



BOB CARLSON'S

Retirement Watch
SPOTLIGHT SERIES

The Economic Cycle Returns Investment and Economic Review December 2021

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www.RetirementWatch.com



Three Fed Policy Regimes

Central bank policies determine the economic cycle:

- **Traditional regime**
- **Financial crisis regime**
- **Crisis economy regime**



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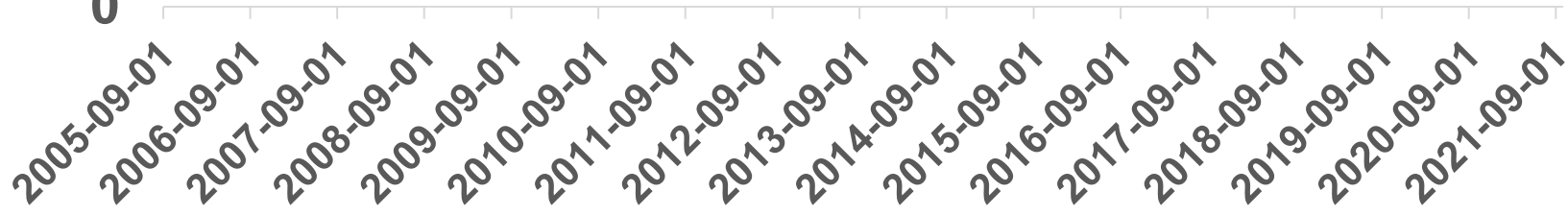
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Monetary Base



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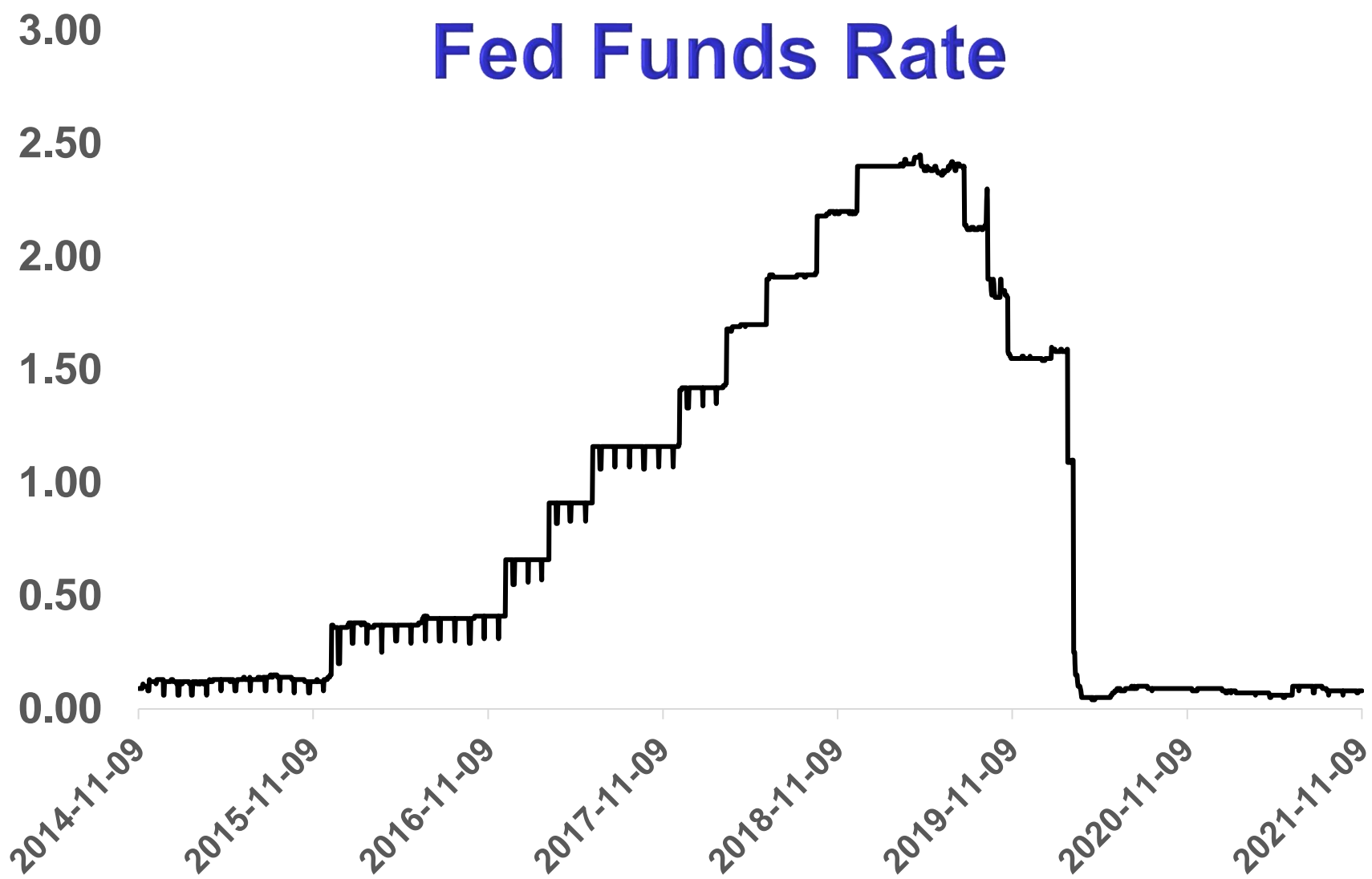


