Insights and Observations: First Quarter 2022

In a survey of 1,736 HR executives world-wide by consultant Mercer LLC, about 38% say they offer a phased retirement, more than double the 17.2% that did so before the pandemic. According to the Society for Human Resources Management, 23% of U.S. employers had these arrangements in 2021, up from 16% just five years earlier.

> **Phased retirement is a way to slow the brain drain and manage talent shortages at a time when the U.S. workforce is aging.**
>
> **Andres Tapia, Korn Ferry – WSJ 3/15/22**

A phased in retirement can be the ultimate win-win scenario … offering continuity for employers, along with considerable financial and psychological benefits for workers.

> **Plenty of older workers have wished for something between full-bore work and retirement. Now, more companies seem to be giving them what they want.**
>
> **Tergesen/Weber – WSJ 3/15/22**

According to a survey by the Urban Institute, state revenues between April and November increased by 24% from 2020 to 2021. Also, states' reserve funds were at a record $113 billion for the 2021 fiscal year, and 32 states are currently ahead of revenue collections for fiscal 2022, according to the National Institute of State Budget Officers.

> **Numerous states are proposing tax rebates and bonuses for public workers as the fiscal doldrums of early 2021 give way to fat times fueled by booming markets, growing incomes and federal aid.**
>
> **Jimmy Vielkind – WSJ 1/21/22**

The Foundation for Government Accountability (FGA) recently reported that nearly 22% of Medicaid benefits are improperly paid. About 80% of the problems are due to eligibility errors, meaning that people are receiving benefits without evidence that they qualify.

The FGA cites missing records and insufficient documentation, along with cases where periodic eligibility redetermination was not being conducted. In other words, Medicaid cannot account for one out of every five dollars it pays out.

Members of the Barron's Roundtable, a select group of ten high-profile investment managers, recently reported the results of their stock picks for 2021. During a year when the benchmark S&P 500 returned over 28%, two of the advisors picked stocks that beat the benchmark, three were at or around the benchmark, two were below the benchmark, and three actually recorded negative returns for the year.

Barron's also reports the overall performance of recommendations by the publication for the entire calendar year.

> **Barron's 2021 stock-picking record took a big hit early on, thanks to the meme-stock craze. And even with some savvy picks later in the year, we failed to beat our benchmarks … Barron's had a mediocre year when it came to stock-picking.**
>
> **Barron's – 1/13/22**

Basically, the stocks that Barron's expected to outperform actually underperformed … while the stocks they warned could underperform actually rose more than the market average.

Global debt levels are soaring as the world grapples with escalating fuel and food prices. With consumers struggling to make ends meet, governments are increasing subsidies at a time when borrowing costs are rising. All of these additional expenditures are occurring after a couple of years of massive pandemic-related public spending.

> **A surge in food and fuel prices is raising pressure on governments around the world to pick up the tab for consumers, stretching precarious public finances and intensifying political instability in the shakiest economies.**
>
> **Fairless/Bariyo/Dube – WSJ 4/4/22**

Governments in the 19-nation eurozone are projected to run budget deficits of 4.5% of GDP, in part due to new subsidies. Emerging market economies will need to refinance net debt of about $7 trillion this year, up from $5.5 trillion in 2021. Governments across Africa have retained or reintroduced subsidies which will only exacerbate the continents ongoing struggles with debt.

Subsidies might support consumer confidence in the short term, but they also prevent healthy adjustments in the economy, deterring companies and consumers from adjusting to economic shifts.

Joerg Kraemer, Commerzbank in Frankfort – WSJ 4/4/22

Economists warn that subsidies are politically difficult to withdraw even when they have outlived their purpose. The International Monetary Fund also cautions that subsidies tend to benefit richer households that consume more energy. Gas and oil subsidies, which are already pegged at $6 trillion or 7% of global economic output, could also disrupt plans to shift away from fossil fuels.

Consider some recent commentary/opinion about cryptocurrencies:

Crypto is for entertainment, not investment. Spend an amount you would comfortably take to a casino or shell out on scratch-off lottery tickets, not a percentage of your portfolio.

Jack Hough – Barron’s 1/24/22

As currently constructed, the crypto ecosystem lacks accountability and legal recourse, so there is little basis for trust. And bitcoin’s basic operations, for example, require enough electricity to power an industrialized nation.

