HIGHTOWER

# WEEKLY WISDOM

## Jackson Hole
AUGUST 25, 2021

### The Significance of the Jackson Hole Symposium

The Kansas City Federal Reserve's Jackson Hole symposium has taken place since 1978 and every year brings together economists, financial market participants, academics, U.S. government representatives, and news media to discuss the current events related to the economy and long-term policy issues. The Fed announced earlier this week that the Symposium will be held virtually this year due to the Delta variant concerns. Jerome Powell, the Fed's chair, will speak on Friday.

Ahead of this week's symposium, we've seen CPI numbers running hot, with Core CPI rising 4.5% in June (highest rate in 30 years) and 4.3% in June. Shelter costs accounted for over half the monthly increase in Core CPI during July, and despite rising wages, real (after inflation) hourly earnings have actually declined for seven straight months. The Fed is expected to offer clarity into how they're analyzing some of this data and what its impact might be on their policy decisions.

### Expectations from the Jackson Hole Symposium

The big topic at this year's symposium is the recovery and inflation, and how both will impact the timing for which the Fed will taper its bond-buying program and raise short-term interest rates. The Fed has a dual mandate when using monetary policies – unemployment and inflation. While unemployment remains relatively high it is improving – the unemployment rate stood at 5.4% in July, down significantly from the 14.8% pandemic peak unemployment in April 2020. Yet, inflation has crept higher as measured by the core PCE (the Fed's favorite indicator) and remains something of a yellow flag. The Fed has maintained its belief that inflation will be transitory. While on the commodity side this likely is the case, wages and shelter costs are on the rise ... and they aren't as transitory. It is still unclear how the Fed defines "transitory" and its timeline.

In addition, based on our conversations with many companies, the supply chain issues will take a long time to fix – perhaps into the second half of 2022. To us, that isn't transitory – inflation is real and on the rise. Keep in mind, inflation is higher because US GDP is higher and will likely stay above trend for quite some time. In other words, better growth and higher inflation should lead the Fed to begin to taper its bond purchase (currently at $120B a month). The economy can handle it. And we should embrace it. Nevertheless, taper will dominate the conversation for the next several months.

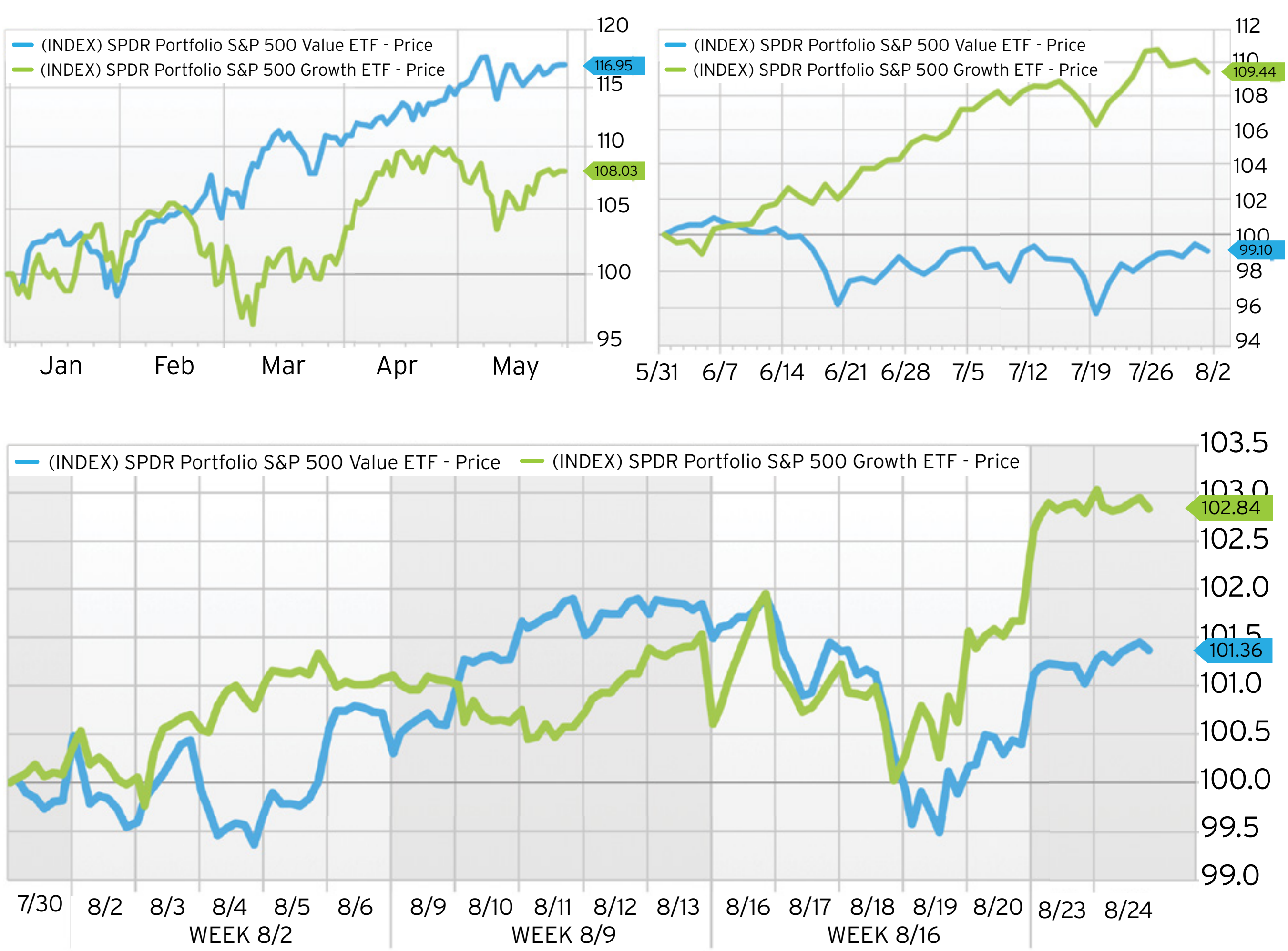
At Jackson Hole this week and on Friday in particular, when Powell speaks, we expect additional clarity about what data points are still materializing and necessary in forming their decision around a taper timeline. These data points will likely include labor growth, Delta variant spread, and core PCE data (released Friday).

