



**ALBION  
FINANCIAL  
GROUP**

Guiding Clients  
To A Lifetime of  
Good Decisions



### *OCTOBER 25, 2021*

The autumnal equinox made it official and now the changing colors of the tree leaves strongly confirm that we have arrived in the final season of the year.

This quarter's letter contains uniquely global observations from our CEO & co-founder John Bird's recent experience in the United Kingdom. Then on the Economy and Markets, learn the narrative of this summer's deceleration and how it relates to short and long-term inflation. Financial Planner Patrick Lundergan outlines the fundamental process of making a financial plan including the critical step of re-engaging in the process at major life events.

Read through to the end for community updates, including an introduction to our newest team member and information about our year-end conference calls!

### *FROM JOHN BIRD'S DESK*

An unusual blend of nationalism and populism is impacting countries around the world. A few examples of which are an increasingly assertive China, a tilt toward populist authoritarianism in Turkey, Hungary and Brazil, the assertion of national interest through Brexit in Great Britain, and of course our own tilt in the United States toward nationalist and populist ideologies. Often the tenets of these ideologies make strange bedfellows. For example the frustrations of citizens who feel left behind in the economic boom now stand alongside those who argue unfettered capitalism is the only route to sustainable prosperity.

Layered on top has been the devastating impact of Covid. Some of us have been fortunate to remain employed with our lives inconvenienced rather than

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disrupted. Meanwhile others have found themselves chronically out of work and struggling to make ends meet. This is particularly acute in the travel and entertainment industries that rely on person-to-person connections to thrive.

I recently returned from a Covid delayed trip to Scotland where my family and I spent a few weeks tromping around the Highlands. I'll preempt the question some of you may have; no, I didn't golf. The bright side is I didn't lose a single golf ball... In addition to the usual things I find intriguing when travelling I was curious to see if I could get a sense of whether and how the impact of Covid was waning and how Brexit was impacting Scotland.

The airlines have made a tremendous effort to make overseas travel Covid safe. Airports and airlines require masks and destination countries require both proof of vaccination and a recent negative Covid test. Further, we were required to take an additional Covid test after being in Britain two days. We were also required to take a Covid test prior to returning to the United States.

Great Britain has an indoor mask requirement with an exception for eating and drinking. We avoided tightly packed pubs - much to the chagrin of my young adult

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children. Compliance with Covid protocols was both widespread and consistent. The people I spoke with were relieved to have travelers back and felt that mask mandates and distancing protocols were a small price to pay to avoid another shutdown. Hotels were full but unfortunately many restaurants were closed as a single positive Covid test with a staffer required the restaurant to shut down for several days while all staff self-quarantined. Yet despite these challenges there was widespread enthusiasm to be open and back to work among everyone we spoke with.

Great Britain in general and Scotland in particular have higher vaccination rates than we do in the U.S. In Scotland 89% of people over 12 have received at least one dose while over 81% have received two. This broad acceptance - combined with vaccine requirements and testing of visitors coming to the country - seems to have helped them open up their travel and entertainment economies without generating spikes in new Covid cases. For comparison here

in Utah just under 52% of the population is fully vaccinated. There were only a few areas where we as transient tourists noticed Brexit having an impact though unfortunately both were negative. As a reminder, Brexit refers to the removal of Great Britain from the European Union which occurred in January of 2020.

Great Britain is currently in the midst of a Brexit induced fuel crisis. A prime motivation of Brexiteers was displeasure with the fact that open borders of the European Union allow any citizen of the Union to work in any country in the Union which meant there were a lot of non-British individuals living and working in Great Britain. Brexit solved that by eliminating the right of other Europeans to work in Britain without British work visas. Now Britain finds itself without enough truck drivers to deliver gasoline and diesel to service stations. British politicians are floating the idea of expanding the pool of available work visas to overcome this challenge yet there is resistance as resentment of foreign labor was a prime reason for Brexit in the first place. The second impact was labor in the service industries. In addition to Covid generated labor shortages, the usual flow of non-Brits to seasonal tourism jobs in Great Britain no longer exists.

