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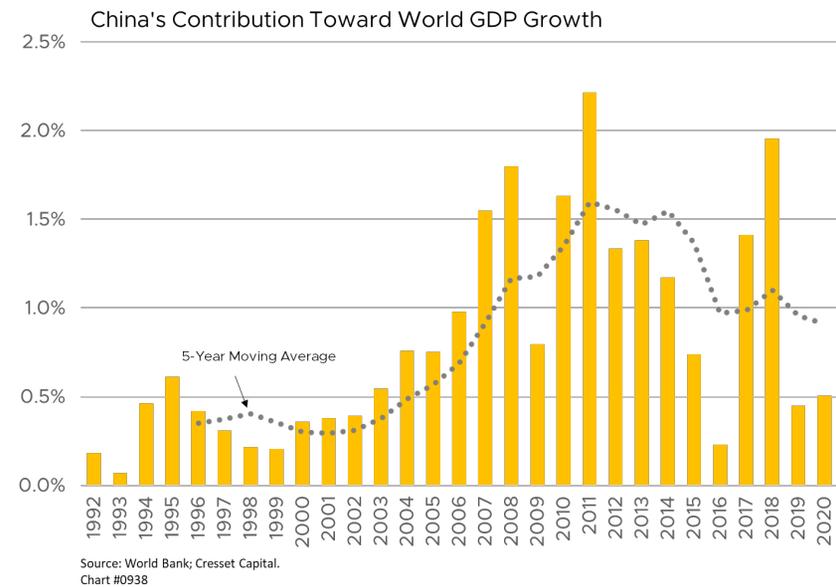
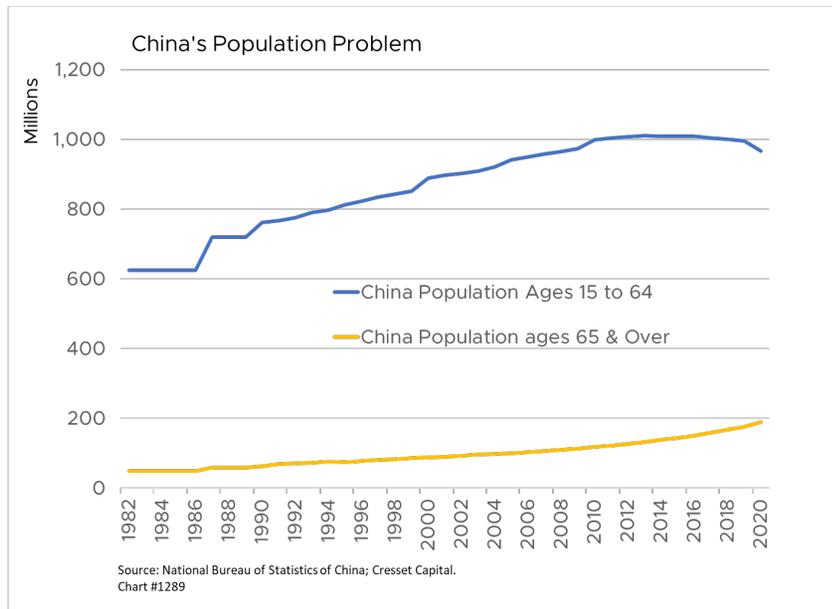
MARKET OUTLOOK

NOVEMBER, 2021

www.cressetcapital.com

- China in Trouble
- Labor Shortage
- Business Investment Spending Spree
- Global/US Reshoring
- Energy Under-Investment
- Taxes
- Inflation Watch

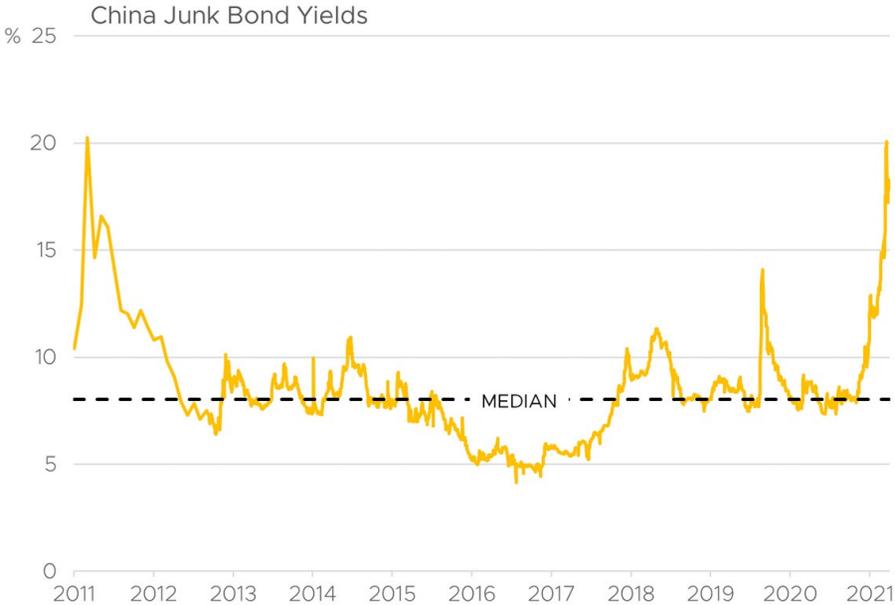
China has a demographics problem. Their working age population is shrinking while the number of retirees expands. China's contribution toward world growth is slowing.



Evergrande’s collapse is sending shockwaves through China’s financial system. China has the wherewithal to patch the financial damage, although falling property values will weigh on their economy for years.

