Points to Ponder

August 12, 2022

The First Tee...

Habitual Heartburn (this edition of Points to Ponder is sponsored by Tums)**…despite the nice relief rally in July, the stock market is heading into its historically most hazardous period** *(Yikes!)*:

- Despite October being the month for monumental stock crashes in 1929, 1987 and 2008, August and September have actually been the worst performing for the S&P 500:
  - During the past 25 years, the S&P 500 has averaged contractions of .6% and .7% respectively in August and September…over the past 70 years, August and September have been the only months to average negative S&P returns:
    - During the past 7 decades, April, November and December have been the best performing months for the S&P, posting average gains of 1.36%, 1.42% and 1.37% respectively…December only experienced 18 down years during this period.
- Besides concerns of recession, inflation, and monetary policy tightening, investors will also be confronted by the unknowns of the mid-term elections…adding to market volatility:
  - Stocks typically struggle early in mid-term years due to potential policy changes in Washington:
    - The 3rd quarter of a midterm election year tends to be the most volatile of any in a four-year presidential cycle:
      - Since 1944, the 3rd quarter of a mid-term election year has seen the S&P 500 average a .5% value decline.
  - **Battling the Bear**…bear markets have lasted on average 14 months since World War II (the S&P hit bear market territory 2 months ago):
    - Since 1929, the S&P 500 (on average) has hit its low point 9.4 months after a recession begins…and 4.3 months before it ends
- **Ulcer Alleviation**…July's stock performance could help the market buck the Aug/Sep trend:
  - The S&P's 9% rally last month sets a bullish precedent…since 1928, when the S&P 500 has climbed at least 5% in July, more gains typically followed…with August and September averaging 2% and .7% gains respectively.
  - Stocks have already priced in a mild economic slowdown…if the strong employment numbers can keep the economy from getting much worse, and inflation levels ease from four-decade highs, it could be a base for the next bull market run (investors will need to see extended positive trends to become fully re-engaged).

Hunger Heartburn…food prices are surging on demand, shortages, and protectionism:

- Global food costs are soaring, with the United Nations gauge rising 70% since mid-2020's:
  - U.S. grocery prices have risen 13% in the past 12 months…**the largest annual increase since 1979**:
    - The price of eggs is up 38%, flour +22%, chicken +17%, milk +15%, ground beef +10%, fruit & vegetables +9%:
      - The pace of overall inflation is hoped to ease in the next few months, but food inflation may remain stickier.:
        - Prices paid by U.S. producers for finished consumer foods has spiked by nearly 16% this year…the largest increase since 1974.
  - Consequences of prolonged food inflation could be severe…9.8% of the world's population was impacted by hunger last year.
- **Demand**…food requirements continue to escalate, especially in developing and impoverished nations:
  - Asia and Africa are large importers of food stuffs, with China and India being at the top of the list:
    - China (which comprises a fifth of the world population) is the world's largest importer of soybeans, corn, and barley:
      - China buys almost 60% of all soybeans traded internationally, with their consumption as large as the entire U.S. crop.
      - India is the world's largest consumer of edible oils…the country imports 60% of its annual needs.
- **Supply**…food production has been hampered by weather, war, supply-chain, labor, and costs:
  - Heat, drought, and flood conditions; production restrictions due to geopolitical conflicts; shortages of shipping and materials; lack of workers; and higher prices on food related items has created major issues feeding the population.
- **Protectionism**…governments are trying preserve local supplies of food stock by restricting exports:
  - Agriculture protectionism is at its highest level since the food price crisis of 2007/2008:
    - Since the start of the Ukrainian war, over 30 countries limited exports and built stockpiles of food items:
      - Food protectionism is especially rampant in Asia…China currently holds half of the global inventory of wheat, corn, and rice

At the turn...

The Back Nine…

Housing Heartburn…high prices and mortgage rates are accosting shelter affordability

- Standard & Poor's estimates by the end of the year, mortgage payments will comprise 28% of income for the typical first-time home buyer…the highest level since early in the financial crisis:
  - The debt calculation is based on the buyer making a 10% down-payment on their home purchase.
- Guidelines set by the National Association of Realtors, define mortgages considered affordable should be no greater than 25% of income (this threshold has already been passed by low and middle-income buyers)
  - The change in mortgage costs has priced 60% of households out of the market…unless they assume excessive debt:
    - It's estimated, by the 4th quarter, it will take 11.3 years for a first-time home buyer, with a median income to save for a 10% down payment (and twice as long for a 20% down payment)…before the pandemic, these savings periods was half as long.

Household Heartburn…consumer debt has increased by 2% to a record $16.2 trillion:

- Debt balances (end of 2nd quarter) now stand $2 trillion higher than they were at the end of 2019:
  - 233 million new credit accounts were opened last quarter…the most since 2008 (right before the financial crisis).
- U.S. consumers now hold 750 million auto loans, credit cards, mortgages, and home-equity lines of credit…since the pandemic, 42 million new credit card accounts have been opened:
  - Credit card debt rose by 13% year-over-year, the largest quarterly increase in twenty years:
    - Credit card borrowing added a record $100 billion in balances over the past year…consumers still have $3.33 trillion available in borrowing on their credit limits for their cards (leaving room for greater proportions of debt leverage).
  - Mortgage borrowing accounts for about two-thirds of outstanding consumer debt…over $11.3 trillion:
    - $758 billion in mortgages were originated in the 2nd quarter…3% to subprime borrowers (well below 13% average from 2003-2007)
  - Auto loans increased by $33 billion…current auto debt outstanding stands at $1.5 trillion.
  - Home Equity lines of credit declined by $1 billion…current debt outstanding totals $320 billion.
  - Student loan debt declined by $1 billion during the last quarter, bringing the total to $1.6 trillion.
- **Not Paying the Piper**…about $435 billion of the $16.2 trillion (2.7%) in consumer debt is delinquent:
  - $294 billion of the debt payment shortfall is classified a seriously delinquent (more than 90 days in arears):
    - On a historical basis, loan payment delinquencies remain low…aided by the strong state of employment:
      - Delinquency rates last quarter stood at…Mortgage: .44%, Auto: 1.8%, Credit Card: 3.2%, Home Equity: .32%, Student Loan: 1%.

19th Hole...

Your attitude, not your aptitude, will determine your altitude.

Zig Zigler

Ross Elford, Senior Vice President

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