UCI Paul Merage School of Business

Leadership for a Digitally Driven World™

2022 Economic and Financial Update

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Most People Looking Back at COVID and Think...

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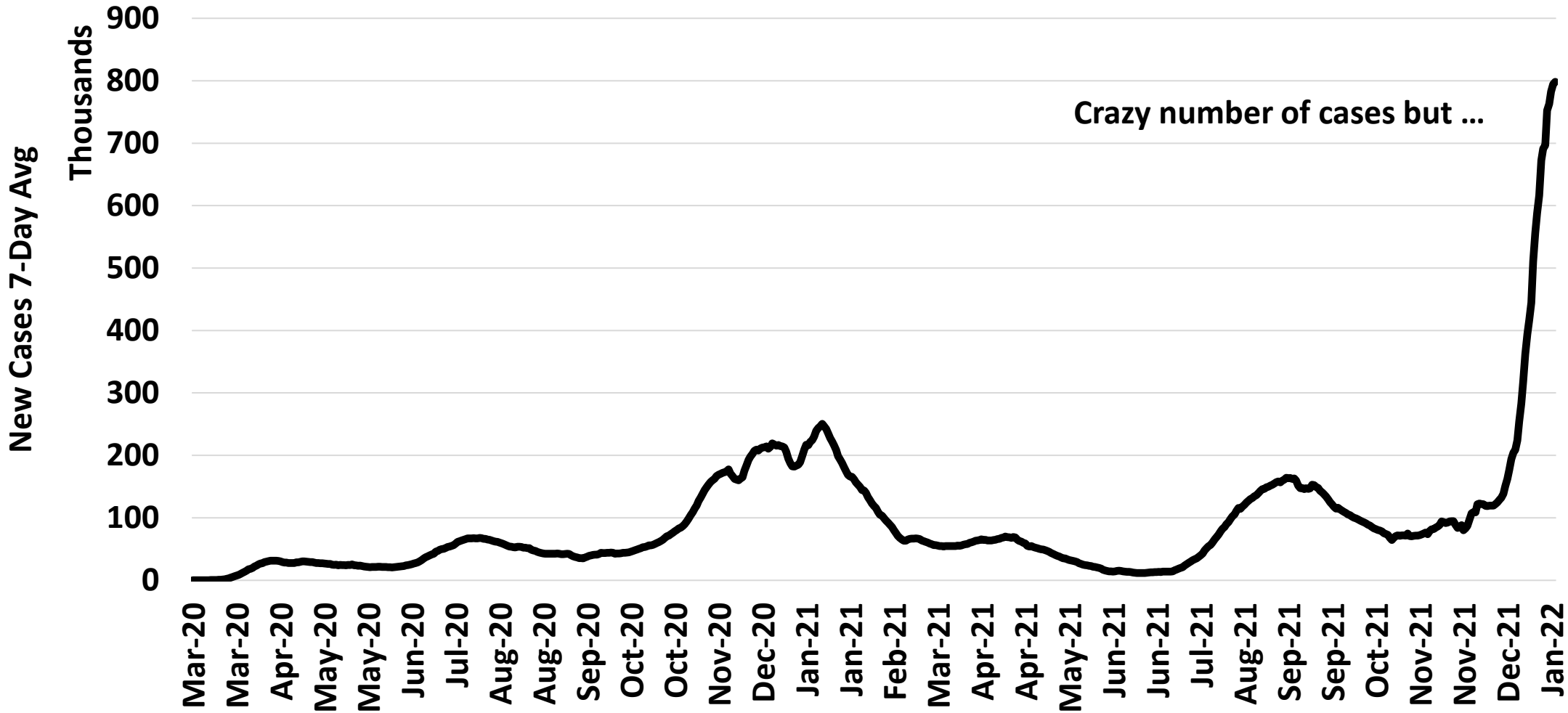
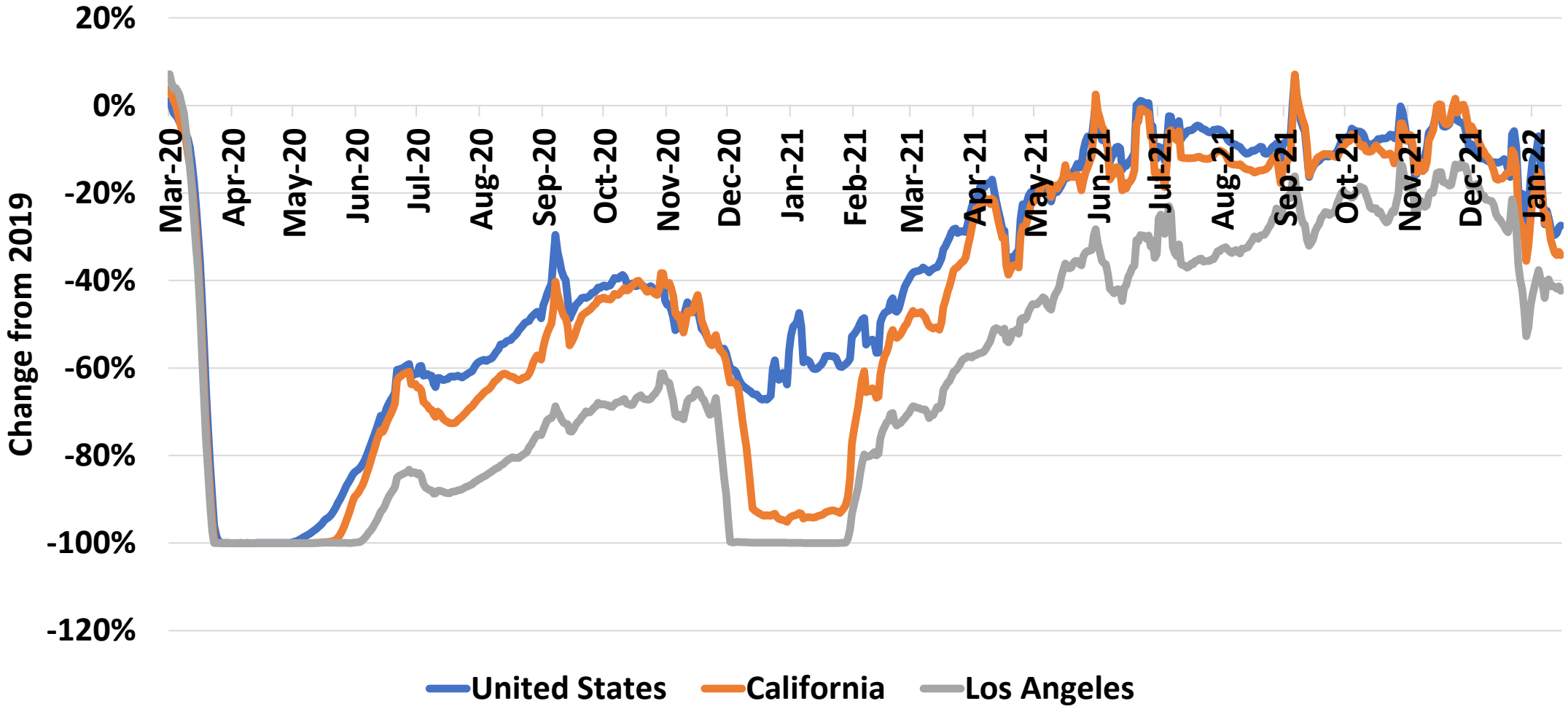
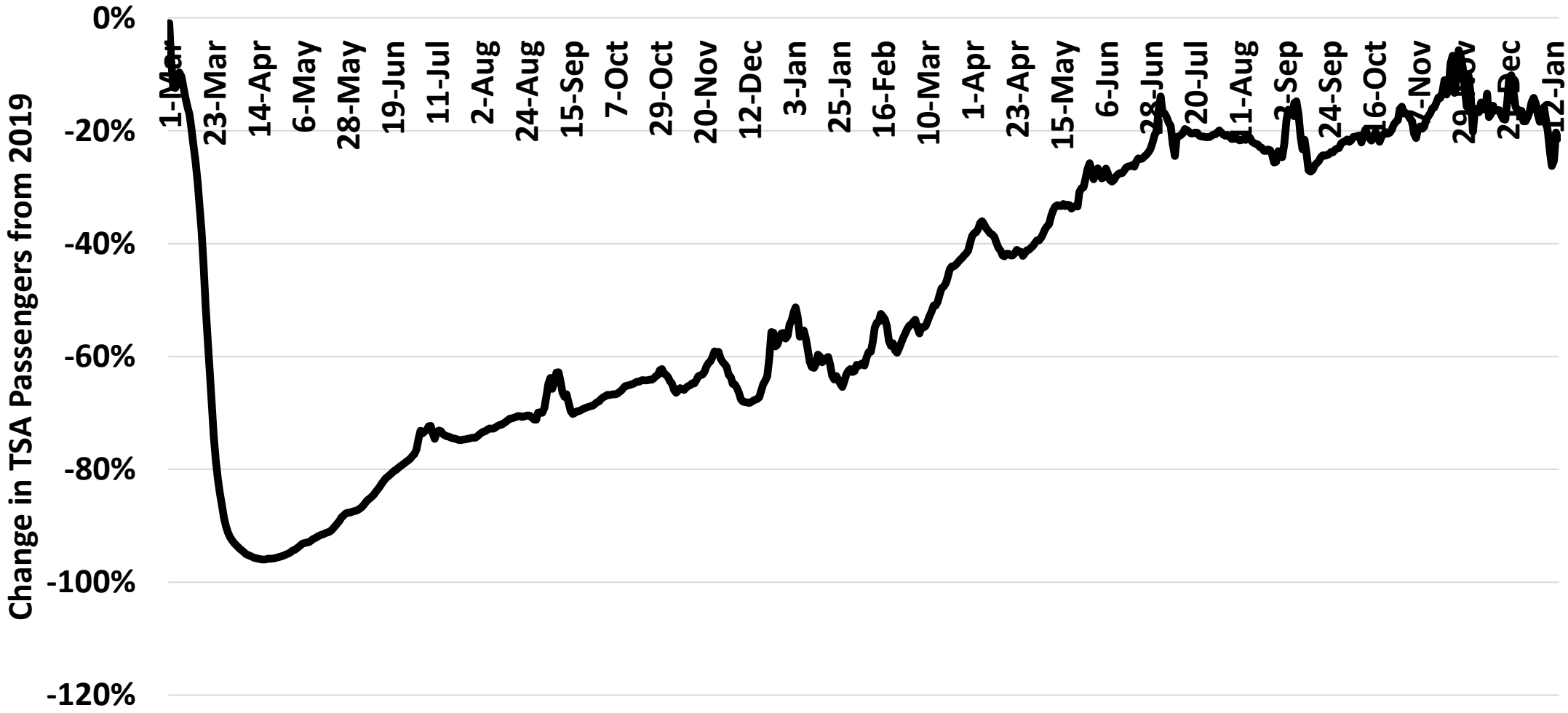
COVID Largely is Economically Over