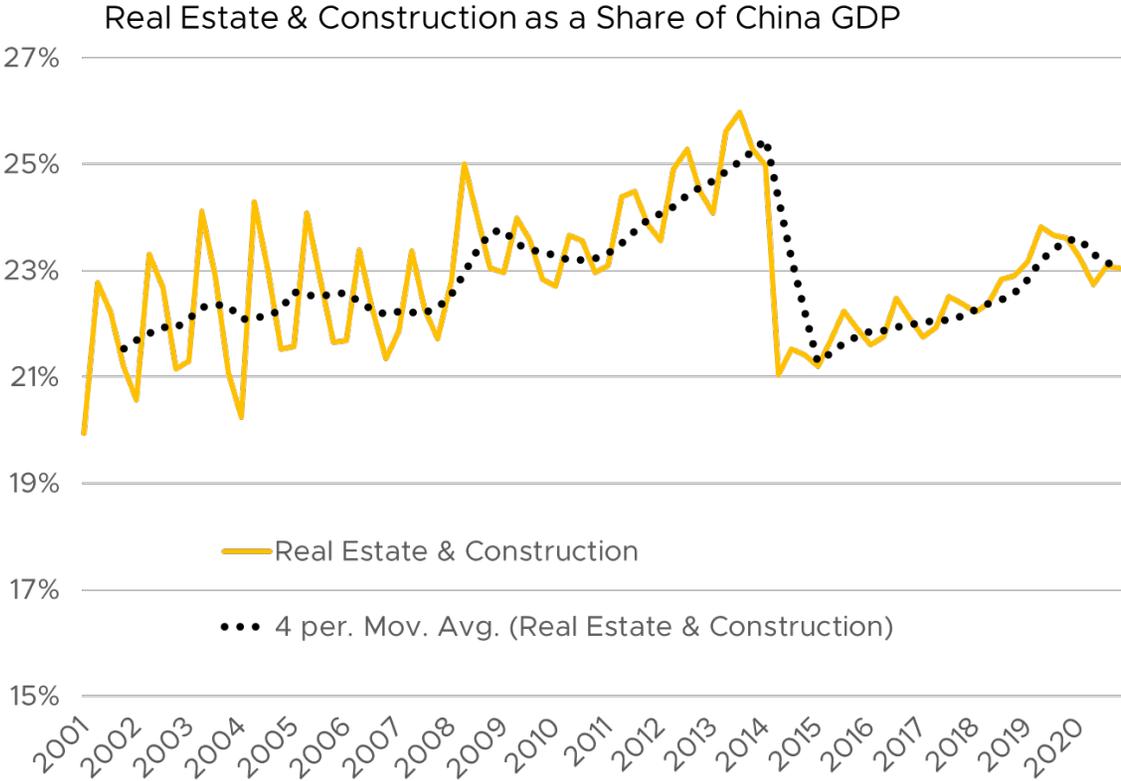


Source: Bloomberg; Cresset Capital.
Chart #1018



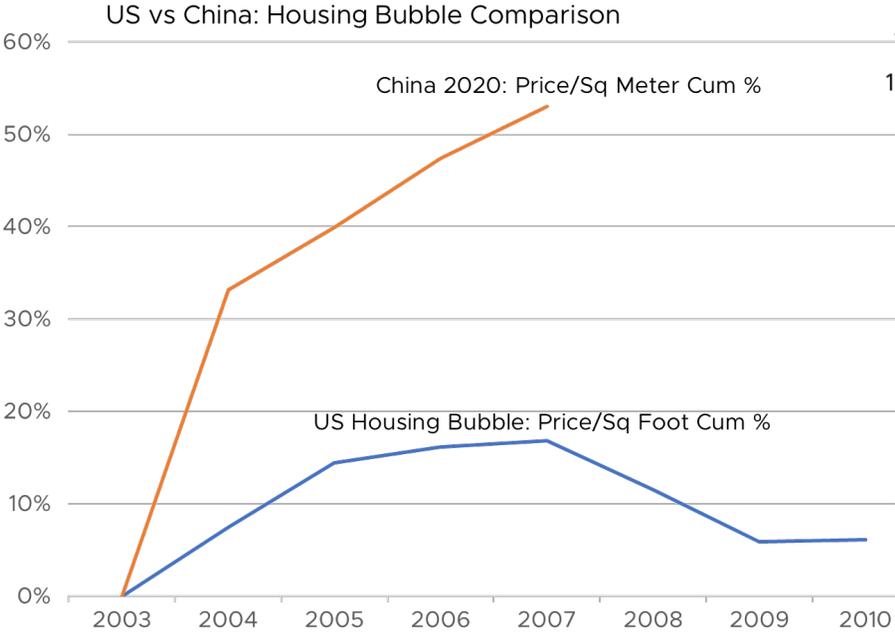
Source: Bloomberg; Cresset Capital.
Chart # 3229

China’s property sector has been an important contributor to the country’s growth. In all, real estate and construction represent about a quarter of China’s economy.

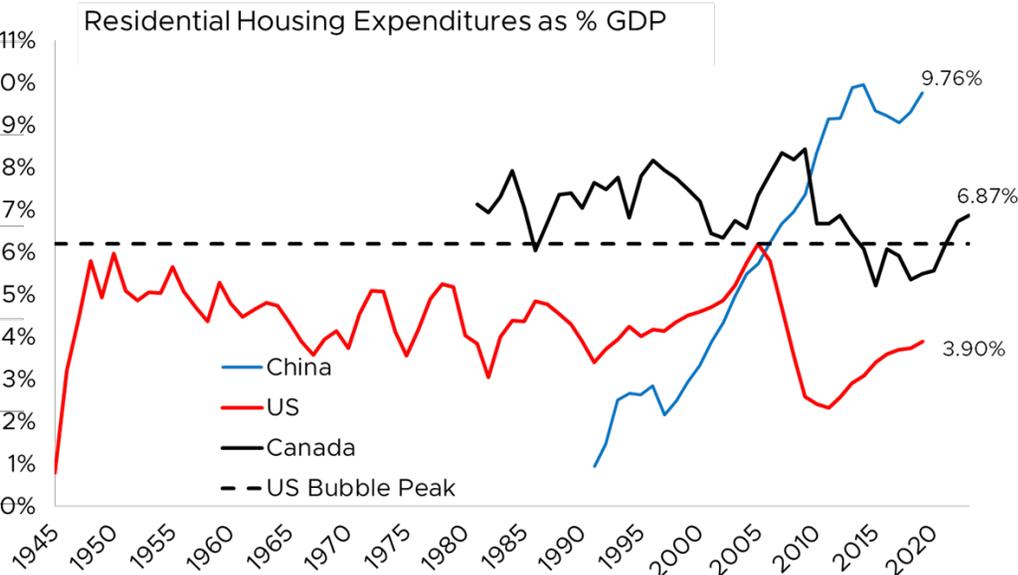


Source: National Bureau of Statistics of China; Creset Capital
Chart #1279

China’s housing bubble dwarfs America’s 2008 housing bubble, both in prices and expenditures.



Source: Bloomberg; Cresset Capital. Chart #1291



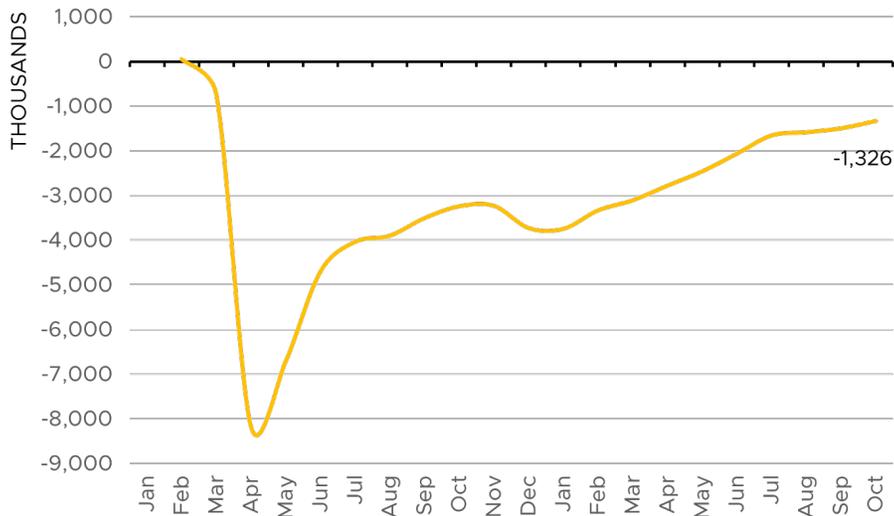
Source: Bureau of Economic Analysis, STCA, China National Bureau of Statistics, Cresset Capital. Chart #1540.1

LABOR SHORTAGE



There are 1.5 million fewer leisure and hospitality workers employed compared to pre-pandemic levels. Not surprisingly, employers are trying to recruit for 1.7 million open positions in leisure and hospitality.

Labor Market Drawdown: Leisure & Hospitality (seasonally adjusted)
Since January 2020



Source: Bureau of Labor Statistics; Cresset Capital.
Chart #0499

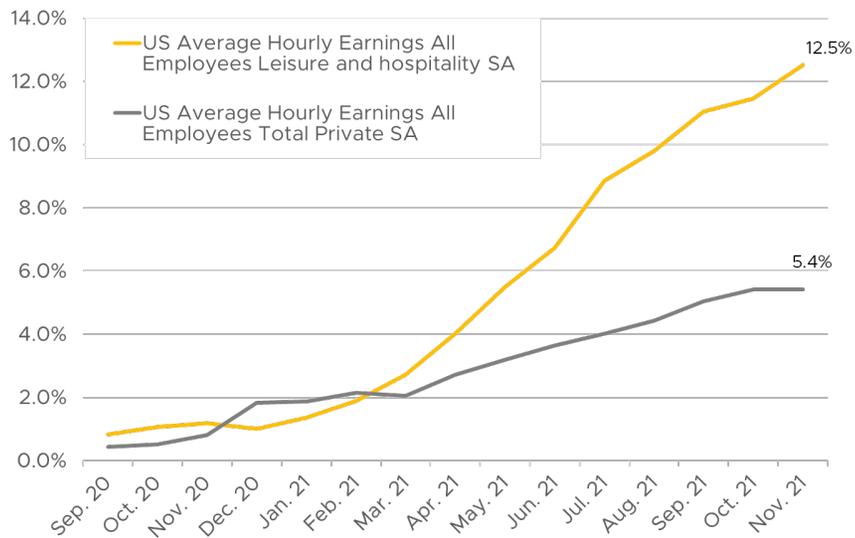
Job Openings: Leisure & Hospitality (in 000s)