The implementation date of Brexit coincided with the beginning of Covid shutdowns which likely masked the impact Brexit would ultimately have on the British economy as the shutdown greatly reduced economic activity and the need for non-British workers. Now that Britain is opening up they are starting to see the impact of the policy. While no one I spoke with in Scotland was pleased with the impact Brexit is already having, we as humans have a way of adapting to our circumstances and I am sure Brexit will be no different. It will cause pain for some, benefit for others, and life will go on.

My takeaways from the trip were that with sensible precautions and a healthy respect for the damage uncontrolled Covid creates travel is not only possible but enjoyable. Additionally while the experiments in populist nationalist ideologies around the world are troubling, the individuals I spoke with were thoughtful and grounded

which gives me confidence that ultimately sensible policies will carry the day. Finally and most importantly the trip reinforced how valuable and rewarding it is to step away from daily distractions and be present with those we love. Memories of the time spent with my family and close friends, connecting over drives, hikes, castles, and meals will keep a smile in my heart for a long time.

## ***ECONOMY & MARKETS***

In our last missive we discussed acceleration ... on nearly everything. Across the economy, its reopening, vaccinations, falling Covid infections, corporate earnings, inflation – you name it and the second quarter was a story of things picking up in a proper direction. But as famed economist Herbert Stein observed, “if something cannot go on forever, it will stop.” Simple. Even obvious. Also correct. Another quarter has come and gone, and Stein’s Law has kicked in. Count us as unsurprised, however, right alongside regular audiences of our frequent media work and readers of this quarterly parchment. To wit, in this last letter – after ticking off a laundry list of statistics illustrating almost unbelievable growth and improvements – we soberly declared:

*“Though at some level, even economics cannot escape Newton’s iron laws. In what we’re calling ‘peak everything’, this acceleration should begin to modulate by year’s end. Across inoculations, the economy, earnings, sentiment, and inflation this incredible momentum simply cannot last.”*

After growing a whopping +6.6% in the April through June period, accumulating information imply the US economy lost steam over the summer. As of this writing we cannot know the exact level of growth for the third quarter (initial GDP estimates won’t be released until October 28th then will face future revisions). Nevertheless, real-time component data that feeds into GDP math leave little question that the pace of growth has softened. We could spill a ton of ink (err ... font) in these pages pouring over specifics – jobs, sentiment, consumption, industrial production, new orders – but let’s cut straight to the chase,

the economy's growth rate was likely marked down by about half in the third quarter.

Meanwhile, daily vaccinations dropped from a peak of ~3.5M to approximately 800K. Our intent is certainly not to denigrate the laudability of that figure, but the -77% decrease is notable. Especially juxtaposed with the number of Americans left unvaccinated. As for Covid-19, the more transmissible Delta variant took hold this summer pushing a steep rise of infections and slowing the economic reopening. For their part, third quarter corporate earnings reports are now beginning to hit. While we anticipate yet another strong set of results, here too the rate of change will be reduced (likely in the mid-30% range against +63% in Q2). Again, we could go on, but the point is acceleration has succumbed to deceleration. This is natural. Walk up a hill, and you must ultimately walk down the other side in order to advance forward. Same is true in economics, markets ... and pandemics. We stay optimistic.

Given its present sizzling focus, it is probable you noticed that missing from this whole deceleration theme is inflation. How could you not notice? Supply chains are snarled. Delivery times, unknown. There aren't enough workers. Commodities are soaring. Prices across the board are elevated. What gives? It's the question du jour (for now) and everyone's paying attention. To help answer this, we prefer to think about inflation on three timelines: short, medium, and long-term. Bear with us.

Over the short run, we've long said that inflation would rise well above the pre-pandemic norm for much of 2021 and into 2022 primarily due to a cyclical boom in demand running up against Covid-forced lower productive capacity. We further posited that conditions would be magnified statistically because of "base effects." This has proven accurate.

Looking forward, after a few quarters of these short-term inflationary pressures, post-pandemic demand will "normalize" slowing general activity just as new supply begins its ramp. Sounds hopeful, but regrettably reestablishing shuttered productive capacity isn't a light switch you flip. It takes time. Meaning demand and supply curves do ultimately cross paths but with some gaps and lag. This is classic economic theory where the marketplace searches and finds better equilibrium. Too, "base effects" next year will be less severe. Together, these forces should with time cause inflation to cool from spicier levels. To be crystal clear – not instantly back to ordinary levels, as ports and the like don't unclog easily. New supply growth will be lumpy and vary by industry. Patience here will be virtue.