GDP grew at an annualized rate of 6.5% in the second quarter of 2021, exceeding its pre-pandemic size (something that took years after the 2008 recession). The economy is supported by the strong consumer demand and recovery in the manufacturing sector. We believe the consumer is in good shape and believe the services sector of the economy will remain strong, especially given the 10% savings rate and pent up demand. And while July consumer confidence disappointed, much of that was tied to Delta cases and the unknowns; retail sales still grew 18% y/y. In addition, manufacturing data remains strong as evidenced in the ISM New Order figures last month which came in above 60 for the 13-consecutive month. This is important as it is a leading indicator for future capex and earnings releases. This outlook favors reopening stocks, quality balance sheets, and secular growth companies.

## Markets

2021 has been the year of rotation in the equity markets. Periodic economic reports and commentary from the Fed, along with a continuous stream of new COVID data in the headlines, has led to major swings by market participants moving between investments in value and growth. January-May favored value over growth as vaccines became accessible and industries hit hardest by the pandemic reopened their doors to customers. May-July favored growth stocks as fears around peak growth and the Delta variant spread and treasury rates fell. August has been mixed with swings in sentiment. Interestingly, this week we've seen a rotation back to cyclicals and reopens – many areas we have exposure to and have confidence in. We'll see if this continues but believe any progress on Delta, as witnessed seen in the UK and India, will be welcome news for this battered-down group.

### Value vs Growth Performance Charts. [Chart 1]: January-May. [Chart 2]: June-July. [Chart 3]: August.[1]




[1] Source: FactSet

## Positioning Portfolios for a Taper

We maintain a barbell approach across all our strategies to capture returns during shifts in sentiment, while also positioning our investments in line with our convictions. We see consumers shopping in stores, eating out at restaurants, and travelling through airports. We see vaccination rates rise, and falling COVID cases in Delta variant hot spots. We see infrastructure stimulus on the horizon and a continued low interest rate environment. And we see a long tailwind for equities with elevated savings rates and consumer demand.

Whether tapering begins in Q4 or next year, our portfolio is invested in companies with quality balance sheets, strong FCF and returns to shareholders, significant secular growth and total addressable markets (TAMs), and attractive valuations.

## Stephanie Link: CNBC TV Schedule

| DATE | SHOW | TIME |
|---|---|---|
| Thursday, August 26 | Closing Bell | 3:00 PM ET |





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