Source: Bureau of Labor Statistics; Cresset Capital.
Chart #0253

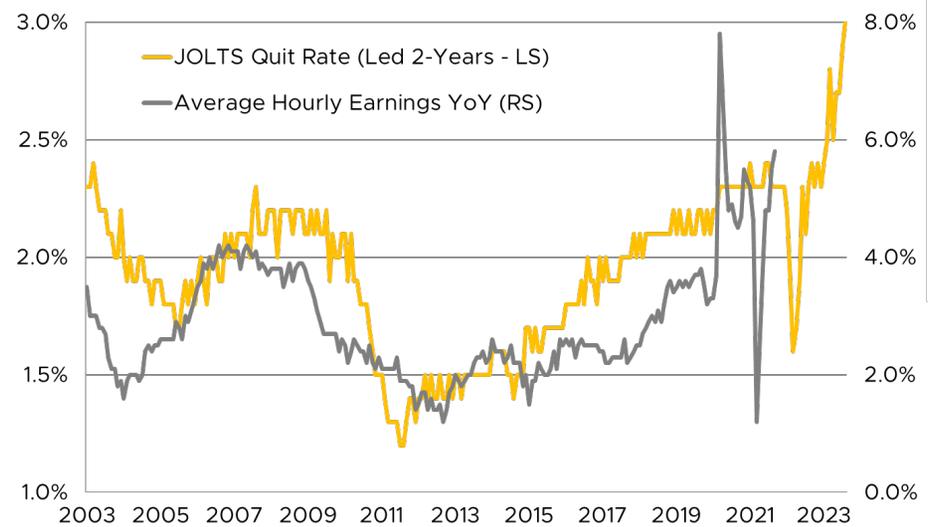
Leisure and hospitality wages have expanded more than 11% since July 2020, far outpacing broader wage trends. Emboldened employees are quitting their jobs in record numbers, suggesting higher wages ahead.

US Average Hourly Earnings All Employees Leisure and hospitality SA
Cumulative Wage Growth From Jul 2020



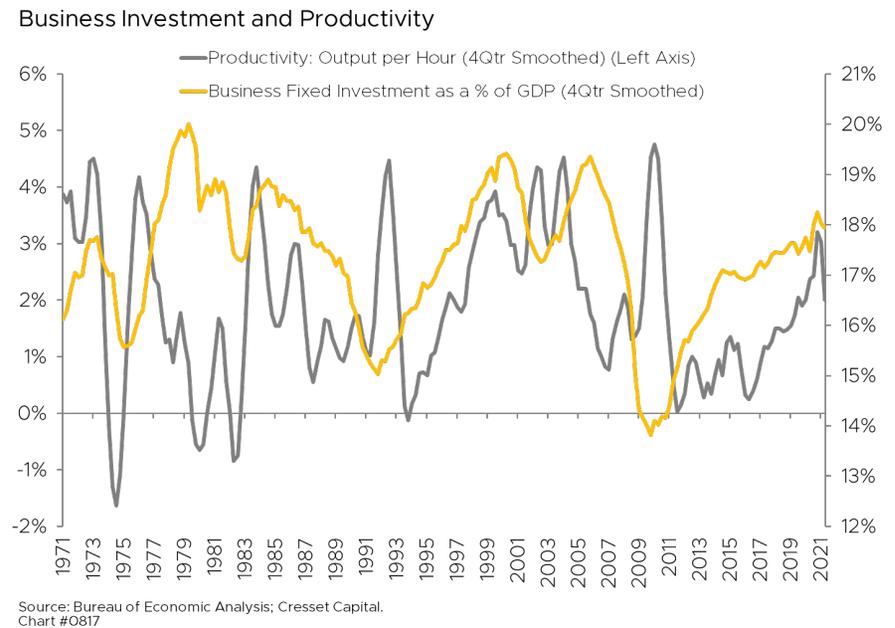
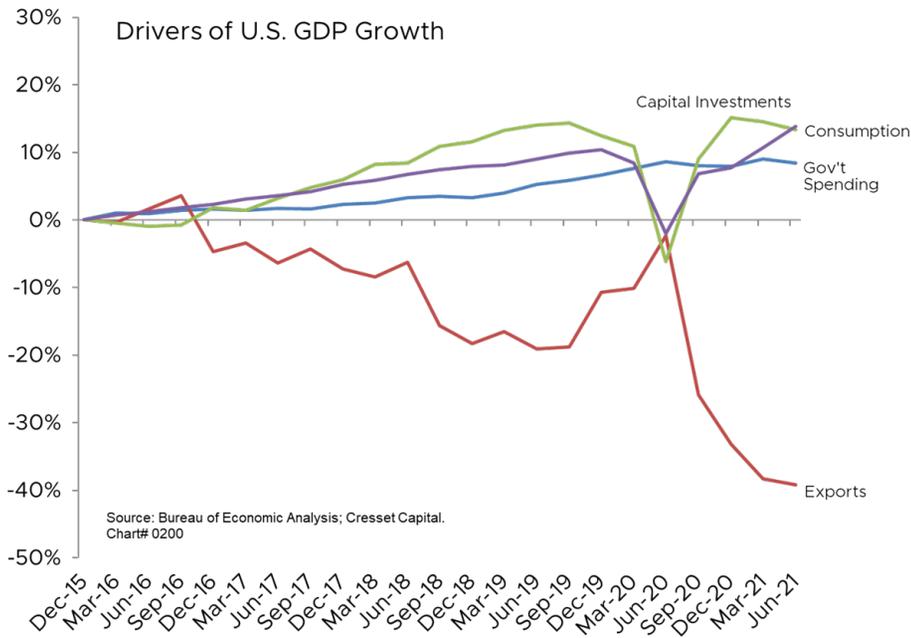
Source: Bureau of Labor Statistics; Cresset Capital.
Chart #1252

Quit Rate vs Wages



Source: BLS Job Openings and Labor Turnover (JOLT), Cresset Capital.
File #1648.2

Business investment is on the rise, to make up for the labor shortfall. Expect higher productivity as a result of the investment.