We then reason that this middle phase runs headlong into the secular disinflationary forces that have gripped inflation for the past ~15 years. First, the rise of technology which at its core is deflationary. Second, impacts from aging global demographics on consumption. Third, lower structural global growth rates. Finally, basic changes in consumer



shopping habits (think Amazon, Costco, off-price retailers, mobile) continuing to pressure prices. All of which were unchanged through the pandemic and should thus build upon inflation's renewed cyclical course lower, eventually settling into a fundamental 2%-plus zone (slightly higher than the 2%-minus zone, pre-Covid).

The Fed should remain patient as this unfolds. Their policy tools are ill-suited to address supply side inflation shocks. They know it, though taper will begin soon. Tapering is not tightening however, and rates remain low.

As we turn the page to the fourth quarter, our outlook remains sanguine. Lest a vaccine evading SARS2 variant develop, expect further pandemic progress as we inch ever closer to population-level immune protection while new therapeutics like Merck's "molnupiravir" Covid pill bolster our capacity to battle this disease. Expect the economy to continue its expansion, with new jobs added, rising spending, investment, resilient confidence, and swelling business profits – though also expect this to occur at a normalizing (slower) speed. But we needn't be alarmed; modest growth is sufficient. Bear in mind, conditions from 2009-2019 saw average annual GDP growth just over +2% and an +11% stride for profits. Not bad. Although not +6% and +50% either. And yet stocks did just fine. We don't need hyper growth. We just need healthy growth moving in the right direction. Don't let the pundits tell you otherwise. Goldilocks knew better. Either way, know that our work in finding and owning sound investments on your behalf while thinking and acting long-term will endure. Thank you for your trust in us. We cherish our continued relationship.

## ***PLANNERS CORNER***

As with any complex system, it is crucial to understand how it can fail. When it comes to planning for one's financial future, the process of understanding what can go wrong is often the first step in determining the right thing to do.

A good financial plan always contains numerous knowns and unknowns. At Albion, we say planning is a process and not a product - it's something to be adjusted in real-time

based on current circumstances and realistic assumptions. Ultimately, some variables will remain unknown and dynamic but are crucial when stress testing a financial plan. We boil these down to four categories: 1.) spending/savings, 2.) inflation and market assumptions, 3.) life expectancy, 4.) health events.

All four of the above categories are used as "what-if" statements when planning for any goal. For those who have gone through the planning process with Albion, these will sound familiar. "What if I have a long-term care event, what if I get laid off, what if there is a recession when I retire, what if I live to age 100, what if I outlive my partner, what if inflation spikes?" All these situations are worth planning for regardless of your situation. They can happen independently or at the same time. Having a plan is paramount to success and peace of mind.

Identifying possible worst-case scenarios isn't fun, but it is part of any reliable system. Stress testing a financial plan is practical for determining what things we should be doing that are in our control and help manage expectations about the future, so we are not caught off guard. We can't fully control any of the four categories discussed above. We can, however, implement reasonable spending and savings goals, address gaps in insurance coverage, make sure portfolio risk is in line with short and long-term goals, and identify, manage, and prioritize said goals and milestones. Financial planning is a process that we would recommend for everyone and is a complimentary service for any Albion client. Please inquire with your advisor about starting or re-engaging the planning process. We all look forward to helping you to continue making a lifetime of good decisions.

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## ***ALBION COMMUNITY***

In August we welcomed Daymian Vajda as our newest Associate Wealth Advisor. He has joined Senior Wealth Advisor Devin Pope's team. A native of Southern California, Daymian recently graduated from Westminster College with a Bachelor of Science in Finance. Historically, he is the firm's sixth Westminster alumnus. To learn more about Daymian, read his biography on the Team page of our website.

Earlier this month, CNBC announced that Albion has been ranked 50th among the top 100 Financial Advisors in the United States on CNBC's annual FA100 list. We celebrate this recognition of our efforts and we are proud to provide our high standard of service to you, our client.

Finally, please mark your calendar to attend either one of Albion's two year-end conference calls via Zoom on Wednesday, November 17th at 9am and 4:30pm. Visit Albion's blog ([albionfinancial.com/blog](http://albionfinancial.com/blog)) for details to register.