



### Insights and Observations: Fourth Quarter 2021

Even after abolishing its one-child policy in 2016, the number of births in China continues to decline. China's fertility rate, calculated as the number of children a woman has over her lifetime, now stands at 1.3 ... well below the 2.1 rate considered to be the *replacement level*. In fact, China's fertility rate is now below Japan's rate of 1.34.

**Chinese people's views about family and birth have been reshaped over the past decades, and the government's latest efforts can't easily reverse that.**

**Yi Fuxian, scientist/author – WSJ 1/3/22**

During the decades when China strictly enforced low birth rates, *tens of millions* of abortions were performed. That policy has dramatically changed. China now is encouraging couples to have children. They are closing abortion clinics and adding fertility services to hospital-based family-planning clinics.

**What is so mind-boggling for me is that after all these years of birth restrictions maybe fertility clinics will become more important than abortion clinics.**

**Ayo Wahlberg, University of Copenhagen – WSJ 1/3/22**



Mortgage loans for home purchases reached a record \$1.61 trillion in 2021, according to the Mortgage Bankers Association (MBA). The previous record of \$1.51 trillion was set in 2005.

**Buying a home is really a statement of confidence in your job situation, your financial situation, your family situation.**

**Mike Fratantoni, MBA Chief Economist – WSJ 1/1/22**

Rising rates have slowed refinancing activity. Total refinances fell to \$2.3 trillion in 2021 from \$2.6 trillion a year earlier. Of the \$3.9 trillion in mortgages issued in 2021, approximately 59% were refinances ... down from 64% in 2020.

In relation to income levels, mortgages are less affordable than at any time since 2008. According to the Federal Reserve Bank of Atlanta, Americans currently need approximately 33% of their income to cover mortgage payments.



During the height of the pandemic, Peloton Interactive Inc. had trouble keeping pace with orders. Revenues soared, and the company’s market value skyrocketed to over \$50 billion ... but since then it has dropped to around \$15 billion. Peloton’s share price, which reached a high of \$171, now trades below \$40 per share.

**Management’s view was that there was a paradigm shift, in which most people would continue to favor home workouts once the pandemic subsided. It was a false narrative. People did want to return to the gym.**  
**Aaron Kessler, Raymond James – WSJ 12/31/21**



With Apple on the verge of reaching a massive \$3 trillion market value, passive investors now need to be aware of *concentration risk* in certain index products. For example, the 10 largest companies comprise about 30% of the total market value of the S&P 500 Index.

**Thinking of it in terms of buying an entire business is helpful: Would you like to own the iPhone maker or all of McDonald's, Walmart, AT&T, Philip Morris, Berkshire Hathaway, Proctor & Gamble, JPMorgan Chase, Starbucks, Boeing, Deere and American Express combined? A lot would have to go wrong all at once to torpedo that diversified group of blue-chip stocks.**

**Spencer Jakab – WSJ 12/26/21**

Dimensional Fund Advisors reviewed the stock performance of companies that joined the 10 biggest in the S&P 500. They found that in the decade before reaching that milestone, those stocks had (on average) outperformed the overall market by 10% annually ... but in the next 10 years, performance lagged the markets by 1.5% annually.



Germany's workforce is expected to peak in 2023 and start to shrink by nearly five million by the end of this decade. According to Germany's new coalition government, the labor shortage is one of the major obstacles to future economic growth.

In a recent survey, only 16% of German companies rely on recruitment of skilled workers from abroad. Many Germans retire early and are given generous pensions. Workers already have the lowest hours worked (annually per person) in the Organization for Economic Cooperation and Development.

These demographic headwinds threaten the sustainability of the current pension system. Economists now conclude that higher contribution rates and lower payouts will be required sooner rather than later.