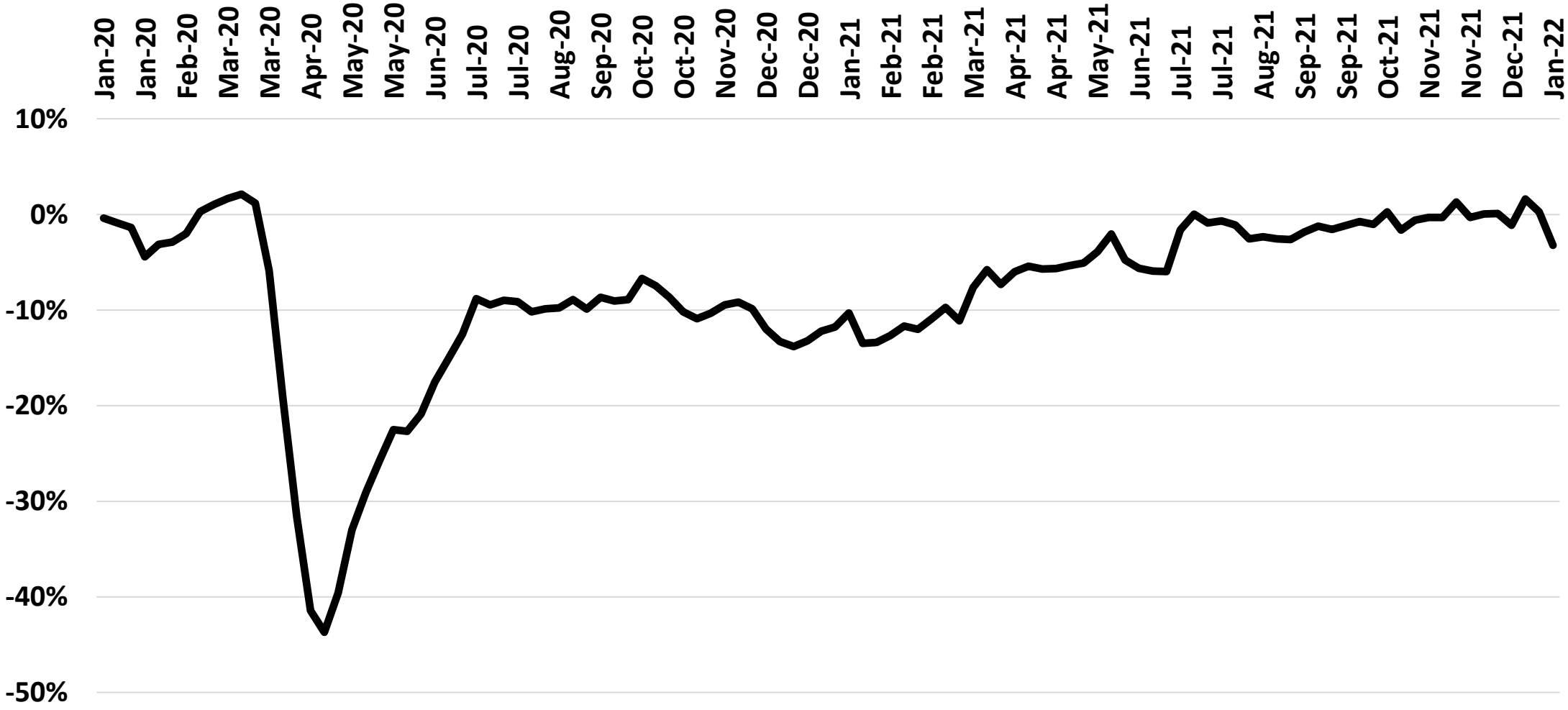
Omicron Only Has a Mild Impact on Restaurants



Similar with TSA Passengers



And Gasoline Demand Isn't Declining



“I’m Working from Home Today Boss”

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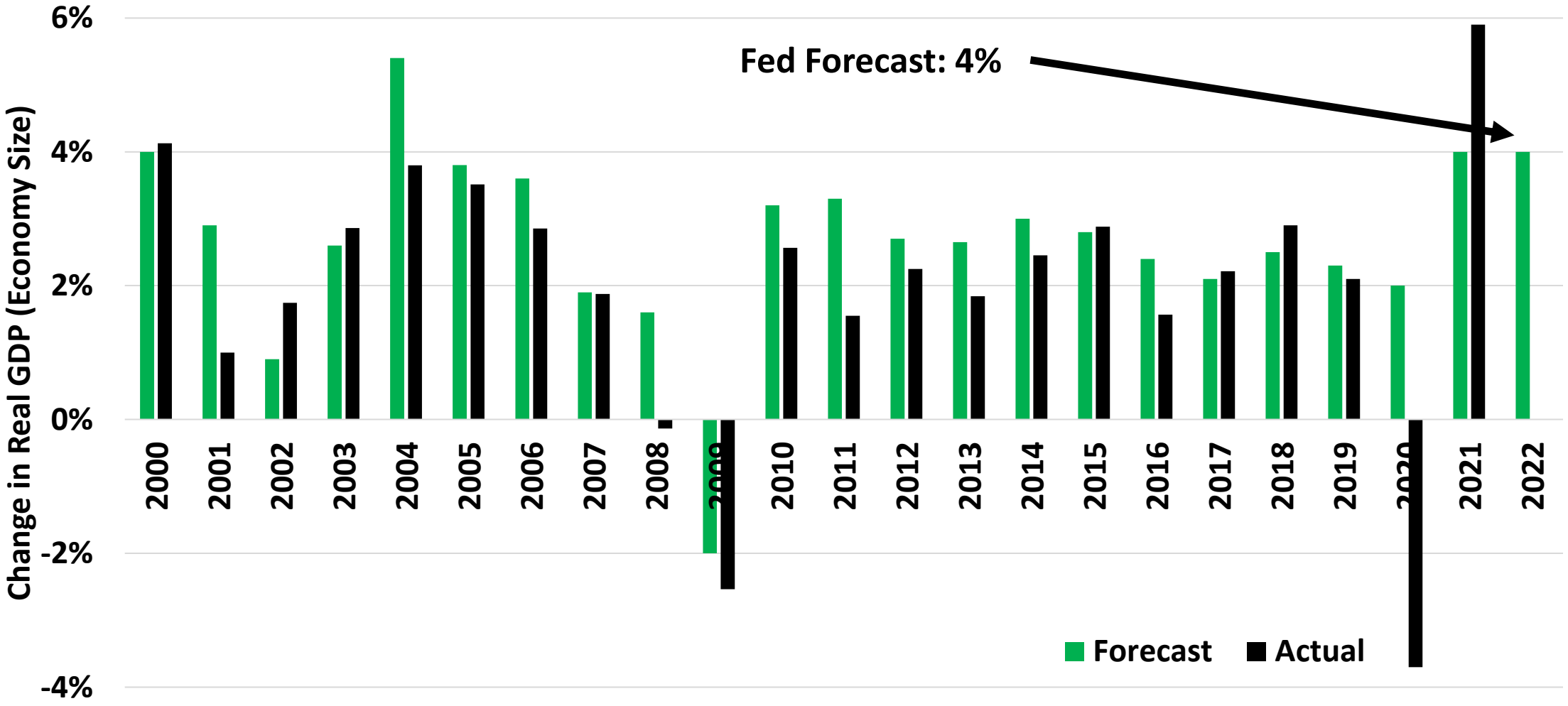
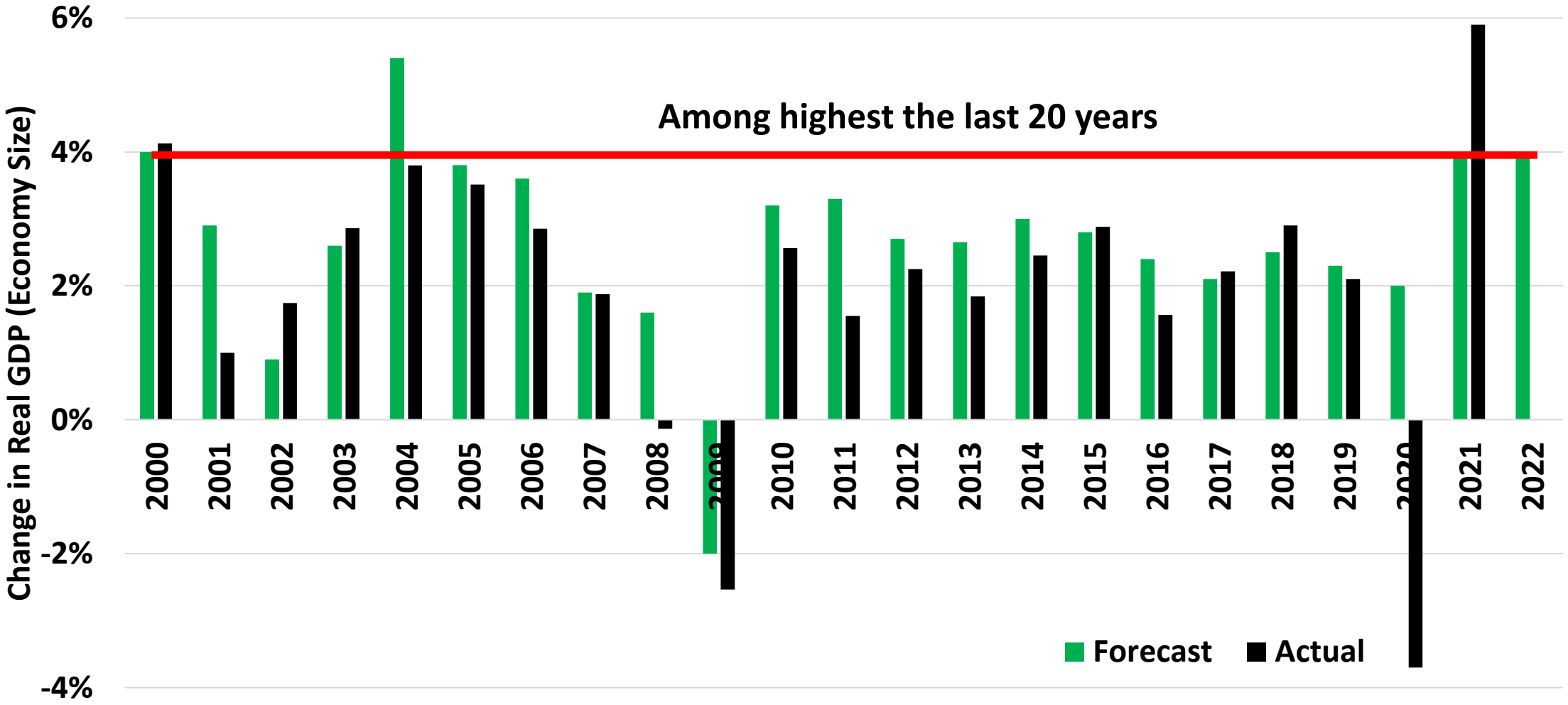
GDP Forecast



GDP Forecast



My Thoughts on that Forecast?