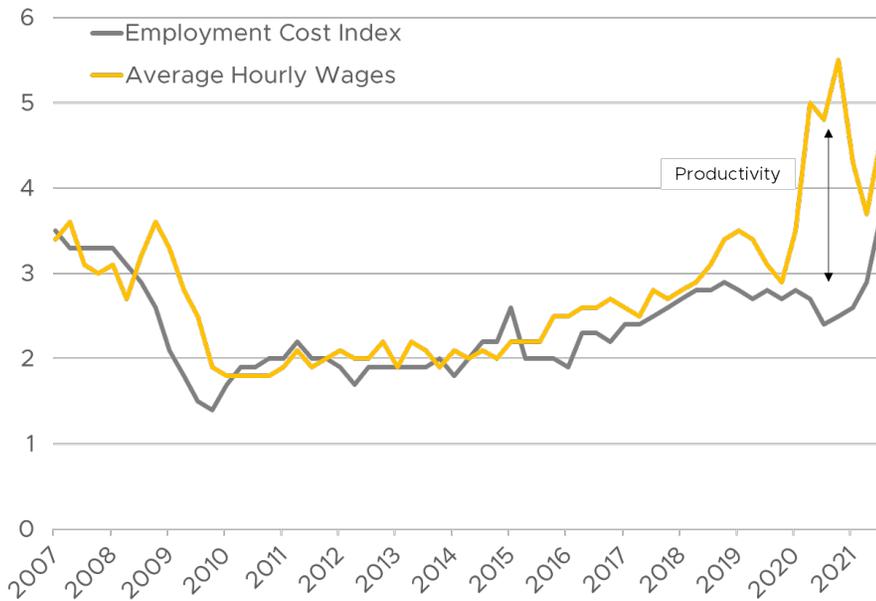


BUSINESS INVESTMENT SPENDING SPREE



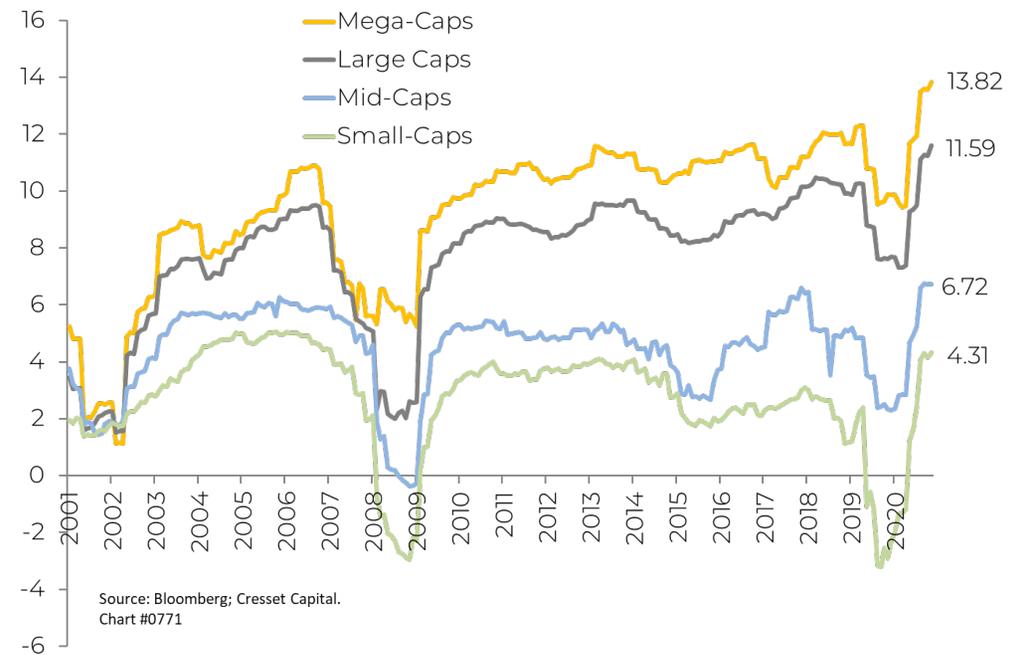
Business investments are already paying off. Employment costs are trailing wage growth suggesting employers are benefitting from productivity gains and profit margins are rising.

Wage Growth vs Employment Cost Index (YoY %)



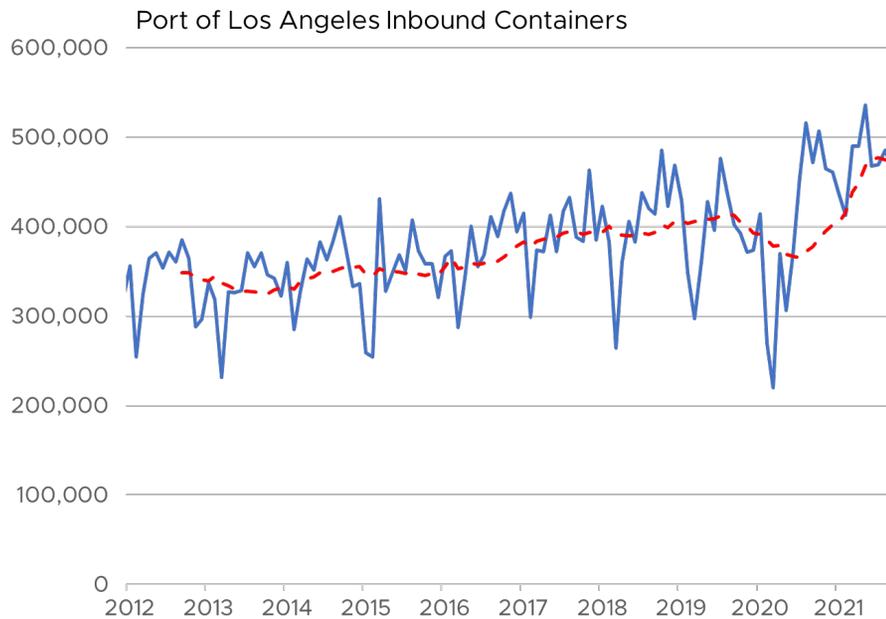
Source: Bureau of Labor Statistics; Cresset Capital.
Chart #1286

Profit Margins by Market Capitalization

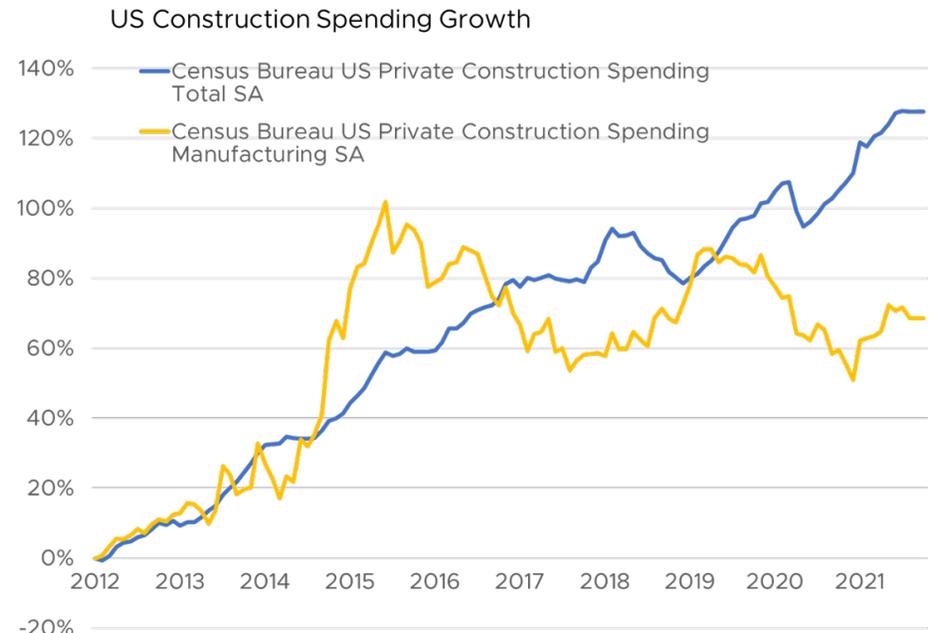


Source: Bloomberg; Cresset Capital.
Chart #0771

The logistics bottleneck understates the number of inbound containers entering the US. In fact, we're at an all-time high. Meanwhile, construction spending on manufacturing facilities has lagged overall construction spending. We expect that to change.

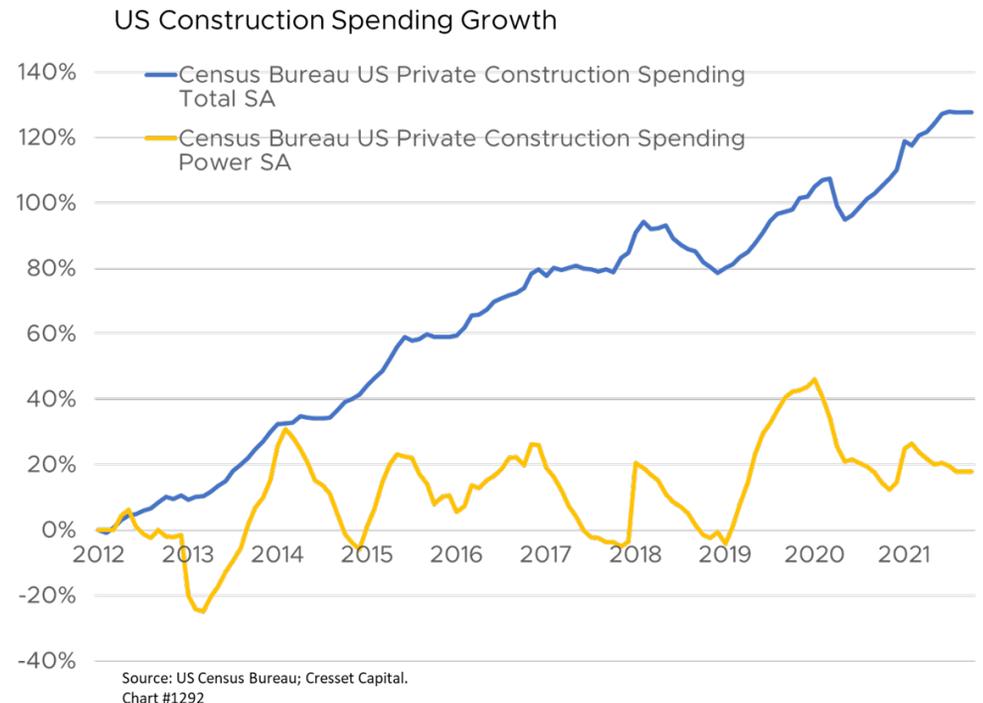
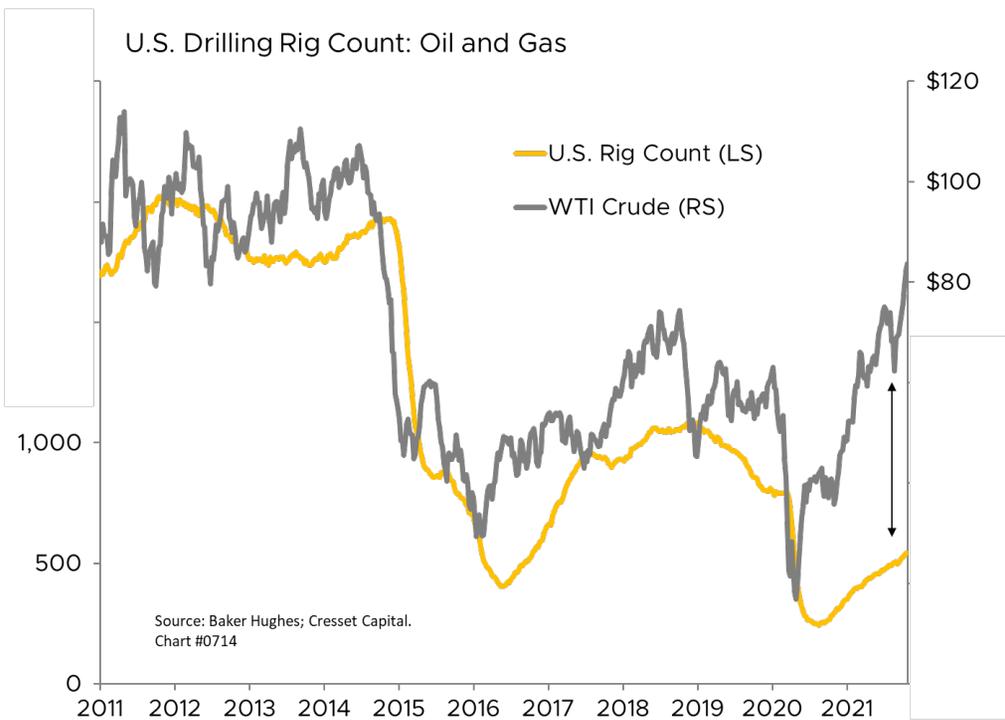