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Fed Funds Rate



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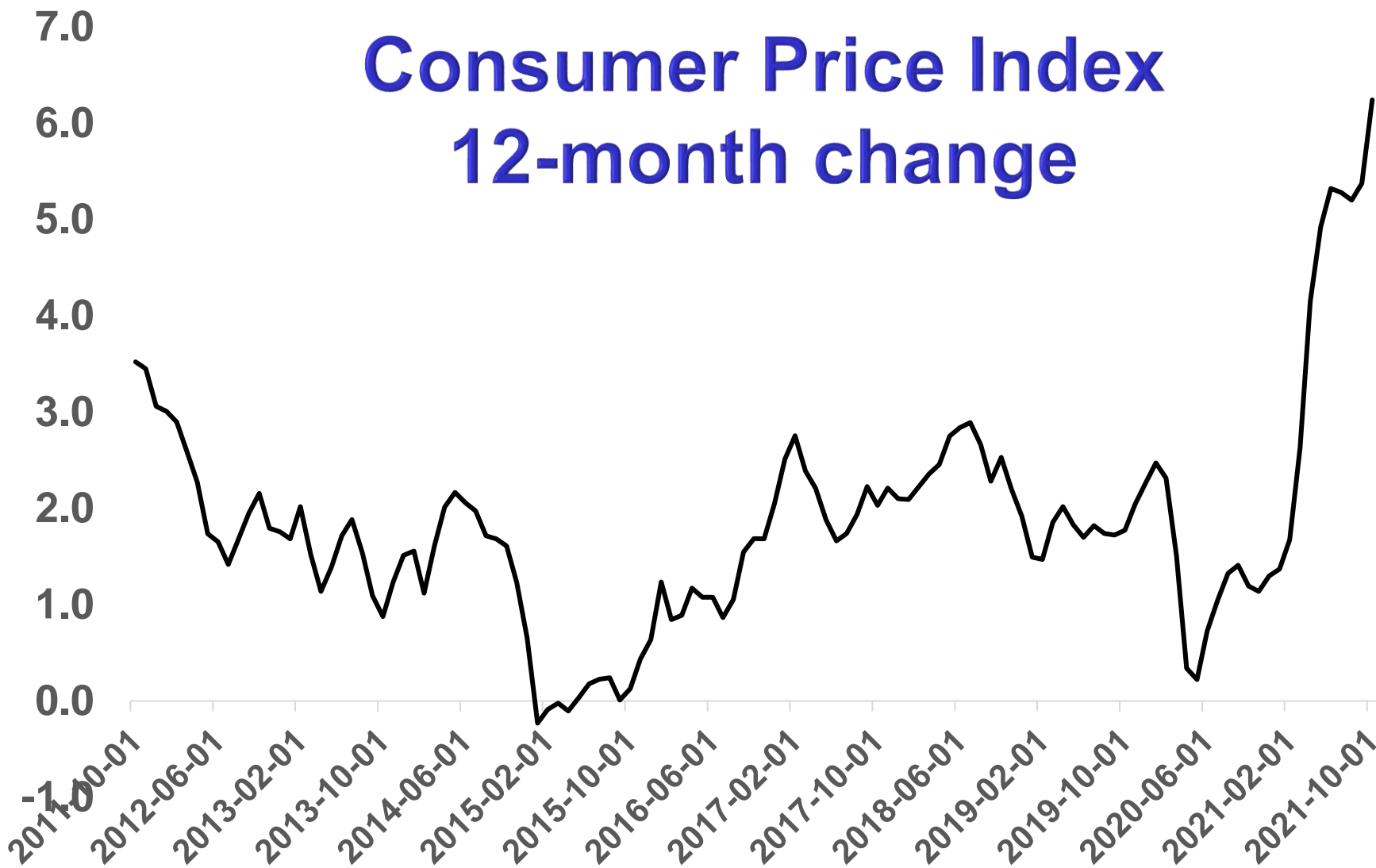