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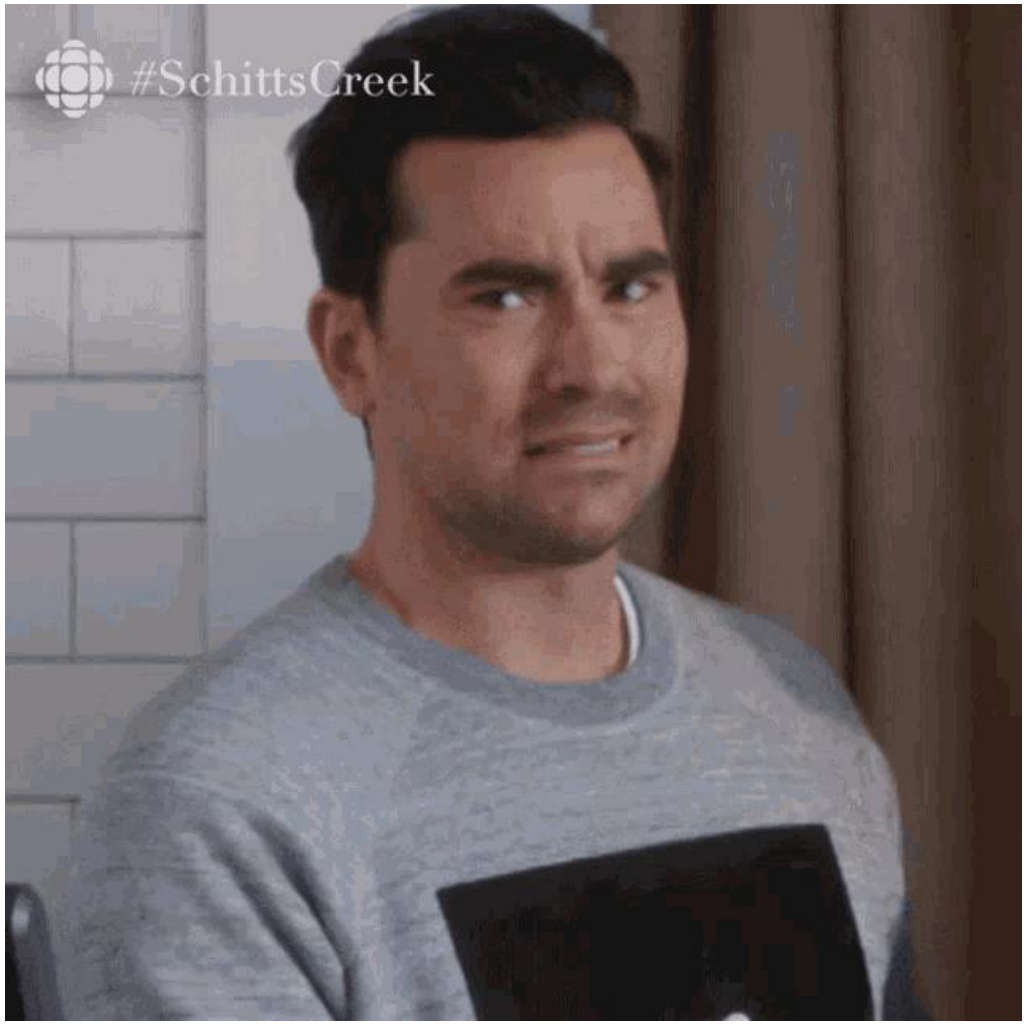

Problem #1: The Coming Fiscal Hangover

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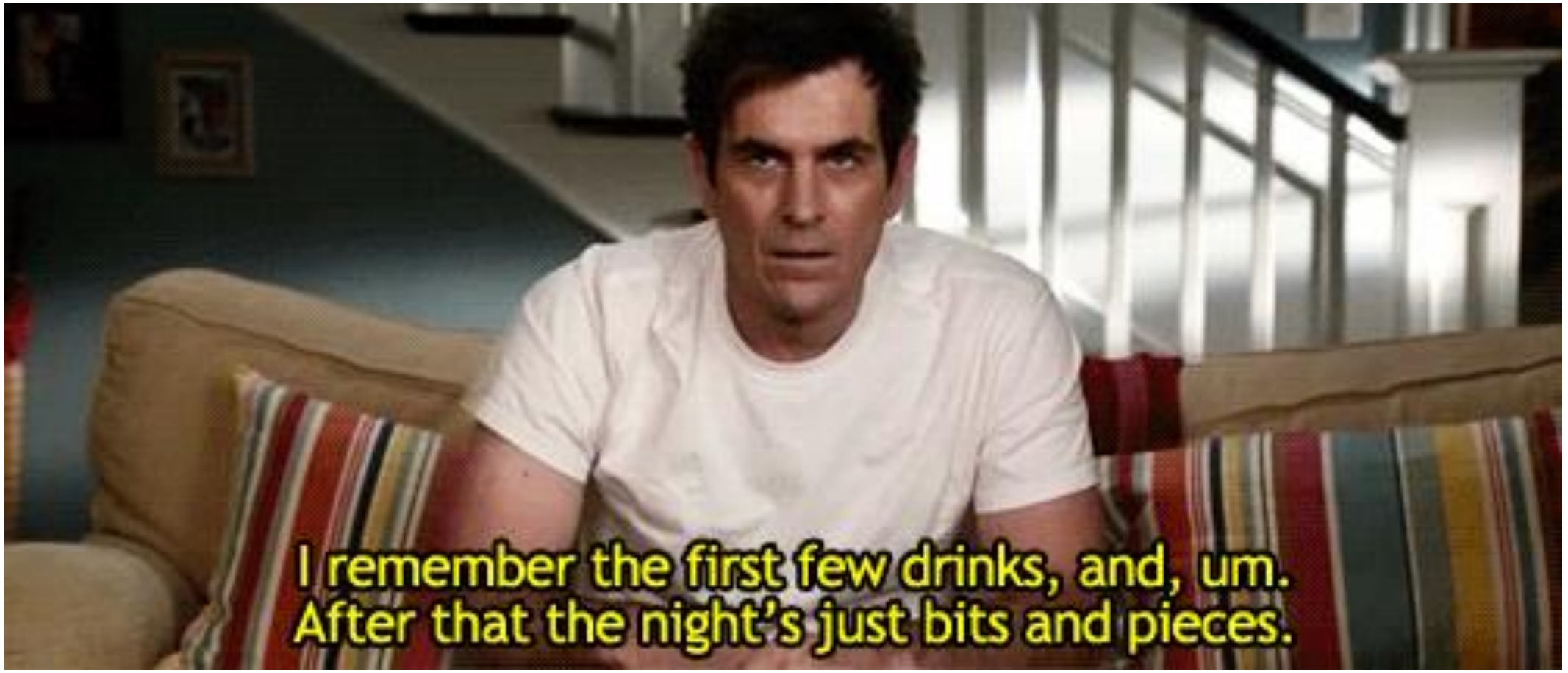
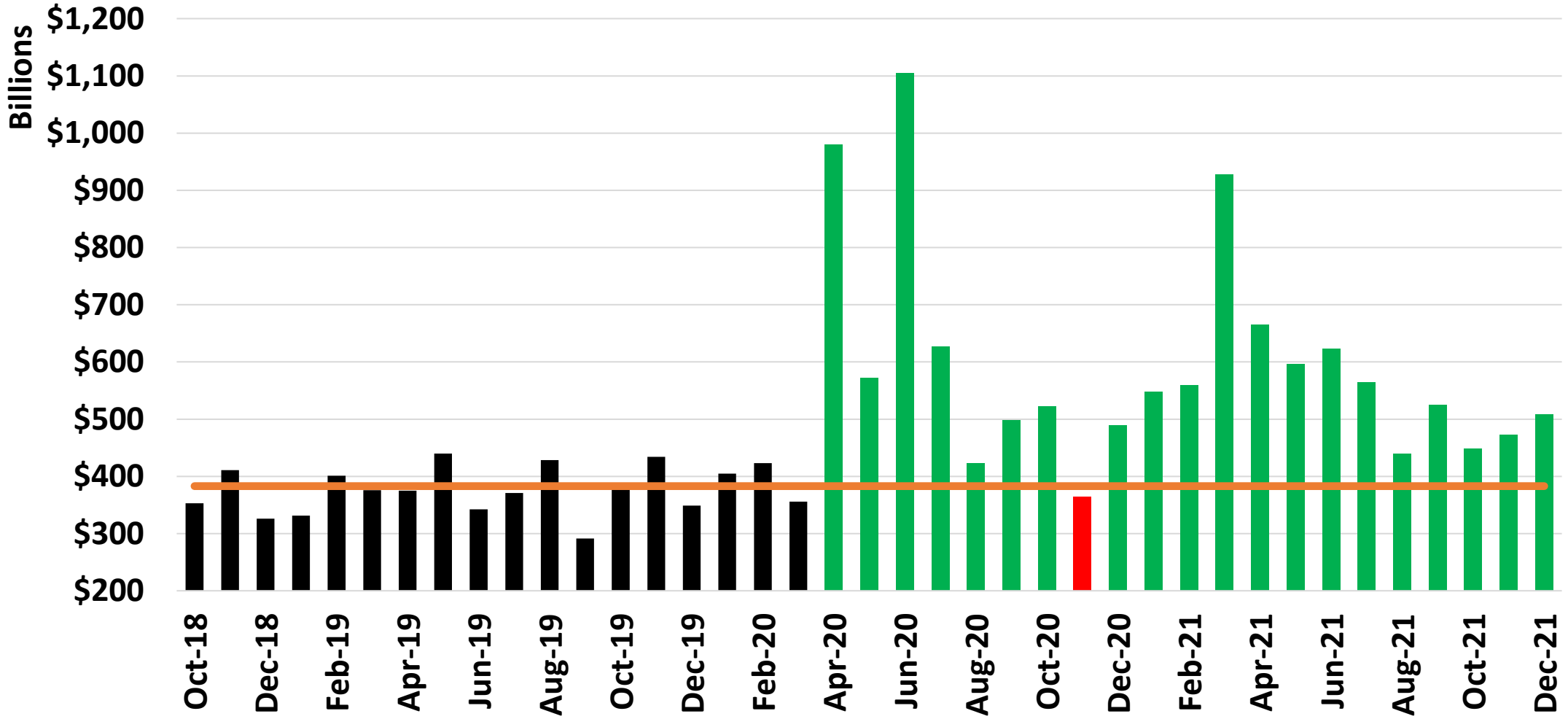


Stimmy Party Coming to an End



Really? No More Stimmy?

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Problem #2: People Doing the Peter Gibbons