Source: Port of Los Angeles; Cresset Capital.
Chart #1288

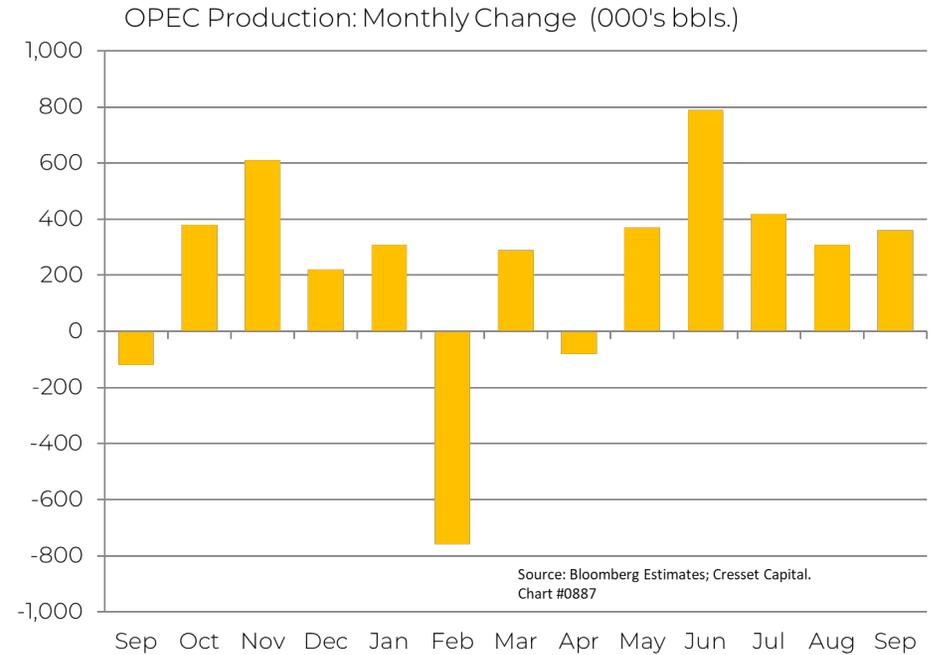
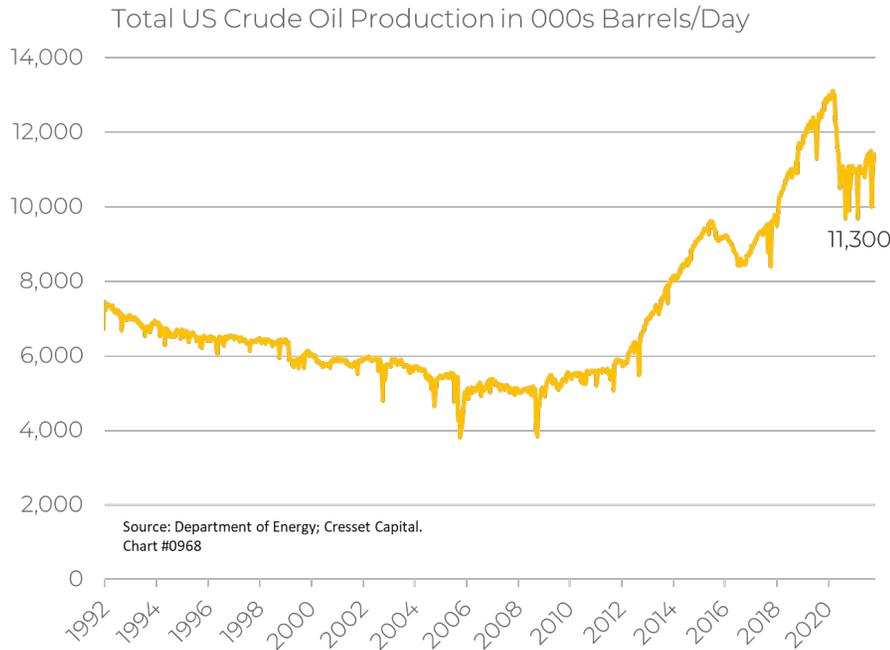


Source: US Census Bureau; Cresset Capital.
Chart #1292

Given the uncertain future for fossil fuels, investors have been reluctant to commit capital into energy sector. As a result, today's rig count hasn't kept up with current prices and new construction growth as lagged for a decade.



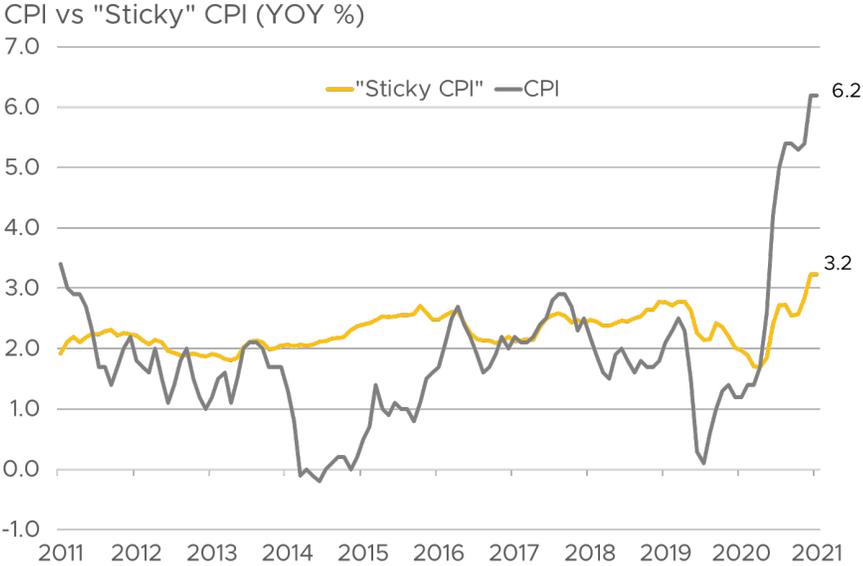
Under investment is reflected in lower US production, even in the face of higher energy prices. OPEC countries, led by Saudi Arabia, are picking up some of the production slack.



- 15% Minimum Corporate Tax on Book Income
- Corporate Tax Rate Likely Remains at 21%
- Tightening of Estate Tax Rules (or a lower exemption) Look Likely
- The Higher Rates on Capital Gains and Dividends are Probably Out
- Higher Tax Rate on Personal Income also looks likely to be dropped
- Mark-to-market or taxing unrealized gains of billionaires will probably be dropped but it is still in the mix.
- The SALT deduction could be restored for two years on the front end but eliminated for a couple of years beyond 2025

Source: Cornerstone Macro

Inflation trends are picking up, although the “sticky” components of CPI, like housing, are trailing overall trends. Small business are raising prices. That’s a leading inflation indicator.