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Consumer Price Index 12-month change



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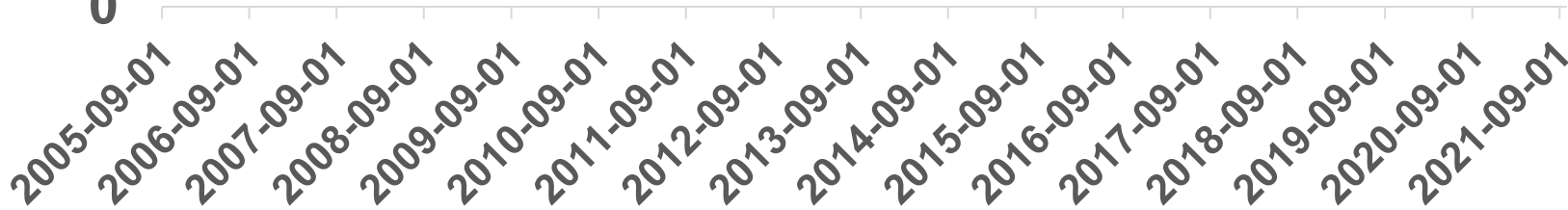
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Monetary Base



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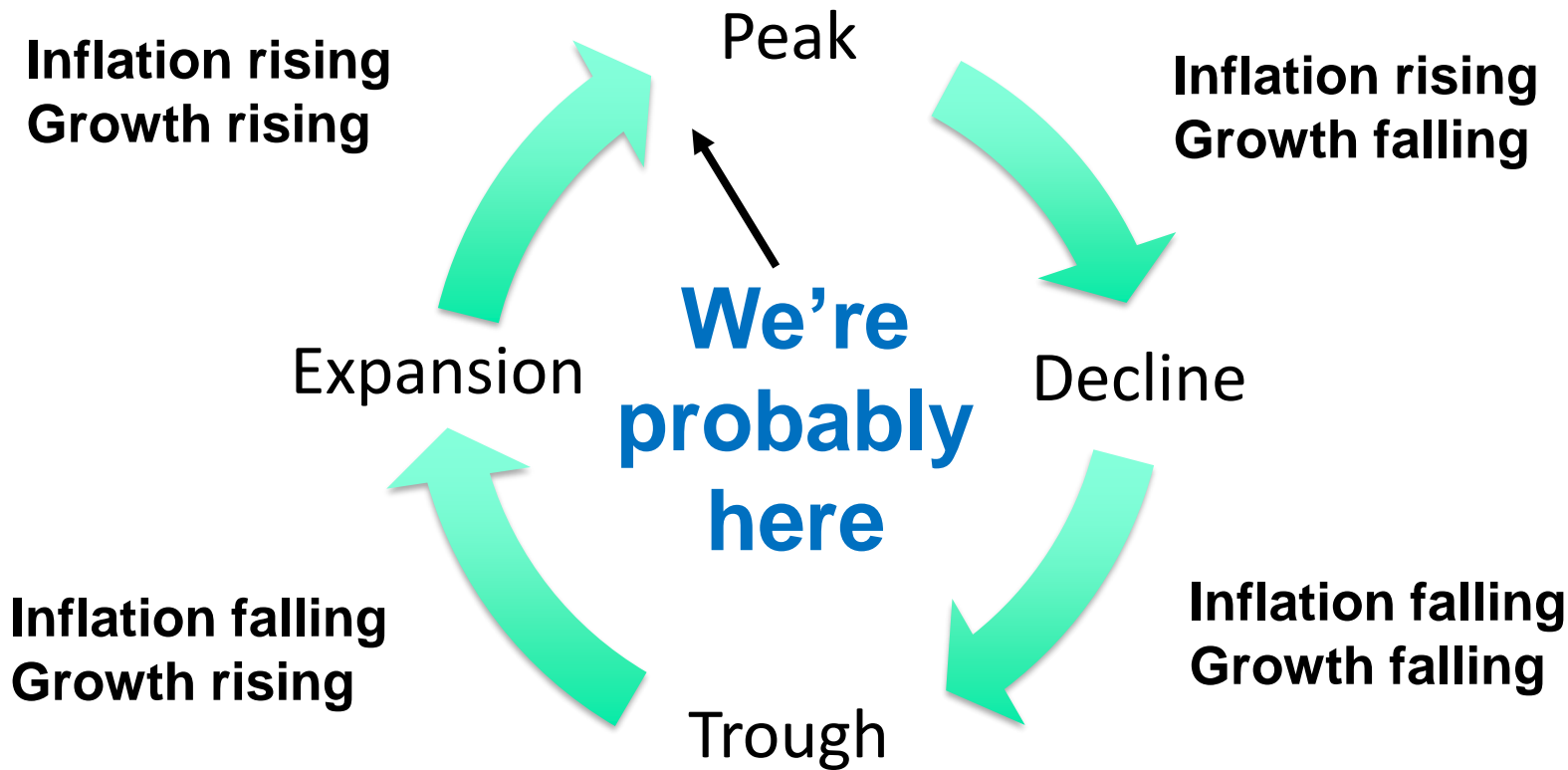