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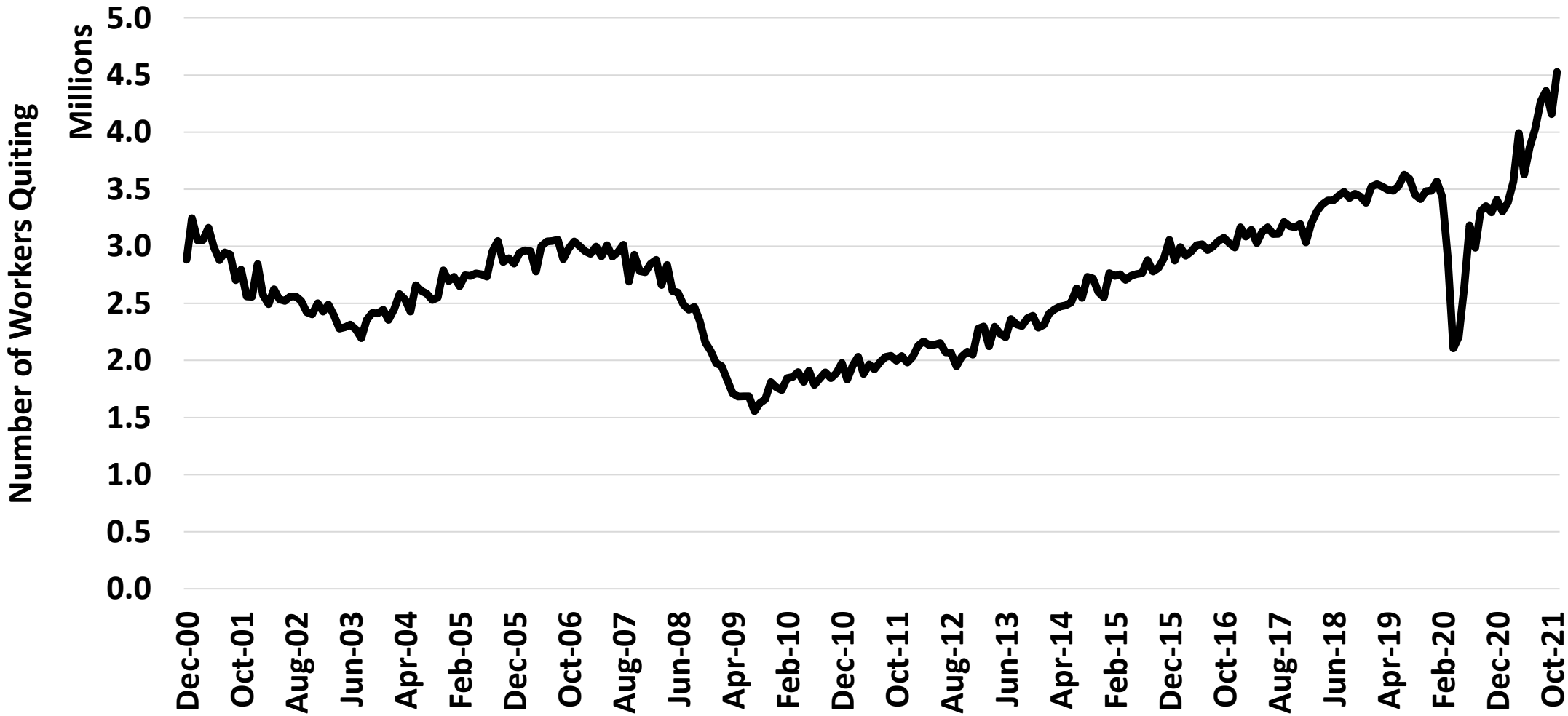
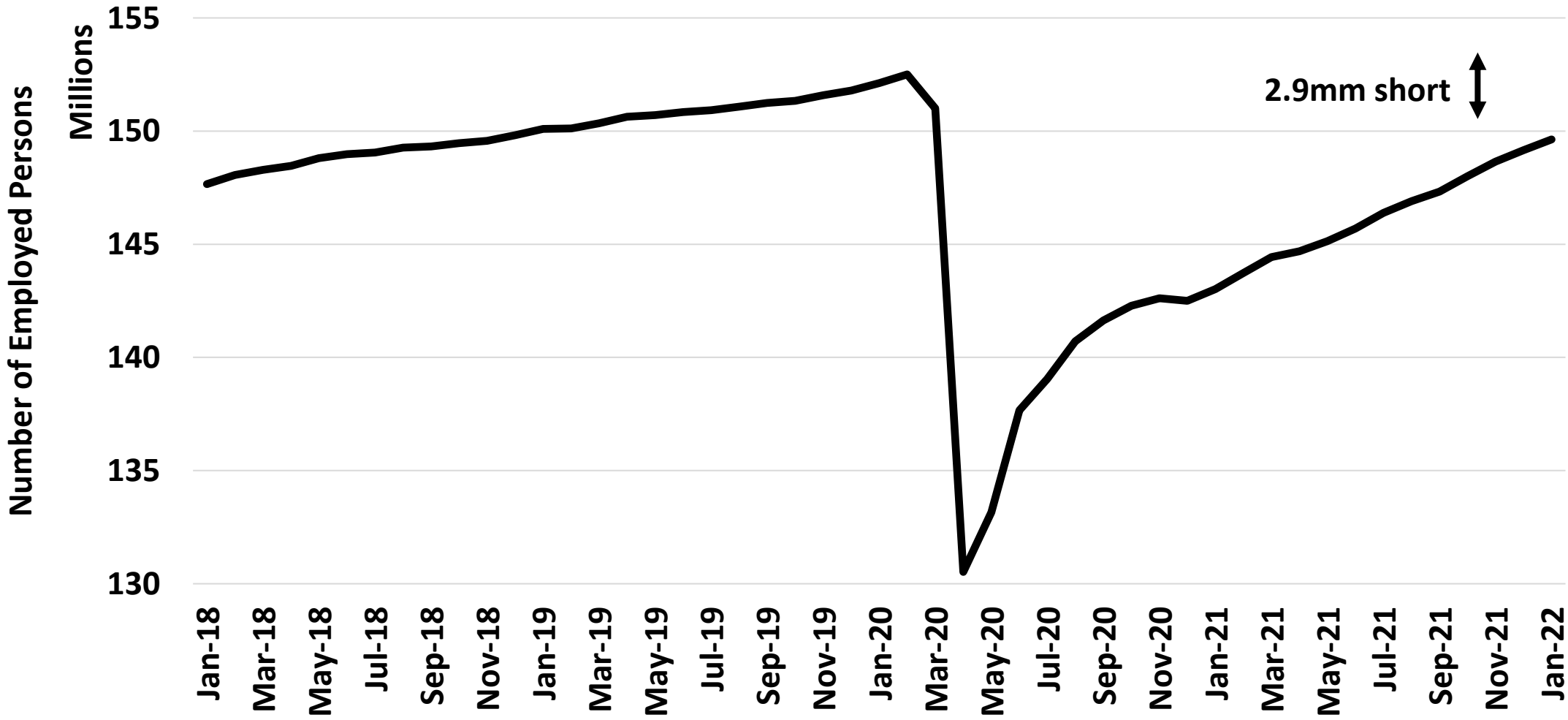
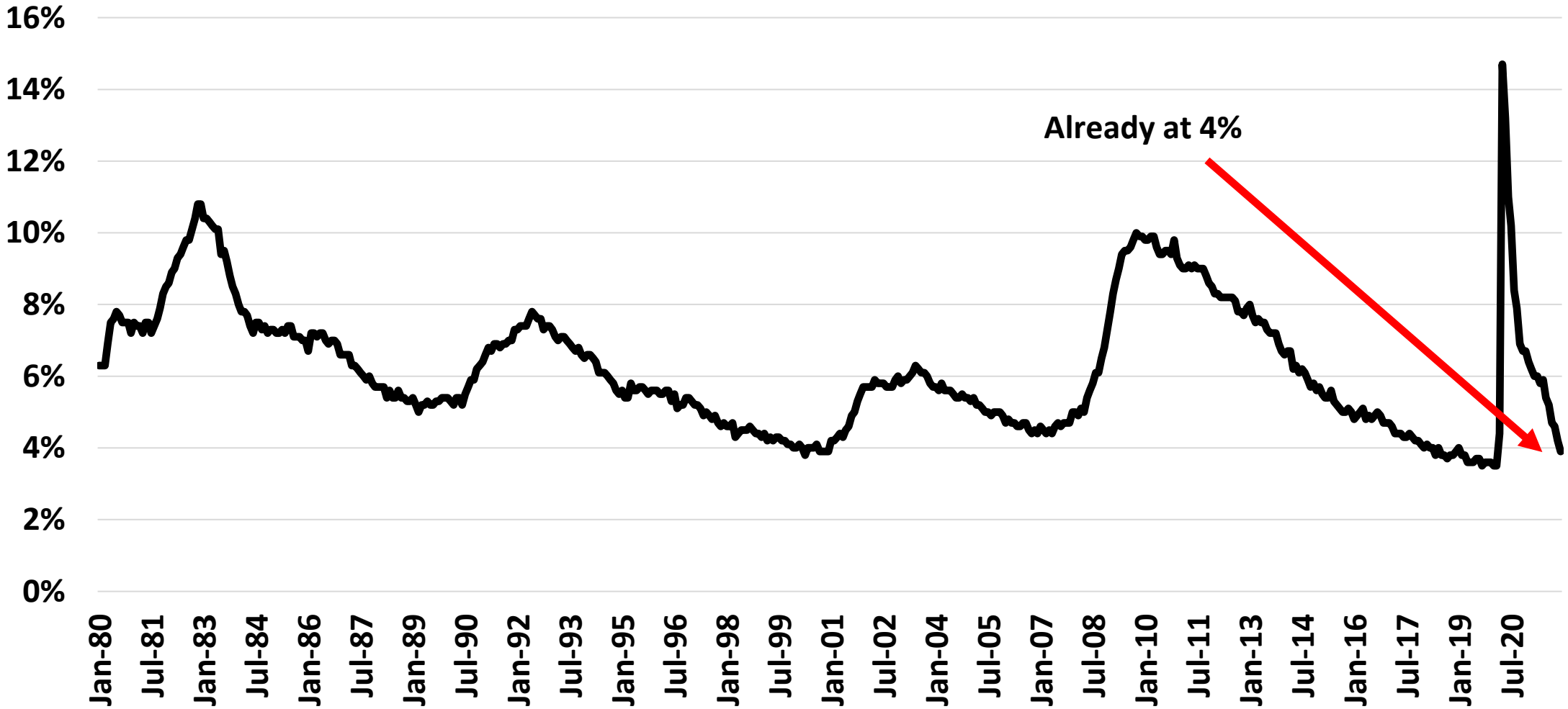
Workers Saying "Take This Job and Shove It"



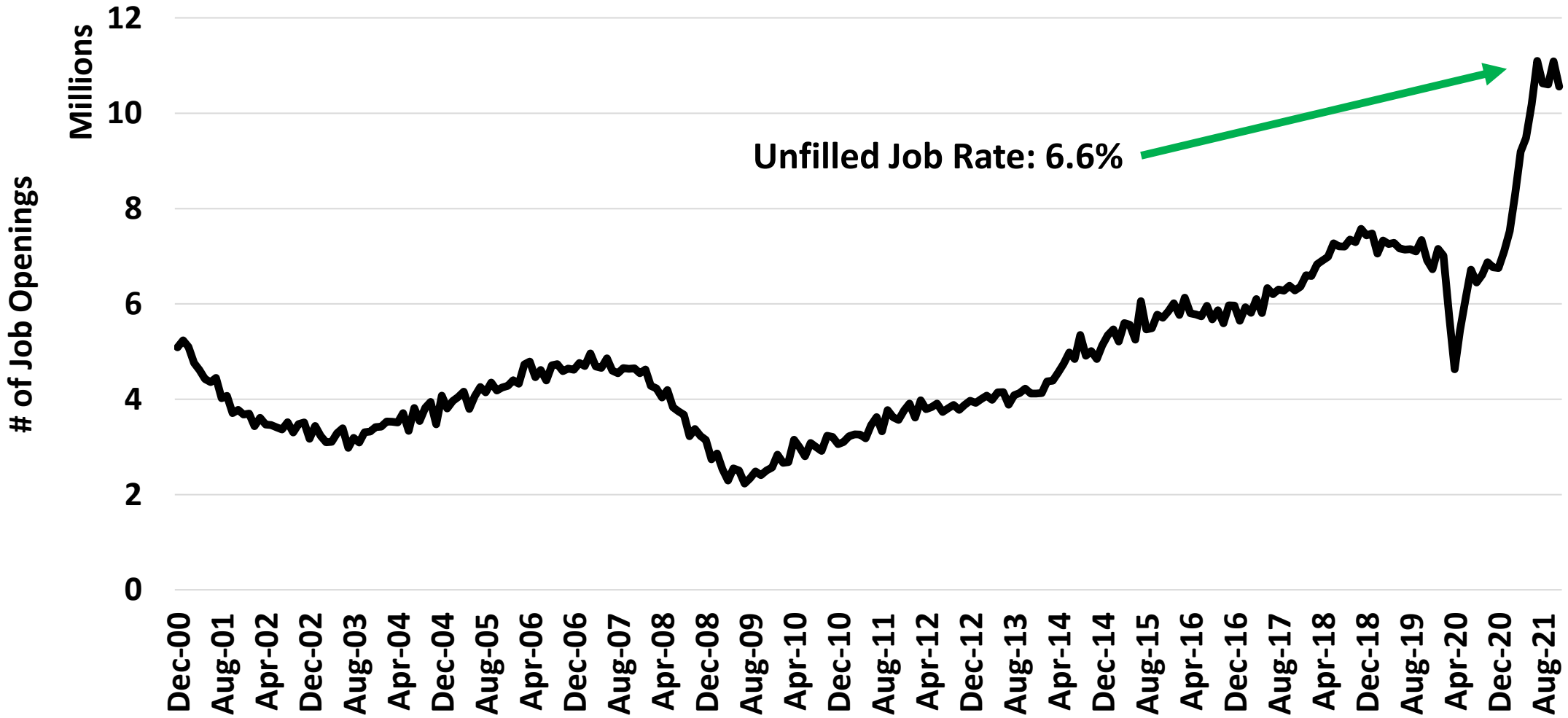
Still Missing Employees



Unemployment Rate



Where are the Unemployed People?



