an understatement, but there's a reason why we won't let this subject go.

Financial research has shown that many investors underperform the market because they make the wrong decisions at the wrong times, usually triggered by fear. There's an old saw that the stock market climbs a "wall of worry," meaning a certain amount of skepticism is actually a necessary component to the market's long-term success because it combats the unfettered euphoria that prompts asset bubbles. Too much fear, however, leads investors to sell at the bottom during a market crisis and never get back in.

Our recommendation has always been the same: investment strategies should be based on risk tolerance and long-term goals. Staying invested during periods like March of 2020 can be extraordinarily difficult at the time, but history has shown patient and resolute investors have been rewarded for staying seated during the emotional rollercoaster ride. Continuing the amusement park analogy, investors who think they can handle the big rollercoasters might lose their lunch after the third loop-de-loop, while those who know their limits will avoid the rides which exceed their motion sickness threshold and will end up having much more fun.

The point about staying invested is punctuated by the accompanying graphic from one of our favorite bloggers. The graph shows the path of the S&P 500 index over the last 12 years or so, along with red marks to identify the myriad of scary news stories that occurred along the way. It's quite clear that the market did not move in a straight line upwards; there were nasty moments during 2011, 2015, 2018, and 2020 which temporarily erased several months' worth (even several years' worth) of gains. But the market remained resilient in the end.

Regardless of what transpires over the next few months, I remain optimistic about the longer-term prospects for the market because I remain optimistic about the longer-term prospects of our economy. Companies (well-run ones, at least) are constantly striving to innovate, create new and exciting goods and services, and make their processes more efficient, all ultimately to benefit their shareholders and the broader economic picture. Their raison d'être is to be better than they were yesterday. That objective requires rolling with the punches, whether it be changes to the tax code, pandemics, or the political machinations of Washington. Good leaders will figure out those challenges and, over the long run, their companies and their stock prices will (hopefully) be better as a result.

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