Source: Bureau of Labor Statistics; Federal Reserve Bank of Atlanta; Cresset Capital.
Chart #1249

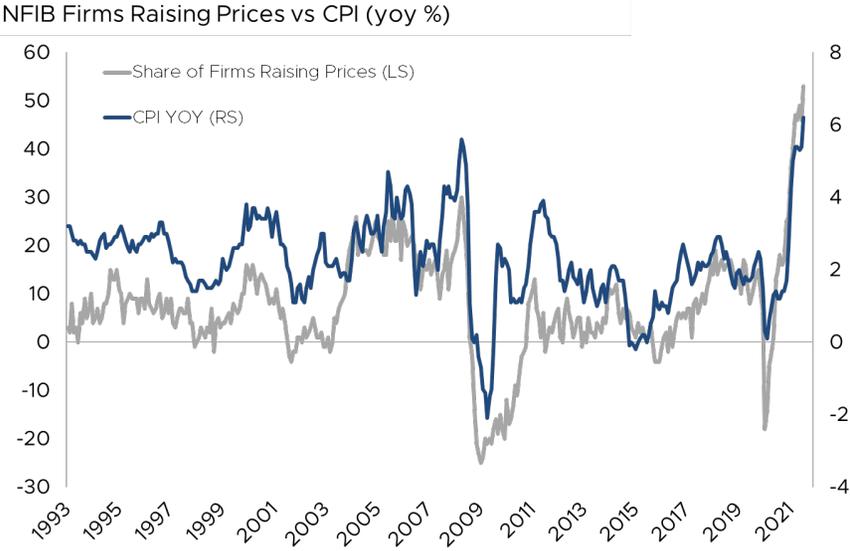
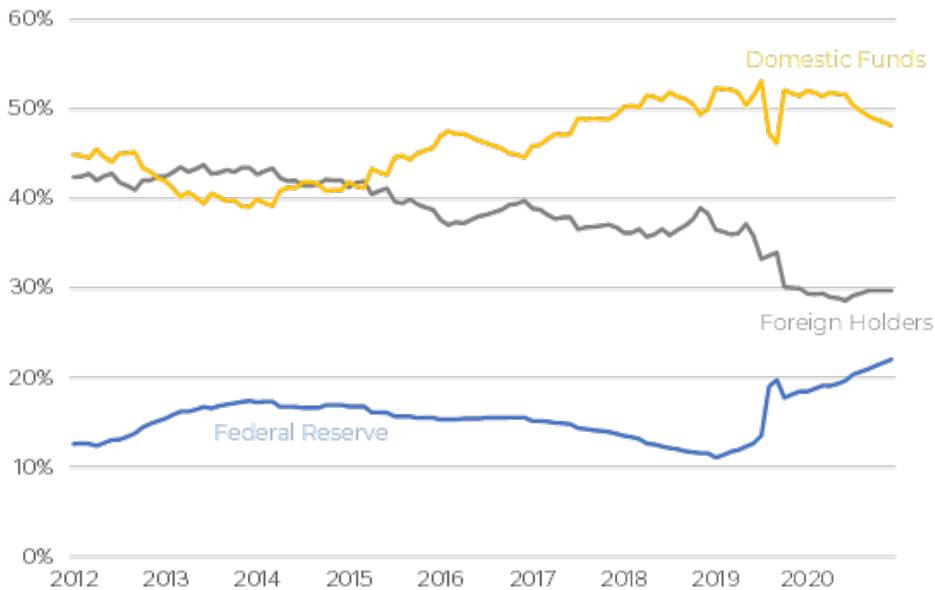


Chart #2104.1
Source: NFIB, Cresset Capital.

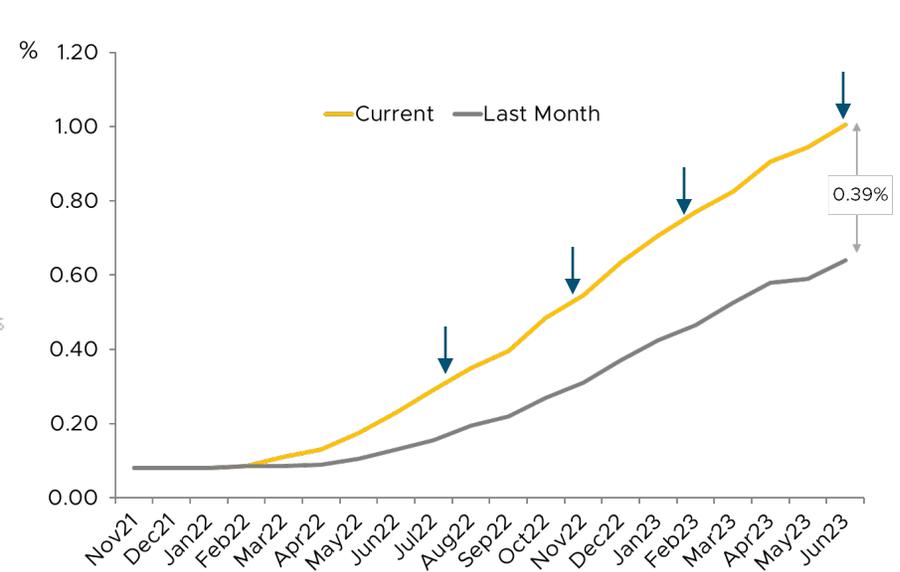
The Federal Reserve owns more than 20% of US Treasuries and is expected to begin its tapering program this month. Markets anticipate three rate hikes by the end of 2023, with one hike next year.

