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Memorandum

Date: 19 July 2021

To: Joseph Rinaldi, President & CIO

From: QFA IIIIP Research Team (Steven Mendley, Shiva Vijayaverl, Megan Belliveau, Zachary Nannen)

Re: Summary of Guggenheim Global CIO Outlook with Scott Minerd

The US economy has undergone a massive expansion in the last 12 months but is still plagued by the effects of COVID-19. As states get rid of mask mandates and with a return to the office expected in the fall, it's going to be interesting to see how businesses seek to operate in this new dynamic. With many employees demanding hybrid working models, firms are now offering significant perks to get people back in the office. Disruptions in supply chains while still prevalent are being addressed. While cars continue to be sold at or above sticker price due to the global semiconductor shortage, commodities such as lumber and oil are going back down to pre pandemic levels. Travel and hotel prices are high but as summer comes to an end and people go back to the office, they are projected to return to normal as well.

While the US has seen a rapid decline in cases over recent months as vaccination efforts have found success, the recent evolution of the COVID-19 Delta variant has posed a serious threat to the economy's recovery. Due to the lifting of restrictions and a significant segment of the US population remaining unvaccinated, cases have risen quickly in various parts of the country. While this outbreak may not pose the problems created by the initial large outbreak a year ago, the Delta variant still has the potential to cause closures and slowdowns, which would significantly impact the market's perception of our economic recovery.

Furthermore, many sectors of the market remain quite vulnerable to market corrections, especially commodities. Stocks may also remain volatile in the coming weeks, as pandemic concerns and other issues continue to create uncertainty. High-quality fixed income may be the best option for that reason. Still, equity is relatively fairly valued at the current time, so as earnings grow, the equities market will likely also grow, so long as the Delta variant does not create any real issues.

Inflation is expected for the short run as consumer spending is on track to continue throughout the summer. Surged by increased saving throughout the pandemic, State and Federal stimuluses and most recently by the Federal Child Tax credit. All of these factors compounded will result in inflation in the short run. However, it is not expected to persist into the long run as much of this government spending is set to expire and as states move to reduce unemployment benefits in wake of the current labor shortage. The fact that the dollar remains as the de facto reserve currency is a major factor in keeping inflation low as countries and companies around the world are drawn to it, thinking if they were to hold another currency, they would lose out. If this status quo were to change and the dollar was to lose its desirability, persistent inflation would be a greater threat to the US economy.

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Despite a strong economy and rising inflation, we are currently seeing bond yields fall significantly. Short coverings alone are not to blame for this drop in yields, this drop in yields is an indicator of market correction and a potential slowdown in growth over the coming quarters as market attitudes turn bearish with the Delta variant slowing down economic growth.

In addition to inflation, the US economy has seen major shifts in the factors of production, with the result being a decline in the labor force participation rate. In the short run, fiscal stimulus is encouraging people to stay home and not return to work, and there has been a massive surge in productivity due to increases in technology and business automation reducing the need for labor. The rise in productivity helps partially offset the inflationary pressures brought on low labor force participation. With labor shortages across many industries, in the long run we may see changes to immigration policies to offset the population decline due to low birth rates in the United States.

Cryptocurrency has seen drastic drops since its boom during the pandemic. Many cryptocurrencies currently seem to be stagnant, as support levels for crypto continue to drop and its legitimacy is questioned. Cryptocurrency prices may continue to drop in the near future, but as crypto’s role in the market is more defined, legitimate cryptocurrencies will emerge from the pack and reduce the volatility we’ve seen in the crypto market.

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