My Guess?

My Guess? They are with Hans Gruber…

More Generally… Where the Hell is Everything??

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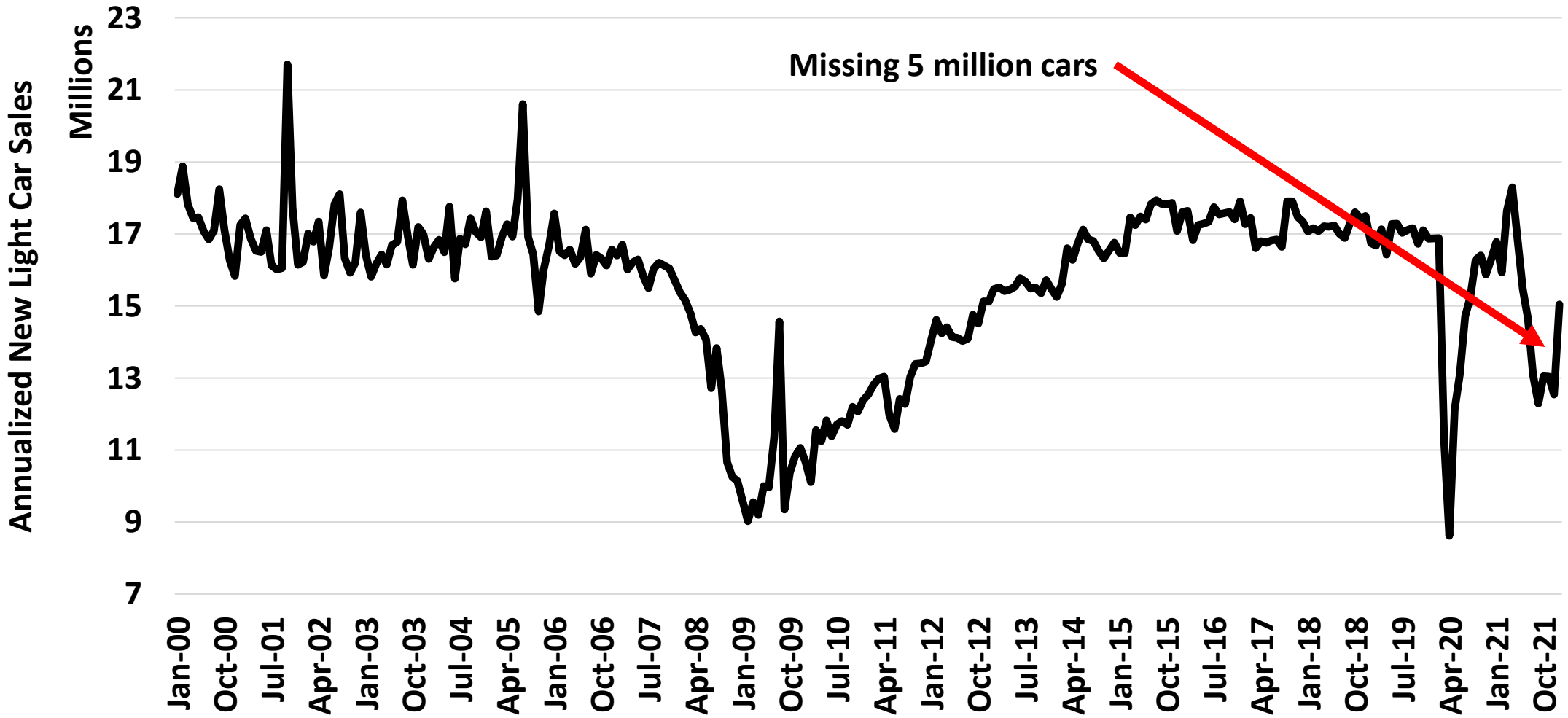
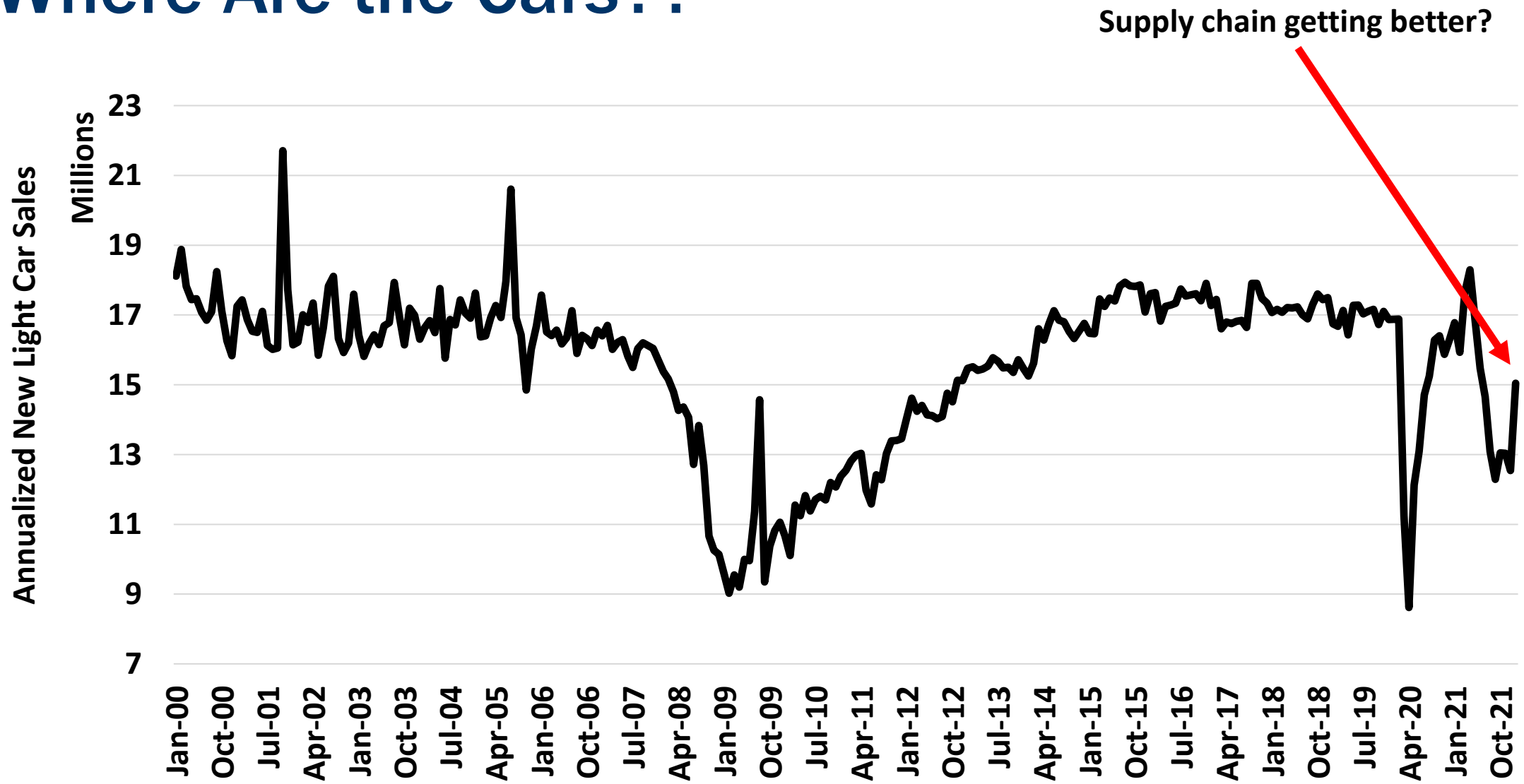
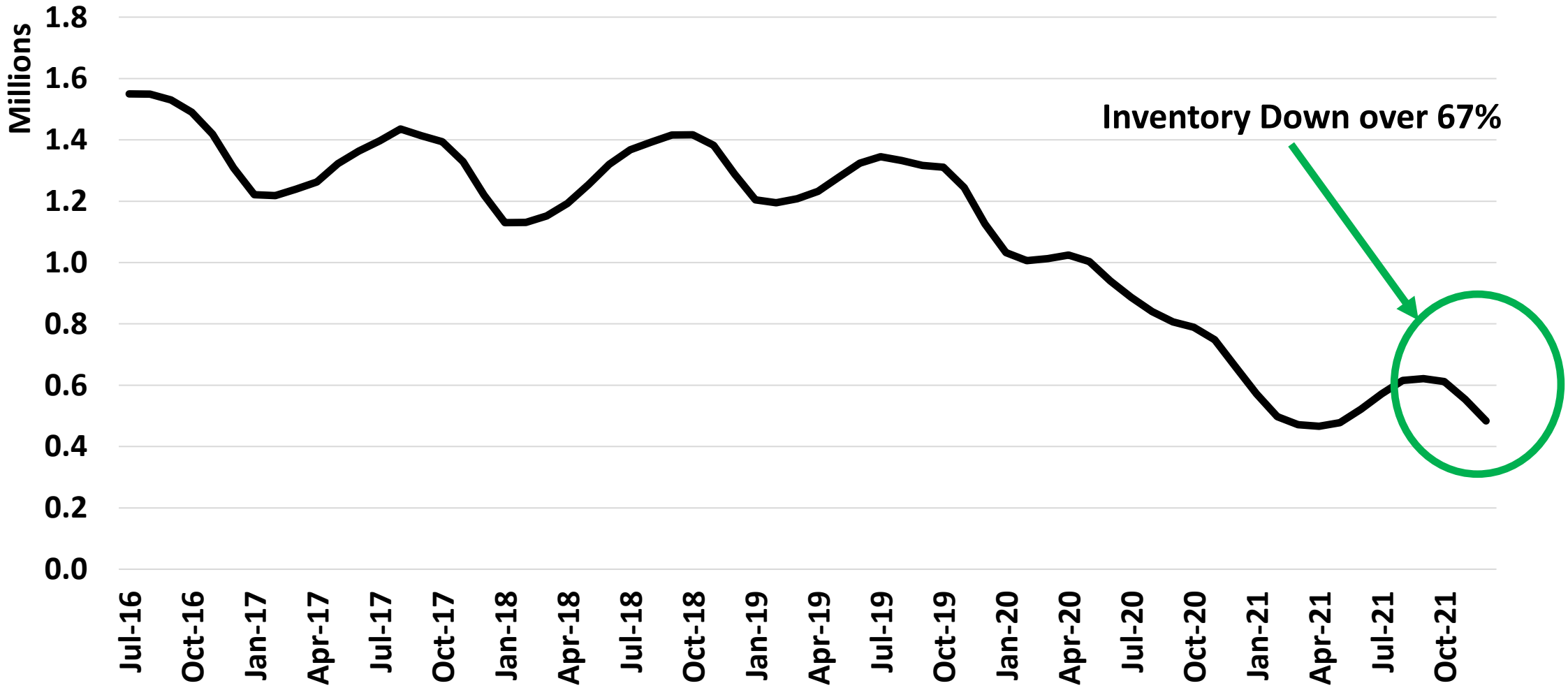
Where Are the Cars??