Holder as a Share of US Treasury Securities



Source: Federal Reserve; Cresset Capital.
Chart #0969

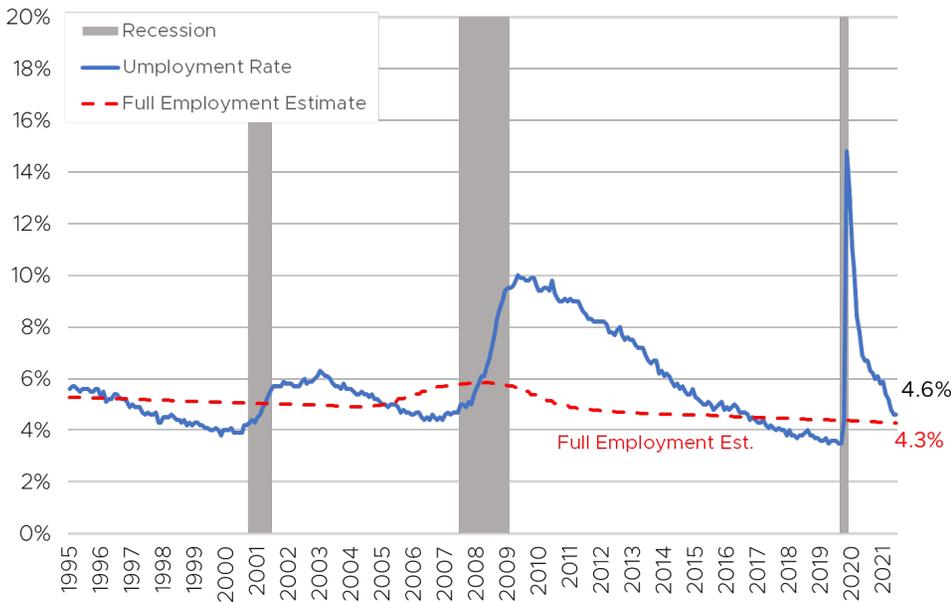
Fed Funds Futures: Last Month vs Today



Source: Bloomberg; Cresset Capital.
Chart #0731

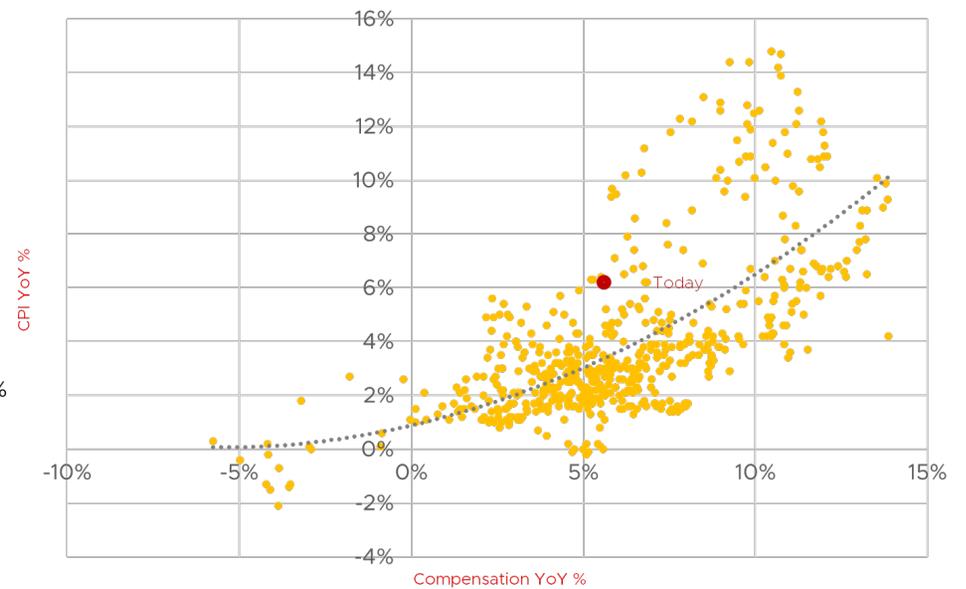
The Fed is targeting full employment, but we worry they may be overestimating the size of the labor market. Powell & Company run the risk of overstimulating as they attempt to drive the unemployment rate to pre-pandemic levels. Current wage growth is consistent with current CPI.

The U-3 Unemployment Rate Through October 2021



Source: Bureau of Labor Statistics; Congressional Budget Office; Cresset Capital.
Chart #1078

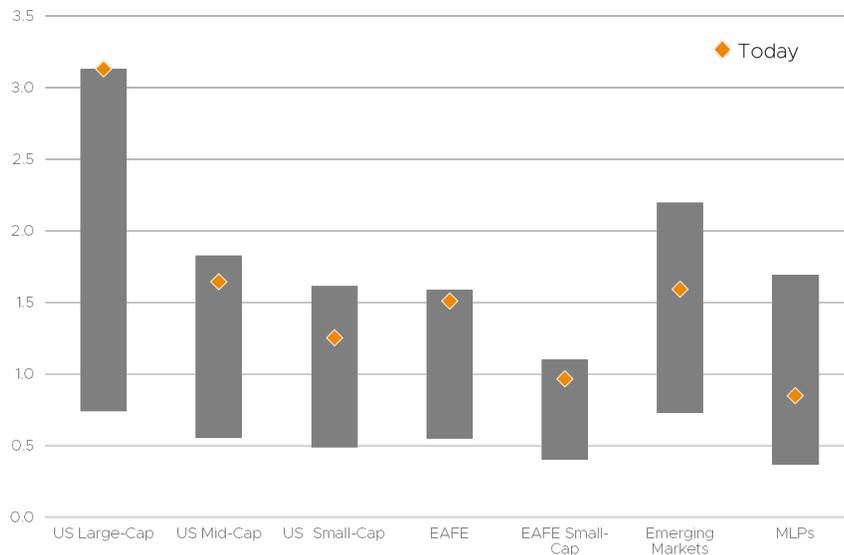
Personal Income Compensation vs Inflation: YoY % (1971 - Today)



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Cresset Capital.
Chart #1120

Equity markets are expensive relative to their history. That's due in large part to historically low interest rates. The energy sector is cheap relative to its history, however.

Asset Class Price/Sales Ratios Relative to Their 15-Year History



Source: Bloomberg; Cresset Capital.
Chart #3084

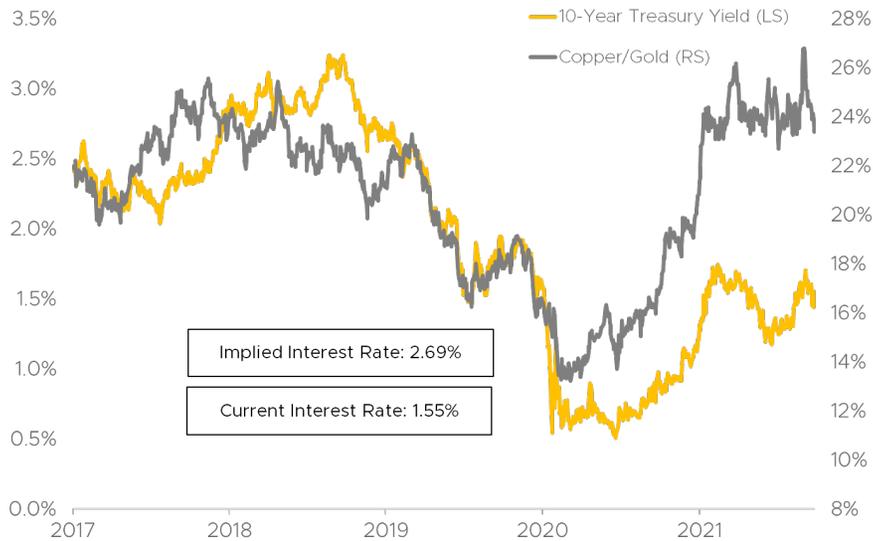
Cresset Capital Equity Valuation Barometer

HISTORICAL INDICATORS:	PERCENTILE	CHEAP			EXPENSIVE		
		NOW	1	2	3	4	5
US Large Cap	97%						▼
US Small Cap	87%						▼
International Large Cap	73%					▼	
International Small Cap	69%					▼	
Emerging Markets	83%						▼
Average	82%						▼

Data as of: October 27, 2021
Source: Bloomberg; Cresset Capital.
Chart #3114

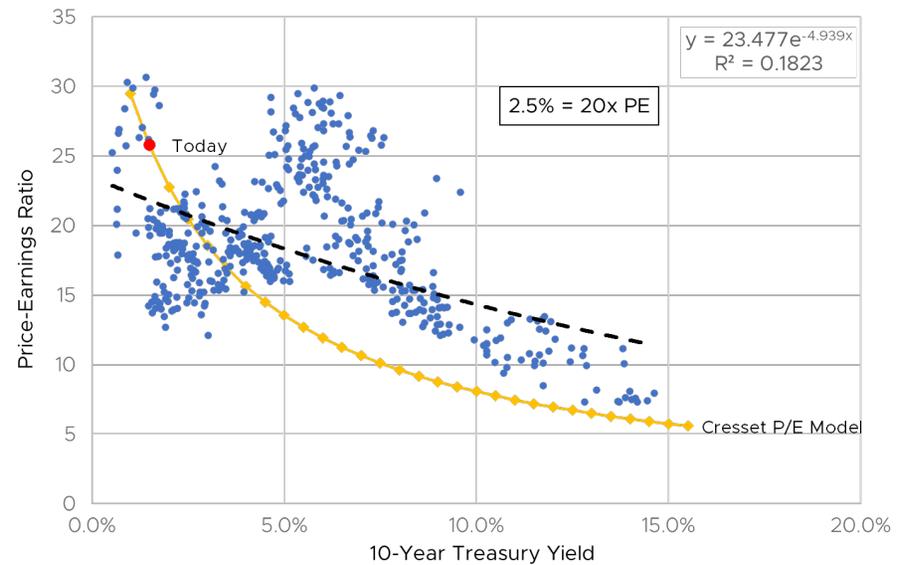
Rising interest rates represents a headwind on valuation expansion, a key component of equity market returns over the last decade.

