

Wentz Weekly

October 18, 2021

Social Security Benefits See Largest Increase Since 1982



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Last week, in effort to keep up with higher prices over the past year, the Social Security Administration said Social Security and Supplemental Security Income (SSI) benefits will increase 5.9% in 2022 for the approximately 70 million individuals that are receiving benefits. This compares to the 1.3% increase seen for 2021. In addition to the increase of benefits, the amount of earnings that are subject to social security tax is increased to \$147,000 from \$142,800. The 5.9% increase is the largest increase in benefits since 1982, when the COLA was 7.4%. That year also corresponded to the last year the consumer price index rose at higher than a 6.0% rate and ended a decade of inflation that averaged close to 10%. On average, retired workers currently collect \$1,565 per month in payments, or \$18,780 per year. The COLA will add about \$92 per month to those payments, or an additional \$1,104 per year.

Every year the Social Security Act says an annual cost of living adjustment for benefits should be tied to the increase in the consumer price index (CPI - a monthly report released by the Department of Labor). The latest monthly CPI report was released last week that showed consumer prices accelerated in September. The index rose 0.4% in the month and is now 5.4% higher from a year ago, up from the 5.3% year-over-year gain seen in August. Driving the index higher was energy prices, with prices in the category up 1.3% in the month including gas which was up 1.2%, and are up 41.7% compared to a year ago, something all of us that drive can relate to. The core index, which excludes volatile categories such as food and energy prices, rose 0.2% in the month and 4.0% from a year ago, matching August's pace. Categories that ran hot over the first half of the year, for example new and used car prices, cooled in the late summer months and lately, including September, have declined in price. The higher-than-normal increase in prices should continue, as we deal with shortages and severe supply chain issues, along with higher wages that is being driven by the labor shortage (higher wages tend to lead to higher inflation). Historically though, stocks tend to provide the best protection against inflation. The question is whether it will correspond with low economic growth, a situation that we call stagflation. If that is the case, then forward market returns will likely be lower. At this time, economic growth remains strong, as the consumer is healthy and still have plenty of cash on the sidelines and is why we continue to favor US equities such as cyclical and small caps.

Currently about 40% of the containers imported to the United States go through the Port of Los Angeles and the Port of Long Beach. As of October 15, there were 88 containerships anchored off the coast of the two ports waiting for a spot to unload its cargo, above 37 when we last reported on the problem in August. In a normal environment there are none or very few. On Wednesday, in effort to address the issue the Port of Los Angeles said it will go to operating 24/7, which essentially doubles its hours, after the members of the International Longshore and Warehouse Union said they are willing to work extra shifts. However, the issues do not stop at the ports. Even if the containers get unloaded at a faster pace, the freight network is jammed too, and the containers may not be able to make it on trucks or trains for warehouses. Add on to that the substantial shortage of truck drivers. As we have said since our original post in August, start your holiday shopping early!

Big banks are normally one of the first sectors to report quarterly results during earning season and last week several large banks reported and did not disappoint. Banks reported solid results, driven by accelerating loan growth, strong trading revenue, strong results from investment banking divisions, and bank's ability to release cash that was set aside for bad loans due to the pandemic. JPMorgan saw revenues in its investment banking soar 45%, while Goldman saw its second highest investment banking quarterly revenue, rising 88%, and a 51% increase in equity trading. Average loans across JPMorgan were up 5% and reflecting the strong consumer, and combined debit and credit card spending was up 26% from a year ago. The bigger issue is what happens with interest rates and the yield curve. Banks lend money out long term and borrow money from consumers short-term. Since this is how banks operate, it benefits them when the yield curve steepens, i.e. when rates on the longer end (longer term loans) are higher and rates on the shorter end (short term loans, or consumers deposits at banks) are low. In order for financials to continue to outperform, banks need to see strong loan demand and higher long-term rates.

Another positive for the U.S. economy and reflecting strength of the consumer is the September retail sales report that showed another strong increase compared to a small decline in sales that was expected. The U.S. Census Bureau reported retail sales rose 0.7% in September compared to the expected 0.1% decline. And it's not vehicles and gas driving the index higher like it was over summer, the index excluding vehicle and gas sales was also up 0.7% in the month. Retail sales were up 13.9% compared to September last year. Overall sales are still outpacing e-commerce sales growth in September and compared to a year ago where online sales are up 10.5%. Seeing a decline in the month was electronics and health/personal care, while the largest increases came from sporting goods/hobby stores and general merchandise stores, up 3.7% and 2.0%, respectively.

Company News

- A report from Bloomberg last week stated Apple is expected to cut its iPhone production targets by as much as 10 million devices due to the ongoing semiconductor shortages. Apple's target was 90 million iPhones.
- Research firm TrendForce said declining demand from chip buyers and decreasing spot prices is going to put pressure on Micron's margins. Micron gave a different outlook, but said orders were affected by PC makers that cannot complete PC builds because they are missing other semiconductor components.
- Delta reported quarterly results last week that were above expectations with "robust" holiday travel demand and recorded its first quarterly profit since the pandemic began, but also said fuel costs are going to cut into Q4 profits and that alone will determine whether or not it will be profitable.

The Week Ahead

The calendar for the week ahead will remain busy. The economic calendar has several housing reports including the housing market index Monday, housing starts and permits on Tuesday, and existing home sales on Thursday, where the expectation is for a 3% increase to an annualized pace of 6.030 million existing home sales. Outside of that, jobless claims are released Thursday morning along with a manufacturing survey from the Philly region. Earnings reports ramp up this week with at least 72 S&P 500 companies across all sectors set to report quarterly results. Notable reports include Albertsons on Monday, Johnson & Johnson, Netflix, United Airlines, and Halliburton on Tuesday, Verizon, Anthem, Tesla, Lam Research, Las Vegas Sands, IBM and CSX on Wednesday, AT&T, American Airlines, Southwest, Snap Inc, Intel, and Chipotle on Thursday, and American Express, Cleveland Cliffs, and Honeywell wrapping things up on Friday. Also, Apple will hold its hardware event this week and is expected to reveal its new Macbook Pro.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.