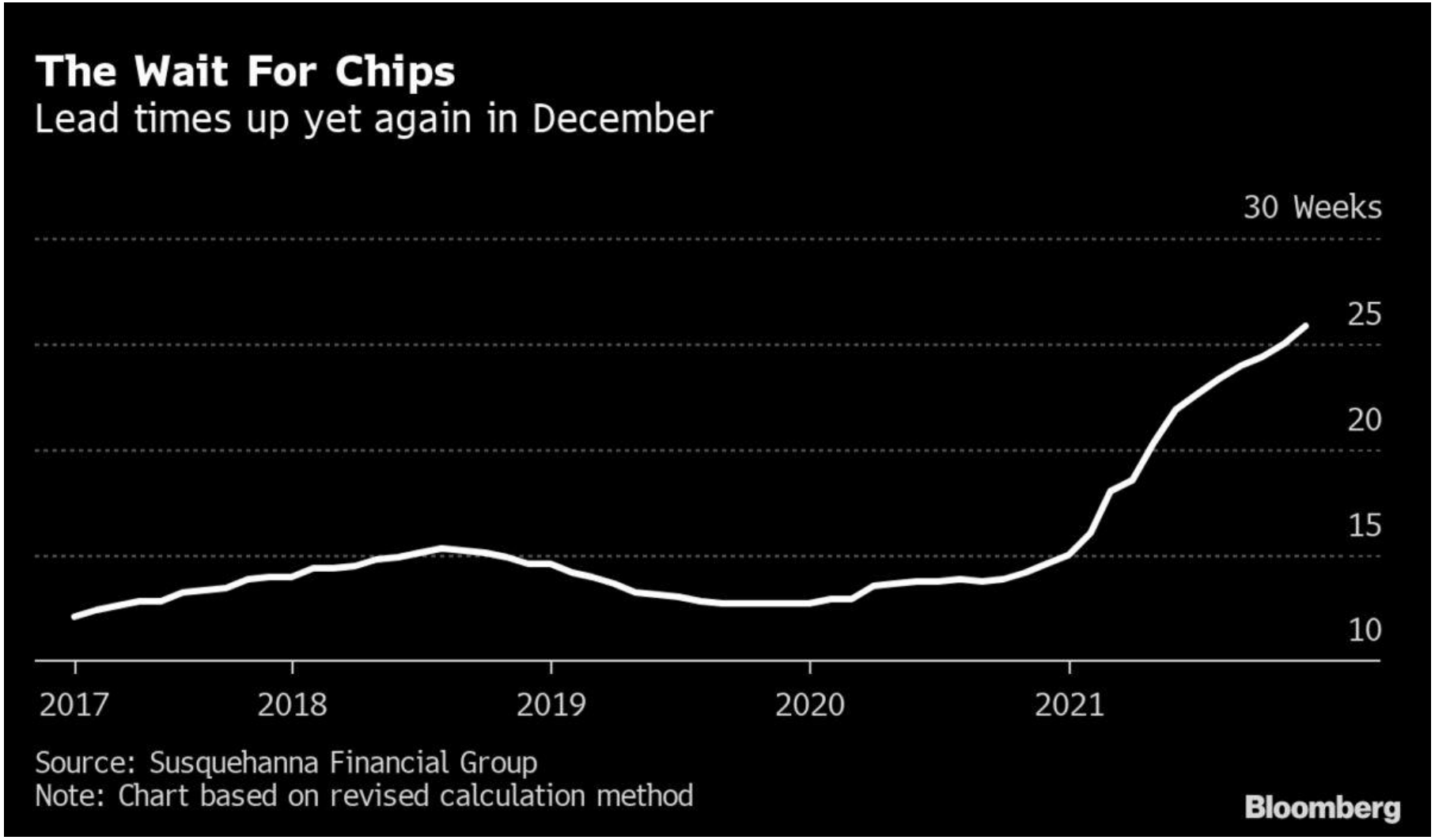
Where Are the Cars??



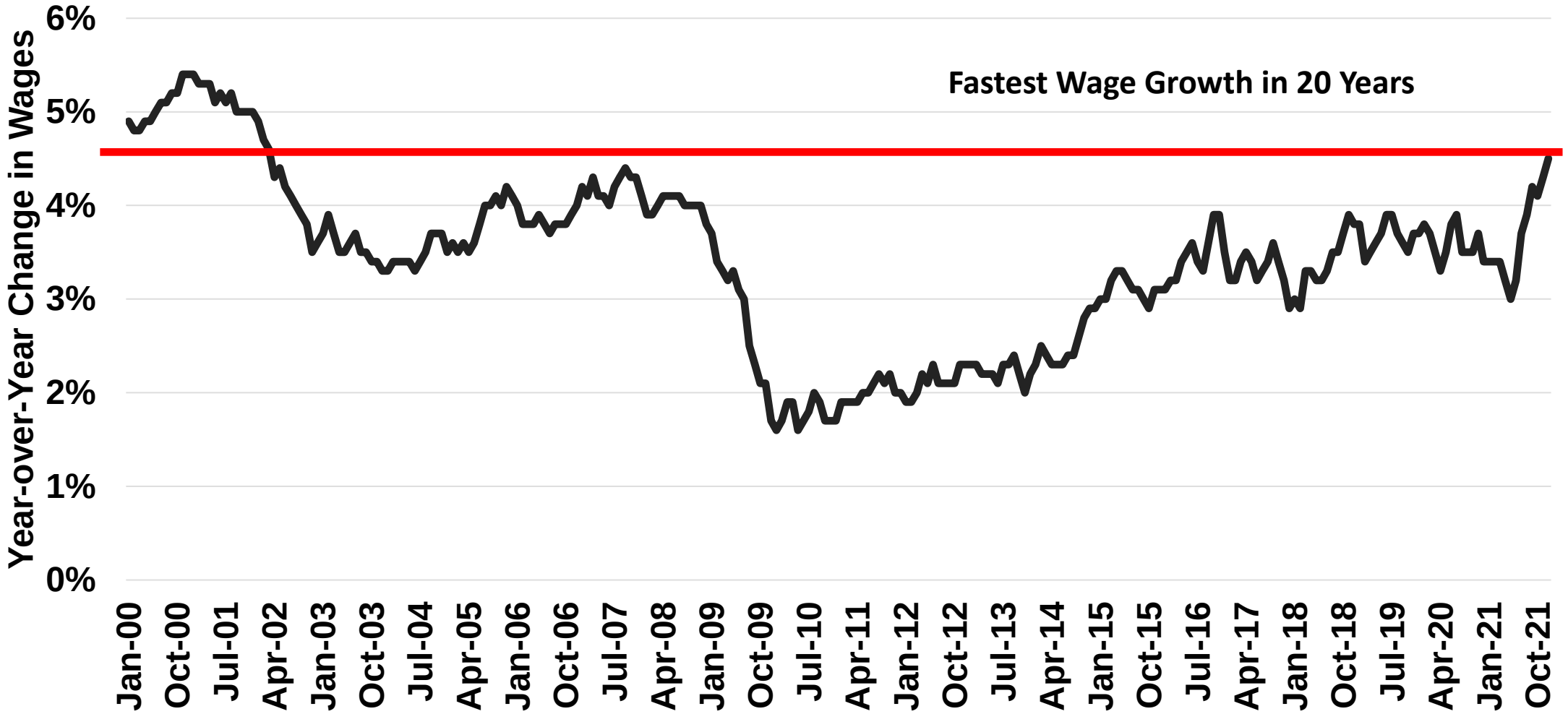
Where Are the Houses?



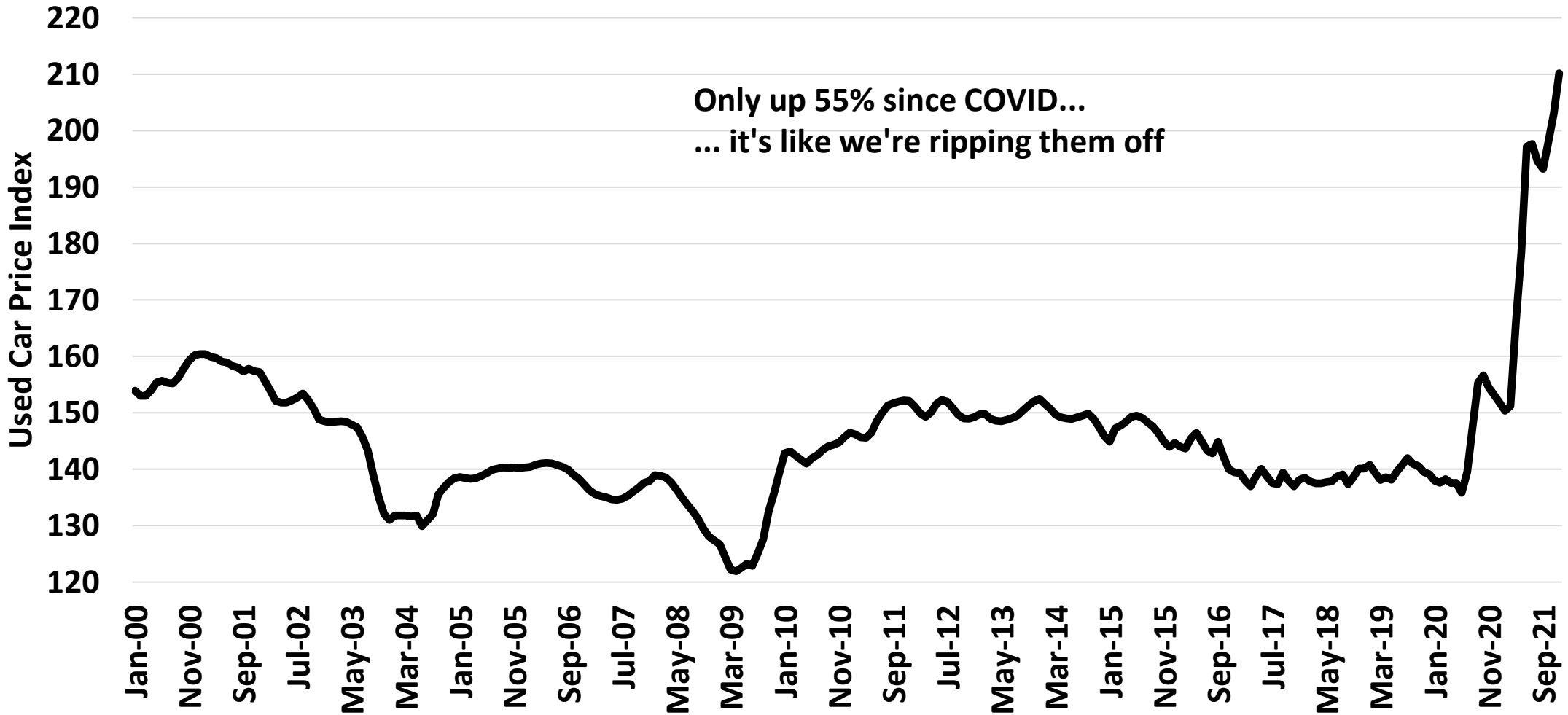
Where are the Chips?