To treat crypto as actual wealth on par with labor earnings and returns on actual investments would grant enormous purchasing power to people who have done nothing to expand the productive capacity of the economy. Monetizing crypto would be tantamount to legalizing counterfeit currency.

Perhaps it is time that we call Rumpelstiltskin by his name.

Hanke/Sekerke, Johns Hopkins Economists – WSJ 1/24/22

People will continue to bet on the price of cryptocurrencies. After all, they are excellent vehicles for speculation. Whereas speculation occurs in most markets, in cryptocurrency, speculation *is* the market.

If you are considering becoming a cryptocurrency investor or if you already are, I encourage you to realize there is no requirement to drink the disruptive Kool-Aid in order to invest. It is possible to profit from merely speculating on continued speculation.

Alex Pickard, Research Affiliates – March 2022

The U.S. homeownership rate, which reached a high of 69.2% in 2004, currently stands at 65.5% according to the Census Bureau. The total value of owner-occupied homes in the U.S. rose $8.2 trillion over the past decade to $24 trillion, according to the National Association of Realtors (NAR). Overall, about 71% of the increase in housing wealth was gained by high-income households.

The past decade's booming residential real-estate market has enriched almost every U.S. homeowner, but the gains have largely benefited the wealthiest.

Nicole Friedman – WSJ 3/9/22

In 2010, high-income households held 28% of all U.S. housing wealth, but their share rocketed to 42.6% by 2020. Middle-income households saw their allocation decline to 37.5% in 2020, from 43.8% in 2010. Low-income housing wealth started the decade at 28.2%, but declined to 19.8% by 2020.

It's a wake-up call. Policies have to be focused more on making sure that the lower-income and many more middle-income folks participate in the benefit of homeownership.

Gay Cororaton, NAR Economist – WSJ 3/9/22

The labor-force participation rate currently stands at 62.4%, which is down about one full percentage point from pre-pandemic levels. The participation rate peaked at about 67% in 2000.

Population aging is a major contributor to the longer-term participation rate decline, but the work rate for prime age people (ages 25-54) has also been on the decline since the turn of the century. For prime-age men, the participation rate is currently just over 88% … but the rate was as high as 96.9% sixty years ago.

This is the dark underside of the "Great Resignation", the term the press is applying to the record levels of unfilled jobs in the pandemic era.

Almost 1 in 8 men is sitting out during his best years. That may not sound huge, but the drop is unprecedented. The declining work rate has many causes. But there's a great debate between economists who assign more blame to structural economic changes and those who fault government transfer payments.

Mene Ukueberuwa – WSJ 1/21/22

The share of working-age Americans claiming Social Security Disability Insurance have doubled in the past 50 years. The federal government spends more on disability insurance each year than on food stamps and welfare put together. Research reveals the dreary lifestyles of a rising number of nonworking Americans. One data source is the Bureau of Labor Statistics' American Time Use Survey, which compiles self-reported habits.

> **By and large, nonworking men don't 'do' civil society. There's a lot of staying at home, it seems. They report being in front of screens 2,000 hours a year … And what they report doing is 'watching'.**
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> **Nicholas Eberstadt, American Enterprise Institute – WSJ 2/21/22**

From 1972 to 2021, stocks (as measured by the S&P 500) returned 12.47% annualized. During that same period, residential housing (as measured by the Case-Shiller Index) returned 5.41% annually. If we measure just the last ten years, stocks and residential housing had annualized returns of 16.98% and 7.38%, respectively.

Over the long term, history shows the stock market has returned about twice as much as residential real estate. And it's done so with far fewer headaches than the attendant expenses of upkeep, which have come as a shock to many recent home buyers.

Randall W. Forsyth – Barron's 4/1/22

Here's how our friend at State Street Global Advisors, Chief Investment Strategist Michael W. Arone, CFA, crystalizes the economic backdrop:

Consider that the last 40 years have been characterized by declining interest rates, benign inflation, a peacetime dividend, and the acceleration of globalization. In sharp contrast, today's environment is defined by rising interest rates, raging inflation, military conflict, and deglobalization.

Simply put, what worked for investors over the *past* 40 years may not work over the *next* 40 years. We will need to keep an open mind, stay diversified and disciplined … and always remember to remain humble during times of extreme volatility and uncertainty.

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