Why It's the Fed's End Game

- **Economic activity at high levels**
- **Stock indexes at record highs**
- **Many imbalances**
- **Dollar is weak**
- **Pain is here: Inflation**



Where We Are In The Cycle





Is Inflation Transitory?

- **Growth now is self-sustaining**
- **Shortages of goods and labor**
- **Due primarily to demand shock**
- **Wages rise**
- **Higher wages lead to higher demand**
- **Higher asset prices increase demand**



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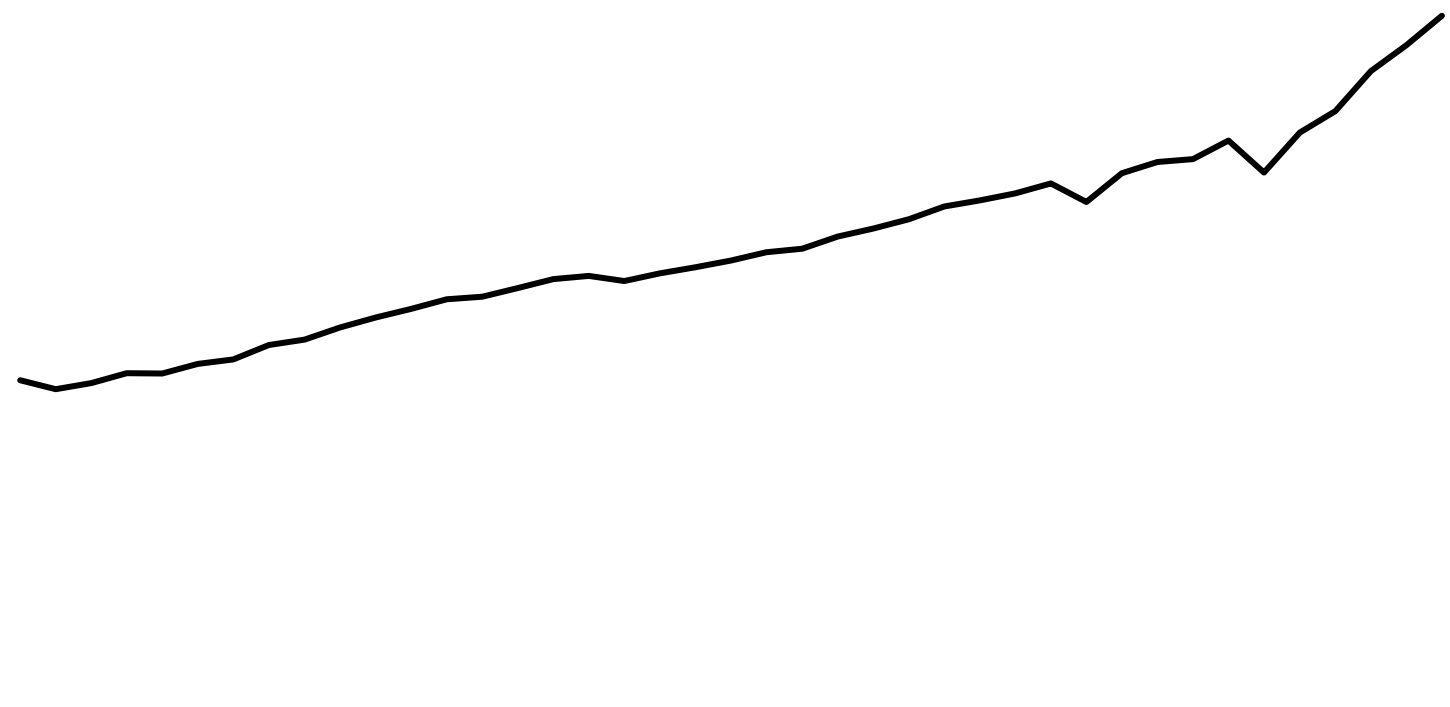
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Household Net Worth