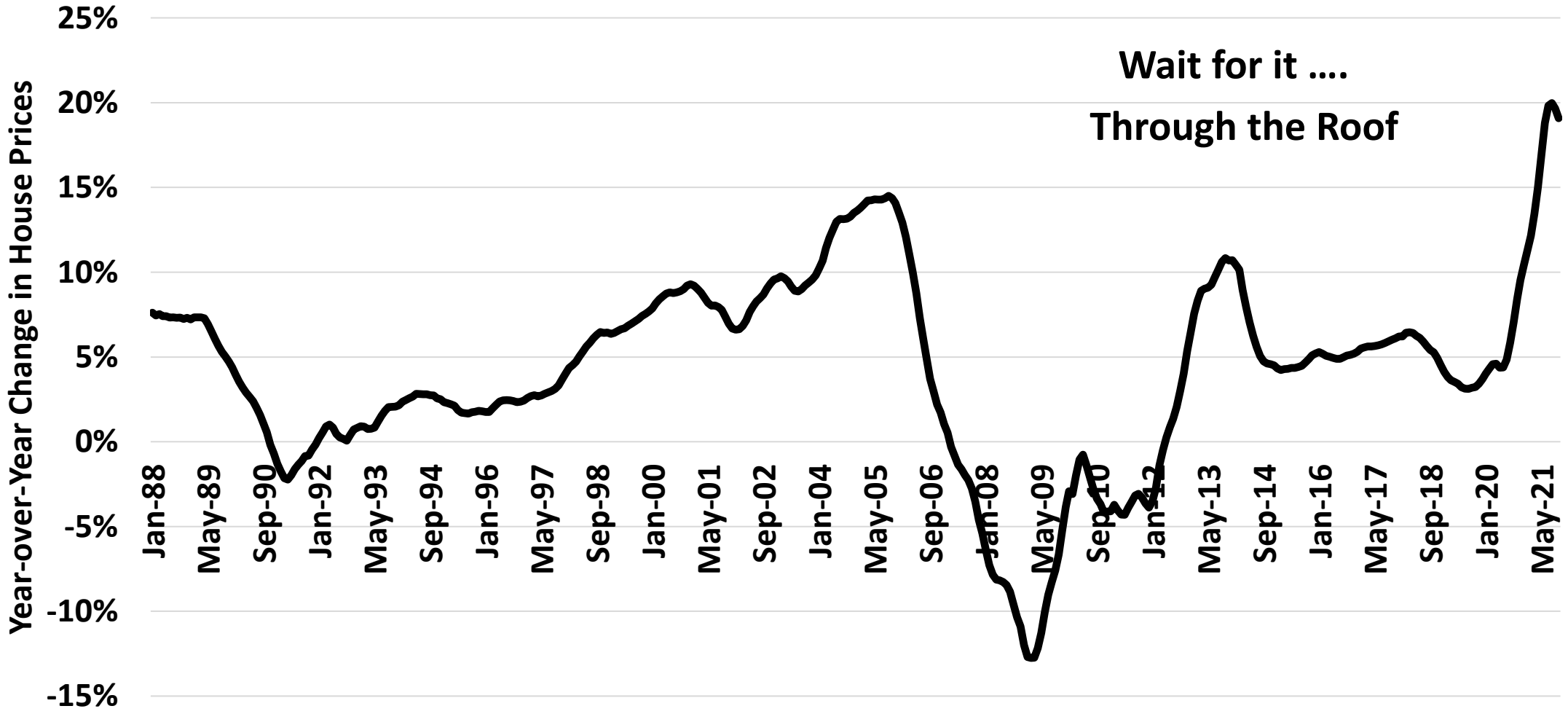
Limited Supply + Free Money = Inflation



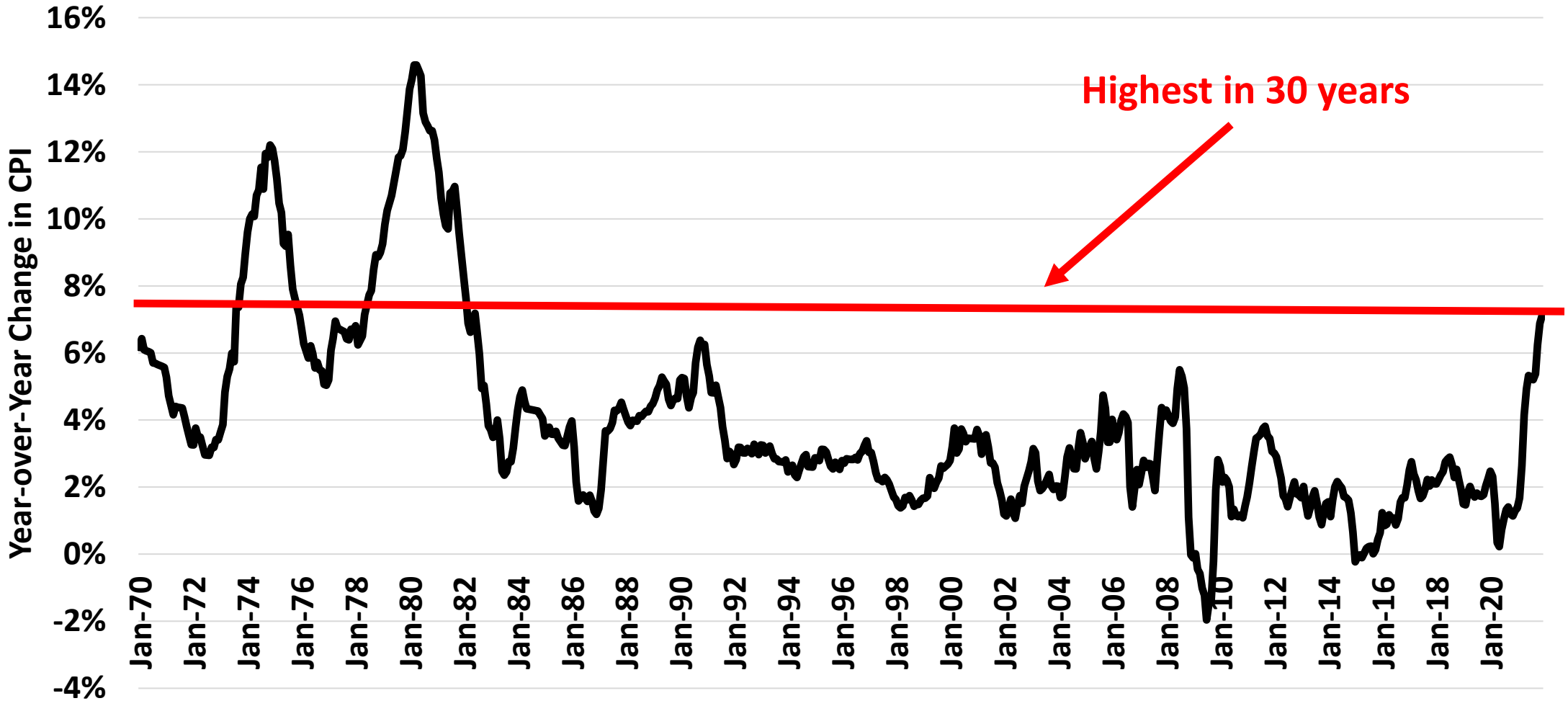
Limited Supply = Inflation (cont.)



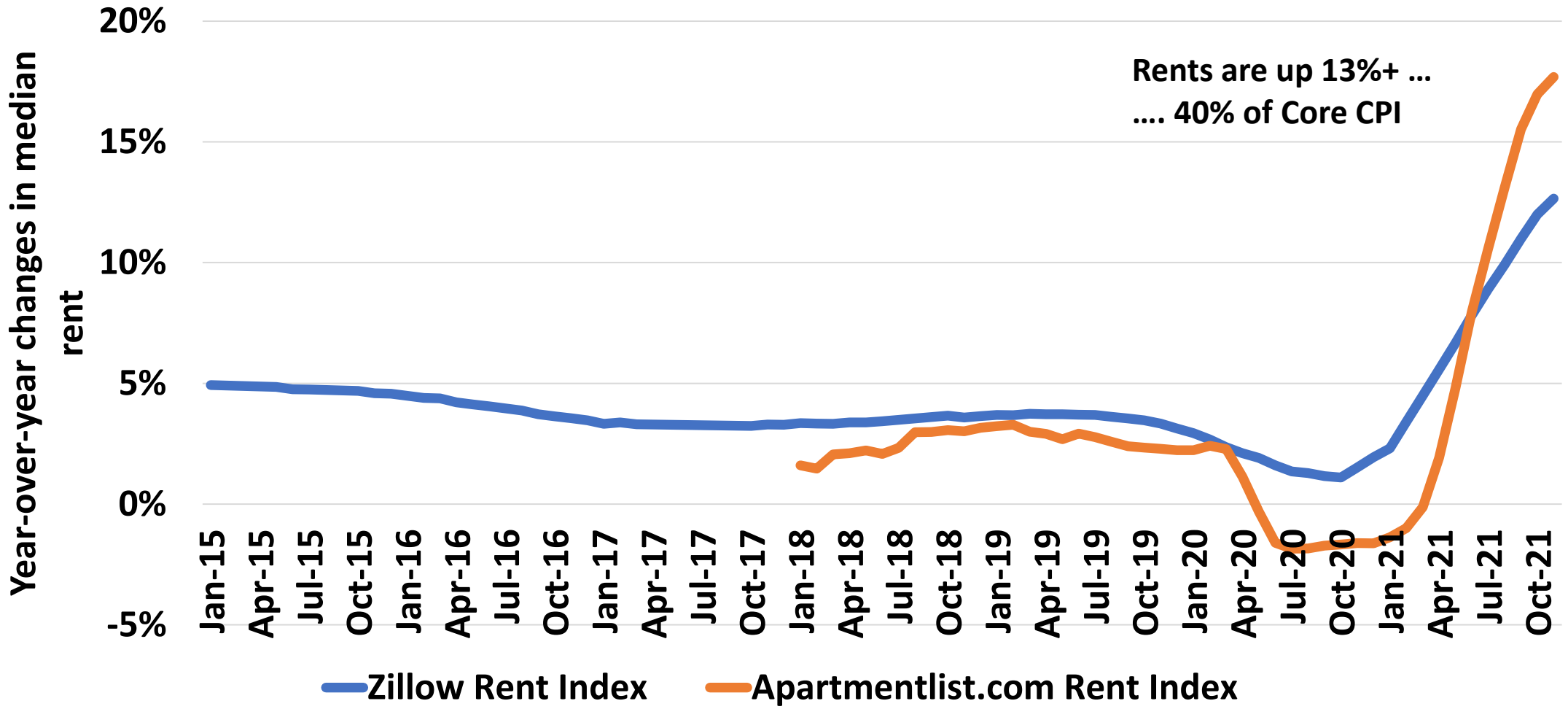
Limited Supply = Inflation (cont.)



Overall Inflation



Next Problem Will Be Rents



How Long is This Supply Issue Going to Last?