**Germany was one of the first in Europe to experience a sharp drop in birthrates after World War II, as early as the 1970s. This means its fate could be the shape of things to come for other mature economies that are still behind the demographic curve.**

**Georgi Kantchev – WSJ 12/22/21**



The World Economic Forum (WEF) annually ranks the biggest risks to the upcoming year. The WEF's rankings are based on surveys of business, political, and thought leaders. *Infectious disease* was not even mentioned in the 2020 list. And for the 2021 risk rankings, there was no mention of *inflationary concerns*.

The predictions by the WEF are just another example of how our expectations are based on past experiences ... and that the real risks going forward are usually about things we haven't even imagined.

**Advances in computing power, artificial intelligence and big data were supposed to make prediction a science. But technology can't see around corners any better than humans. An algorithm can predict what song you want to hear or the video you want to watch based on past habits but can't predict what has never happened or happens so rarely that data provides no reliable pattern.**

**A world of existential uncertainty calls for *humility* and a willingness to revise one's mental models in response to new information.**

**Greg Ip – WSJ 12/29/21**



For many years, the “rule of thumb” was that retirees should spend no more than 4% of their savings annually to remain financially secure during their retirement years. Morningstar Inc. recently challenged that general principle, claiming a 3.3% distribution rate may be more appropriate. Morningstar’s adjustments were prompted by the current investment backdrop of high stock valuations and low bond yields ... which most economists and investment gurus believe will lead to lower stock and bond returns for the foreseeable future.

**It's counterintuitive, but when the stock market and stock valuations are high, it's the worst time to retire.**

**Christine Benz, Morningstar – WSJ 11/12/21**

Our clients know that a simplistic *rule of thumb* offers just a starting point at best. There are plenty of other considerations:

- Should your distribution rate change if you retire at age 72 instead of 65?
- What if you have no credit card or mortgage debt?
- What if social security and other pension resources cover most of your basic needs?
- Also, have you considered family dynamics, income taxes, and estate planning goals?

We don't necessarily disagree with Morningstar's recommendations. We believe it is a reasonable reflection of the risks facing people who elect to retire when asset prices are high and uncertainty prevails.

Retirement planning will always be a complex, ongoing process. Rules of thumb can be helpful, but there are no substitutes for financial planning that coordinates your unique circumstances and family goals.



Beijing is trying to manage through a *controlled implosion* of its property market. Real estate represents about 30% of China's economy, which is nearly twice the U.S. weighting leading up to the financial crisis of 2008-2009. Several overleveraged Chinese real estate developers are in bankruptcy, which has caused hundreds of billions in yuan- and dollar-denominated debt to default.

**China's economy has reached a perilous phase.**

**Joseph C. Sternberg – WSJ 12/16/21**

While real estate has historically been the primary driver of the economy, it has left China with an overbuilt property market. Some 90% of urban households already own their properties, and it is estimated that there is enough existing inventory to accommodate 10 years of urban immigrants.

As a result, the average new-home prices for 70 Chinese cities fell for a third straight month in November. To make matters worse, nearly 80% of China's household wealth is tied up in real estate.

At the same time, President Xi Jinping is reining in "*capitalistic excesses*", by cracking down on new and innovative industries, such as ride-sharing, private education, social media and online/private healthcare. As a result of Beijing's regulatory clampdowns, Chinese companies in the technology, education, and property sectors have been laying off tens of thousands of workers.



**China is experiencing a slow-motion economic crisis that could undermine stability in the current regime and have serious negative consequences for the global economy.**

**Mr. Xi is privileging the less productive and less innovative components of the Chinese economy while enhancing control, limiting financing and punishing entrepreneurial leaders in many leading industries.**

**In short, it is difficult to escape the conclusion that China's economy is systematically weakening and that Mr. Xi's new priorities offer little help for a quick turnaround.**

**Thomas J. Duesterberg, Hudson Institute – WSJ 12/20/21**



Demographics, escalating debt levels, soaring asset values, and geopolitical influences ... just a small sampling of the many issues affecting our world economy.

We may have plenty to be concerned about, but we also have much to be thankful for. Take care, and stay safe.

**Daniel G. Corrigan, CPA/PFS, CFP®**