160000000
 140000000
 120000000
 100000000
 80000000
 60000000
 40000000
 20000000
 0

2011-04-01 2011-12-01 2012-08-01 2013-04-01 2013-12-01 2014-08-01 2015-04-01 2015-12-01 2016-08-01 2017-04-01 2017-12-01 2018-08-01 2019-04-01 2019-12-01 2020-08-01 2021-04-01



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250000

200000

150000

100000

50000

0

1992-01-01
 1993-06-01
 1994-11-01
 1996-04-01
 1997-09-01
 1999-02-01
 2000-07-01
 2001-12-01
 2003-05-01
 2004-10-01
 2006-03-01
 2007-08-01
 2009-01-01
 2010-06-01
 2011-11-01
 2013-04-01
 2014-09-01
 2016-02-01
 2017-07-01
 2018-12-01
 2020-05-01

Real Retail Sales

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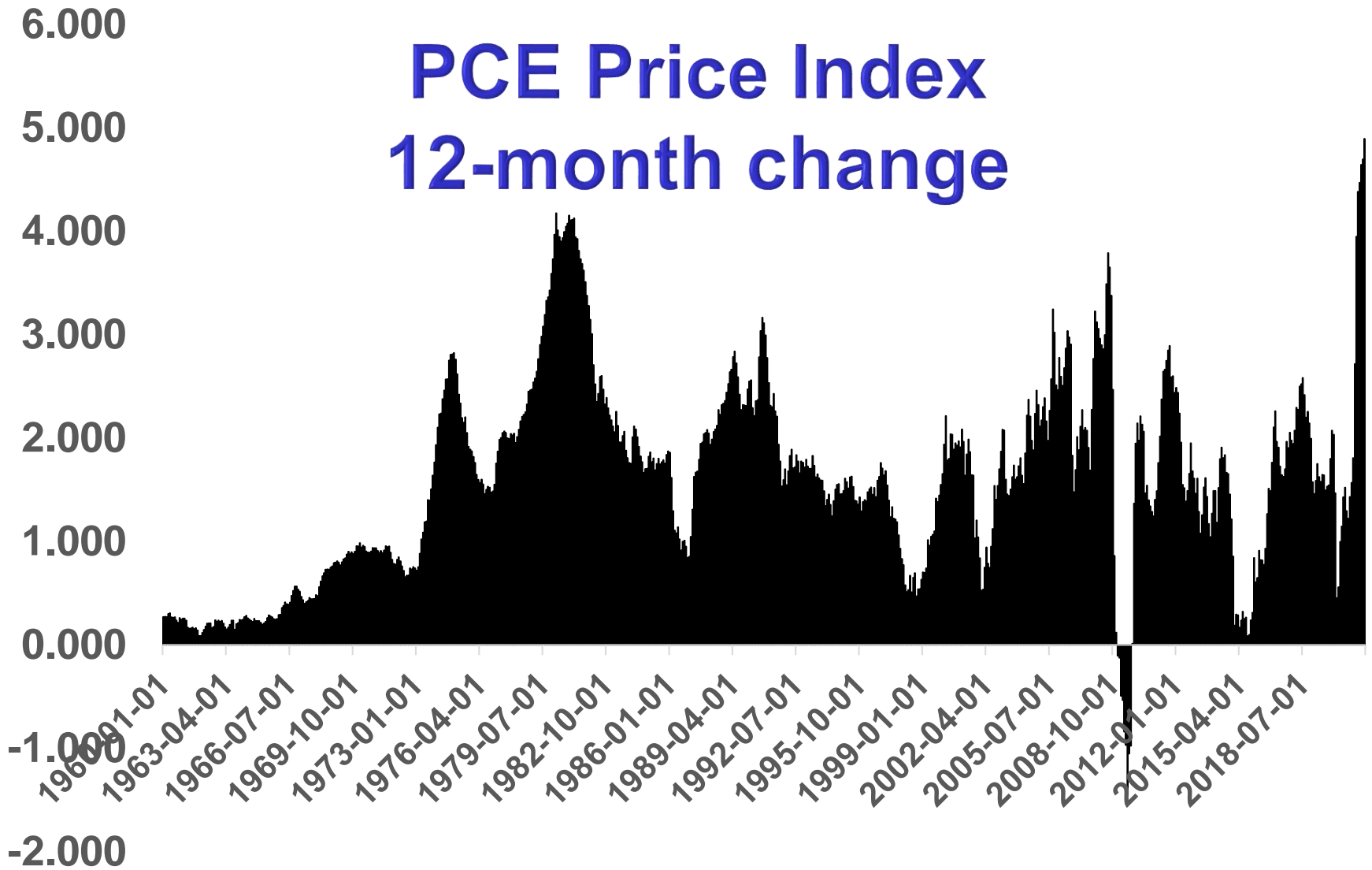