10-Year Treasury Yield vs Copper/Gold



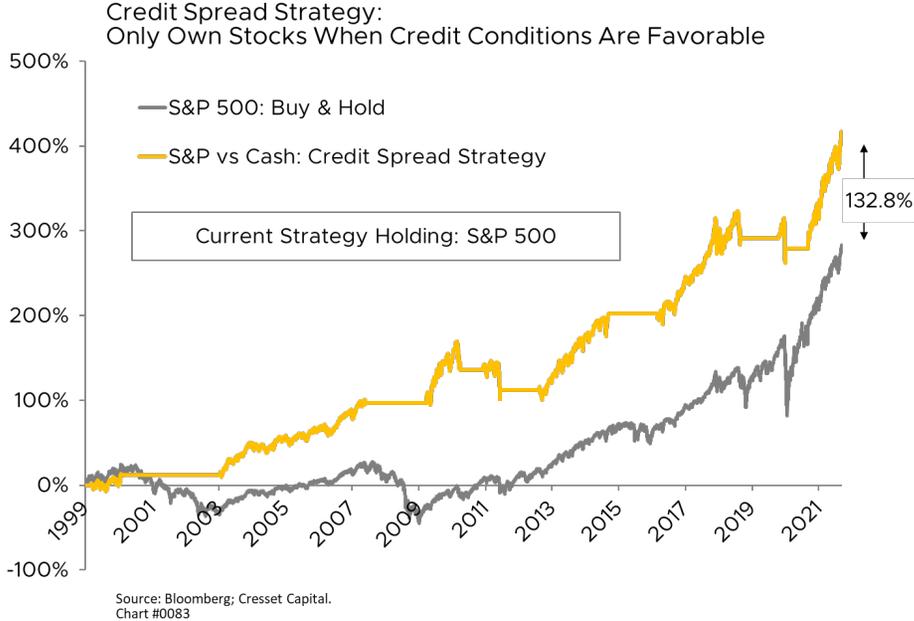
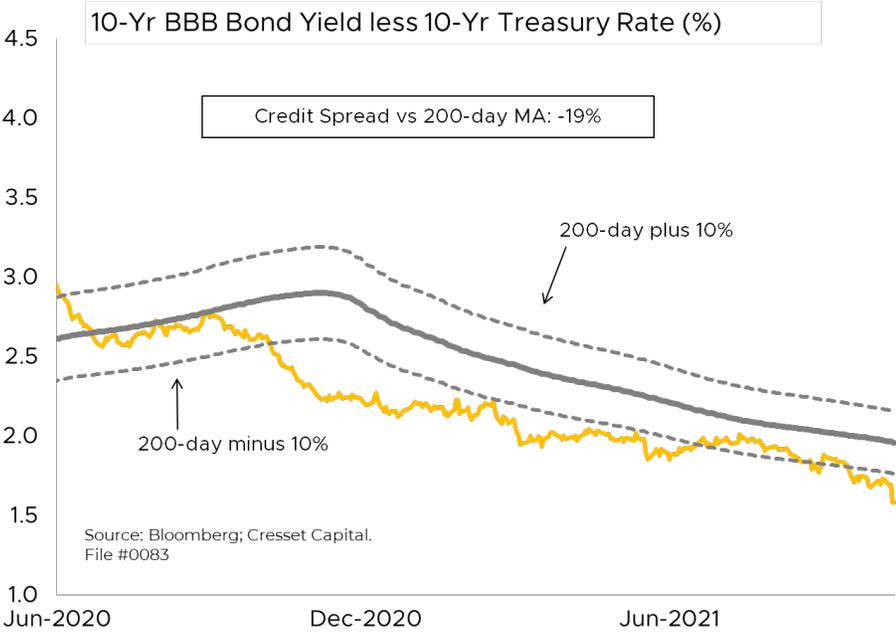
Source: Bloomberg; Cresset Capital.
Chart #0947

Interest Rates Are a Key Driver of Equity Market Valuation



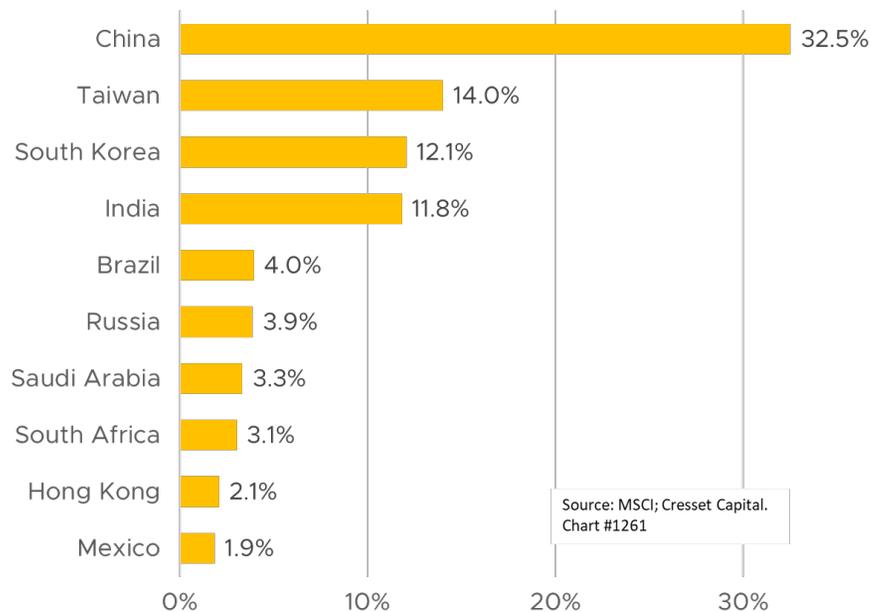
Source: Bloomberg; Cresset Capital.
Chart #1151

Credit conditions offer an early warning indicator for equity risk taking.



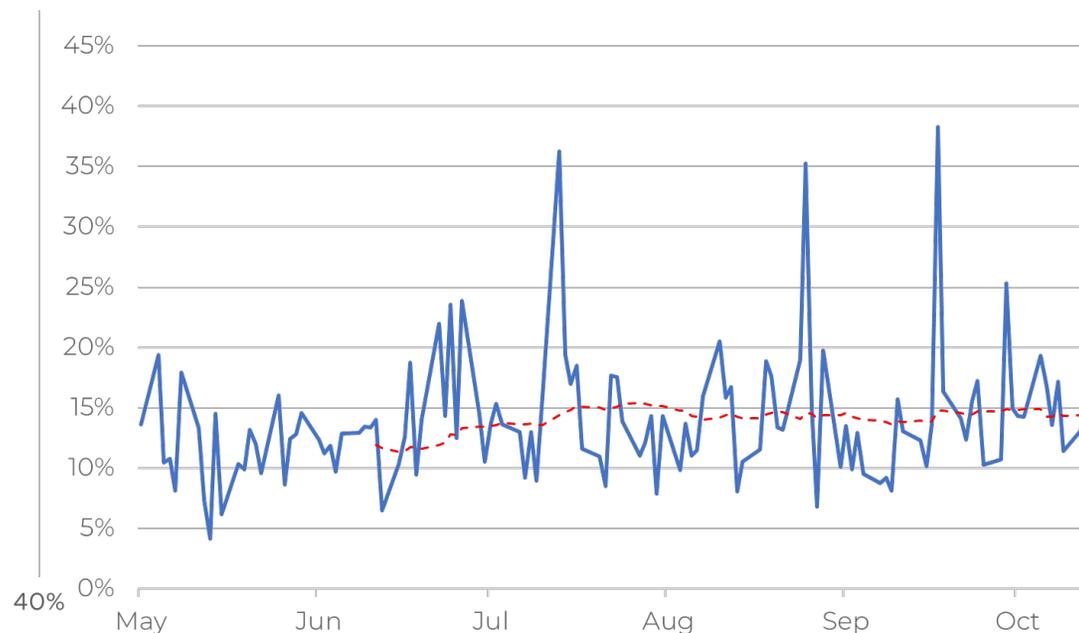
China dominates the emerging market index, although the range in returns between EM's constituent countries averages more than 10% daily, suggesting an opportunity for active management.

MSCI Emerging Market Country Allocation



Source: MSCI; Cresset Capital.
Chart #1261

Daily Emerging Market Inter-Country Return Range



Source: MSCI; Bloomberg; Cresset Capital.
Chart #0949

NO VALUATION EXPANSION

Quality Mid-Cap Value

Small Cap Quality Value

SLOWING CHINA

Emerging Markets Active Management

HIGHER TAXES

Consider ETFs or Separate Accounts

Qualified Opportunity Zone Investing

Roth Conversion

INTEREST RATE RISK

Bonds for Cash Flow

Short Maturities

Alternative Income Sources

NEGATIVE REAL RATES

Private Credit

Gold

Industrial Real Estate

DISCLAIMER



Past performance does not guarantee future results.

Investments cannot be made in an index.

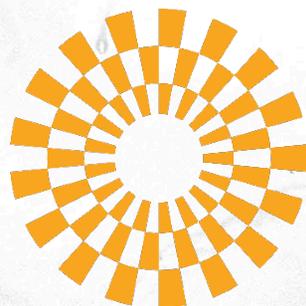
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