

OBSERVATIONS

- The total value of the cryptocurrency market reached \$3.0 trillion early last Monday (8-Nov), led by Bitcoin and Ethereum which both reached record highs and represent nearly 2/3rds of the total crypto market.¹
- Consumer inflation readings exceeded consensus expectations in October, as headline CPI rose 6.2% YoY, while core-CPI (CPI ex. food and energy) rose by 4.6%.² These increases represent the highest inflation data in 30 years, meanwhile producer prices rose 8.6% YoY in October a record high for the decade-old series.³
- Consumer inflation in China remain subdued rising only 1.5% YoY in October, however its producer price index surged 13.5% YoY in October—an all-time high—as energy and basic raw material prices surged.⁴
- Thanksgiving holiday air travel is set to exceed pre-pandemic (2019) levels by over 3%, while total Thanksgiving travel is expected to come within 5% of 2019.⁵
- The labor market is strong; in addition to last week's jobs report showing more than 500,000 jobs created last month, unemployment claims continued to recede this week and the latest data showed a record number of quits in September as employees find it an ideal market to switch jobs—typically for better pay.⁶
- Options volume has surged recently driven by individual/retail investors and concentrated in a small number of large-cap growth stocks (e.g Tesla and Amazon), which is likely to increase volatility in the final weeks of 2021 as much of this activity is directed at relatively short-dated call options.⁷

EXPECTATIONS

- Small business confidence declined in October, but the most common challenges for small businesses shifted. Those citing labor cost or labor quality as the single most important problem eased slightly, while inflation concerns increased sharply and anxiety over inventories and supply-chains remains elevated.⁸
- The price of sending a container from Shanghai to California has begun to ease over the past several weeks which portends some of the worst of the supply-chain shortages may also begin to ease. The price for a 40-foot container began to rise in May-2021 from under \$2,000 for a 40-foot container and peaked in September at over \$12,000 a container and now has fallen below \$10,000.⁹ The price increases that began in May preceded the large back-log of ships waiting to be unloaded at LA and Long Beach ports by about 2 months, however many analysts do not expect supply chains to return to pre-Covid “normal” until mid-2022.

ONE MORE THOUGHT *Federal Reserve [Financial Stability Report \(FSR\)](#)*

Published semiannually in May and then November (just last week), the Fed's FSR provides an outline for evaluating the health of the financial system in the U.S. The FSR categorizes financial system vulnerabilities into 4 areas (followed by highlights of the Fed's current assessment of each category):

- Asset valuations – Prices are high, and valuations are high in some markets. Despite housing market gains, credit standards have not weakened.

¹ Bloomberg LP

² <https://www.bls.gov/news.release/cpi.nr0.htm>

³ <https://www.bls.gov/news.release/ppi.nr0.htm>

⁴ “China: CPI inflation accelerated and PPI inflation rose sharply in October” Goldman Sachs Economic Research 10-November

⁵ AAA, Adobe Digit Insights, TheHill.com

⁶ <https://www.bls.gov/news.release/jltst.nr0.htm>

⁷ Goldman Sachs – Q&A on Record Equity Options Volumes 11-November

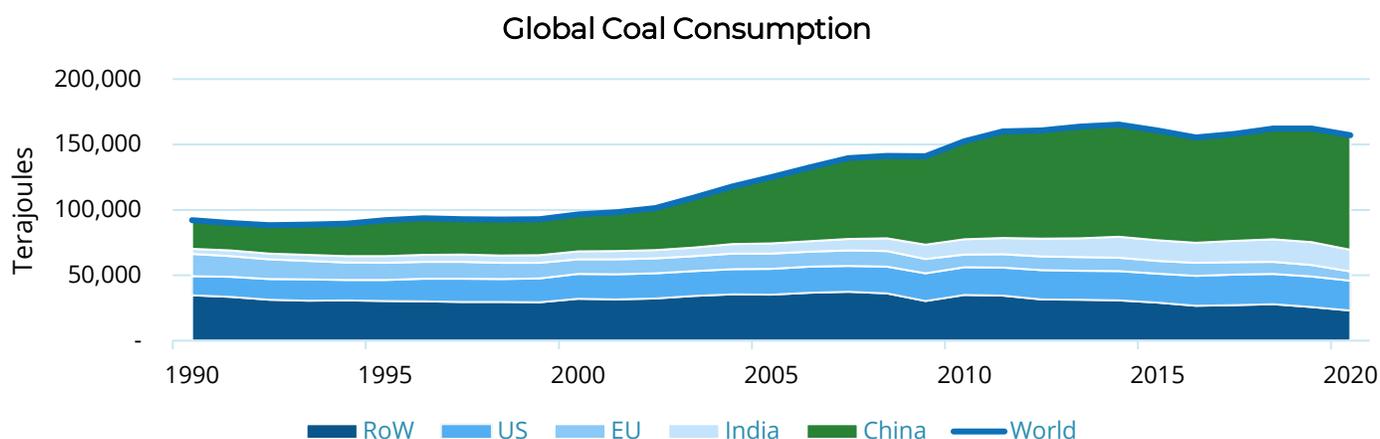
⁸ <https://assets.nfib.com/nfibcom/SBET-October-2021.pdf>

⁹ Bloomberg LP

- Borrowing by businesses and households – Both households and business have benefited from improving earnings, low interest rates, government support, and high savings rates.
- Leverage in the financial sector – Bank capital ratios are well above regulatory requirements. Leverage at brokers was low, and leverage in hedge funds are above historical averages.
- Funding Risk – vulnerabilities exist in certain cash management vehicles, and funding-risk weaknesses are evident in the stablecoin sector. *The word ‘stablecoin’, after appearing only twice in May, showed up seventeen times in the November report giving a good indication of potential regulatory focus in the near future.*

The report also highlighted that the stresses in China’s real estate sector “... could pose some risks to the U.S. financial system.” Our view is that the most likely effect of the ongoing real estate sector challenges could lead to a drag on China’s economy which in turn will create a drag on the global economy, ergo the U.S. (we continue to track these developments). Rather than posing systemic risks to the financial system, the more likely outcome would be a negative impact to sentiment alongside lower growth expectations — both of which would likely result in increased capital market volatility. On balance the report highlights a set of ongoing and evolving risks that, in our view, could begin to impact market dynamics in 2022, this after a remarkably resilient 2021.

CHART OF THE WEEK



Source: Clearstead, IEA 2021, RoW = Rest of World

As the world met in Glasgow, Scotland to discuss the environment, China is in the midst of an energy crunch and has ramped up production of coal in the short-run to avert rolling brownouts and maintain activity in its manufacturing sector. However, Beijing has pledged to reign in the use of coal by the end of the decade.

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