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PCE Price Index 12-month change



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What Could End The Cycle?

- **Tighter monetary policy**
- **Tight fiscal policy**
- **Change in pandemic/new pandemic**
- **War: hot, cold, or trade**
- **Stock market collapse**
- **Other exogenous shocks or surprises**



The Fed's Plans

- **Fed gradually reducing asset purchases**
- **Still not shrinking balance sheet**
- **Rate increases in Q1 2022 or later**
- **Recession worse than inflation**
- **Overhang from financial crisis**
- **Always adjust to latest data**



Major Secular Changes

- **Had historic earnings, profit margins**
- **Anti-corporate policies, regulations**
- **Labor has the upper hand**
- **Global trade not growing**
- **Climate change expensive, inflationary**
- **Higher taxes around the globe**



Possible Effects of Changes

- **Lower profit margins**
- **Lower stock valuations**
- **Higher average inflation**
- **Slower growth**



How Markets Respond

- **Interest rates increase**
- **Liquidity shifts to real economy**
- **Less support for long-duration assets**
- **Net present value decreases**
- **Valuations change**
- **Growth, tech stocks falter**



How Markets Respond

- **Previous winners stall**
- **Underperforming assets surge**
- **Inflation hedges, real assets rise**
- **Interest-sensitive assets fall**



Inflation Hedge Portfolio

- **A basket of inflation hedges**
 - **Gold**
 - **Broad commodities**
 - **Real estate investment trusts**
 - **TIPS**



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IAU iShares Gold Trust NYSE + BATS

© StockCharts.com

6-Dec-2021 10:31am

Open 33.83 **High** 33.89 **Low** 33.78 **Last** 33.86 **Volume** 1.2M **Chg** -0.07 (-0.21%) ▼

▲ RSI(14) 42.52



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DJP iPath Bloomberg Commodity Index Total Return ETN NYSE

© StockCharts.com

6-Dec-2021 10:33am

Open 27.40 High 27.56 Low 27.26 Last 27.33 Volume 304.3K Chg -0.24 (-0.87%) ▼

▲ RSI(14) 28.26



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CSRSX Cohen & Steers Realty Shares, Inc. USMF

1-Dec-2021

© StockCharts.com

Open 77.42 High 77.42 Low 77.42 Close 77.42 Chg -1.31 (-1.66%) ▼

▲ RSI(14) 38.34



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SPIP SPDR Barclays TIPS ETF NYSE

6-Dec-2021 10:35 am

Open 31.66 High 31.67 Low 31.64 Last 31.64 Volume 165.2K Chg +0.01 (+0.03%) ▲

© StockCharts.com



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AAASX DWS Alternative Asset Allocation Plus Fund USMF

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1-Dec-2021

Open 12.30 High 12.30 Low 12.30 Close 12.30 Chg -0.07 (-0.57%) ▼



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Guidelines for 2021-22

- **Invest with reflation policies**
- **Maintain diversified equities**
- **Have global portfolios**
- **Avoid Asia for now**
- **Be flexible, prepared for change**



Guidelines for 2021-22

- **Diversification, balance**
- **Be tactical**
- **Look for niches, good managers**
- **Be global**
- **Expect inflation, weak currencies**
- **Be prepared to change when Fed tightens**