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Supply Issues Bottom Line

Global Supply Chain

+

Just in Time Inventory

+

COVID

=

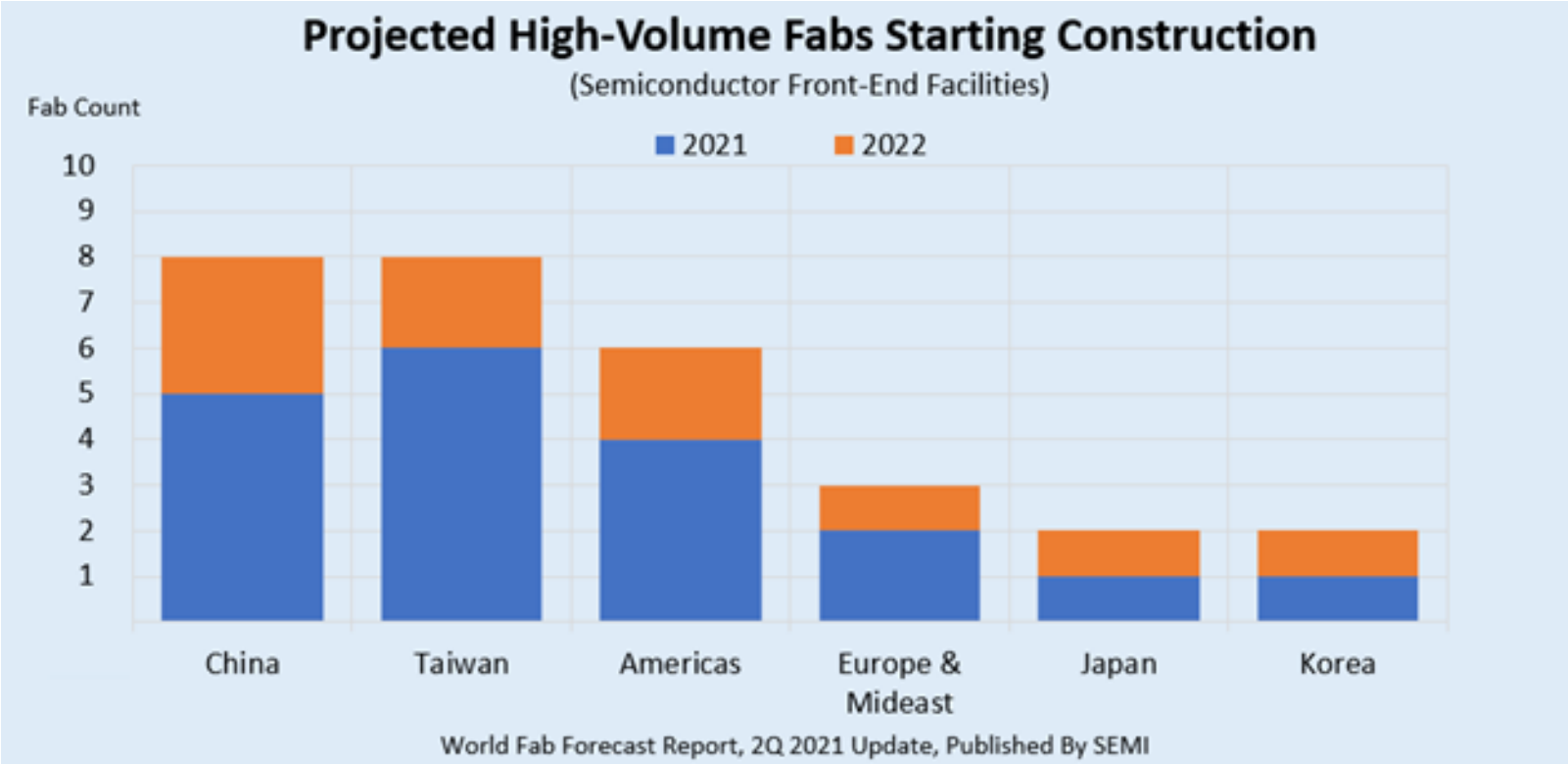
Huge Problems

Cargo Ships Take Time To Make

A typical commercial ship takes NASSCO about three years to complete, including roughly 12 to 16 months of detailed design and planning. Construction of the Matsonia began in 2018.

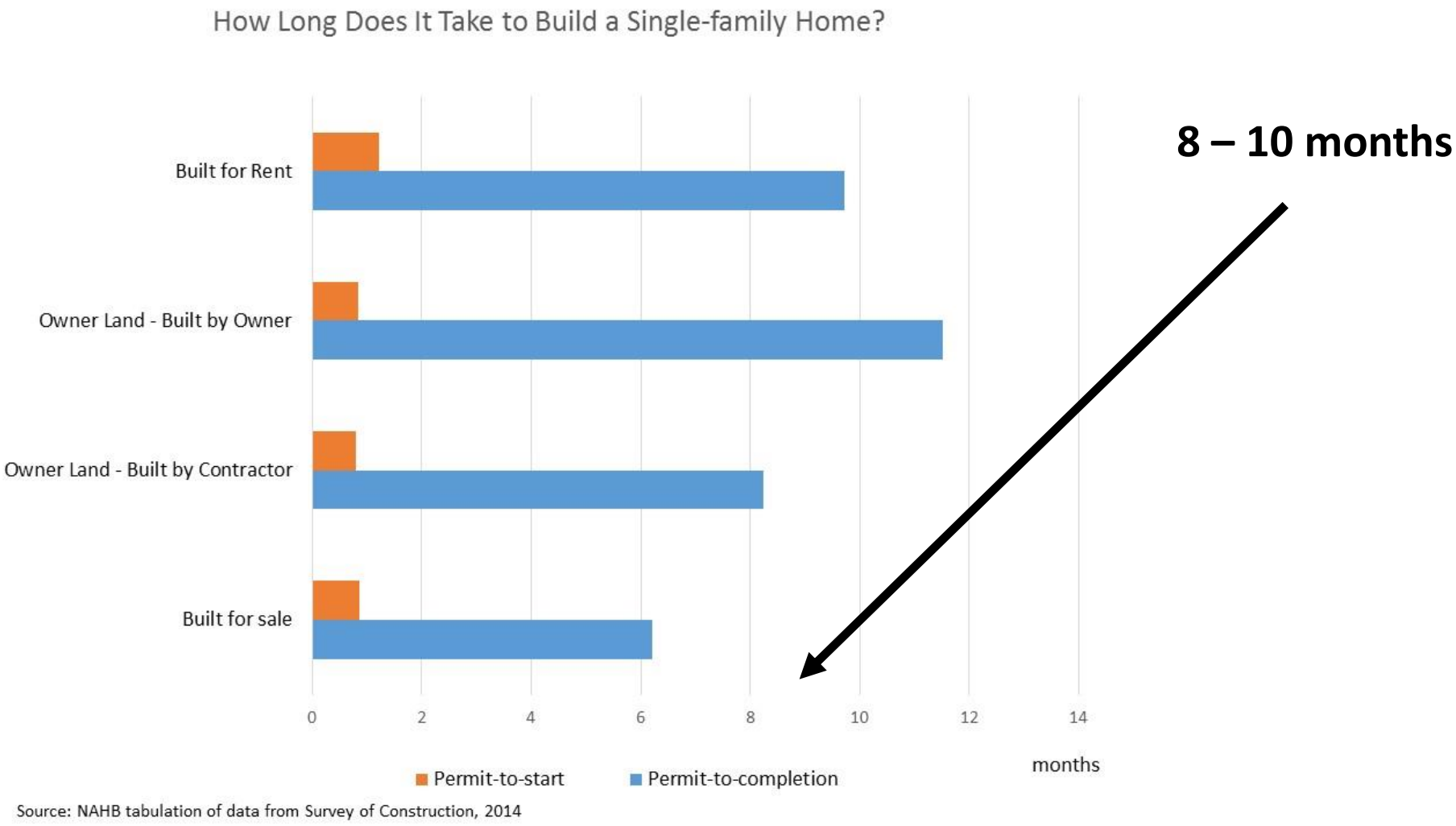
The first few stages of construction focus on building out the structure of the vessel, in pieces. The panels are created and shaped into so-called blocks, chunks of the ship's body that can weigh dozens of tons.

New Fabs Take Time to Make



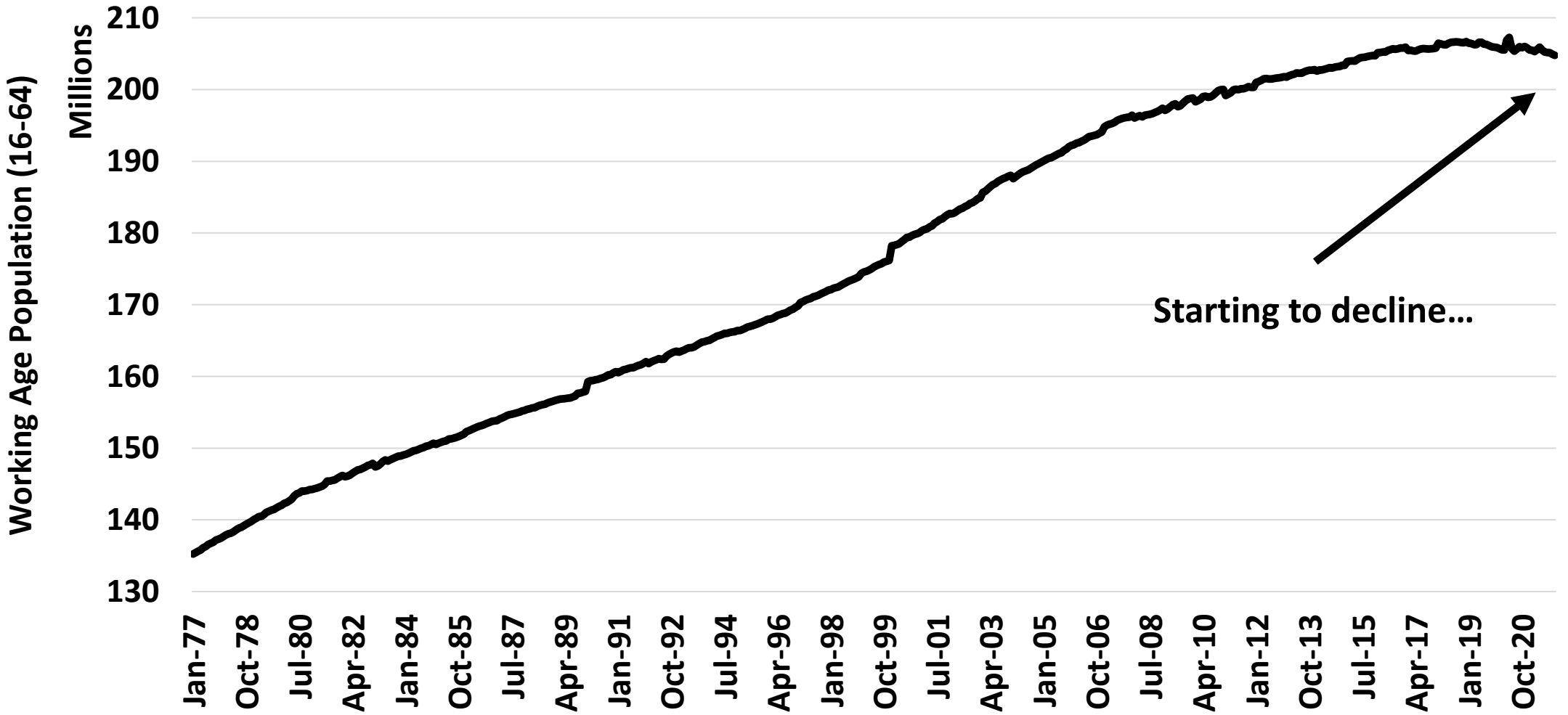
Of the semiconductor makers beginning construction of new fabs this year, many won't start installing equipment until 2023 since it takes up to two years after ground is broken to reach that phase, though some could begin equipping as soon as the first half of next year.

Houses Don’t Just Pop Up



Source: NAHB tabulation of data from Survey of Construction, 2014

Not Getting Any New People Anytime Soon



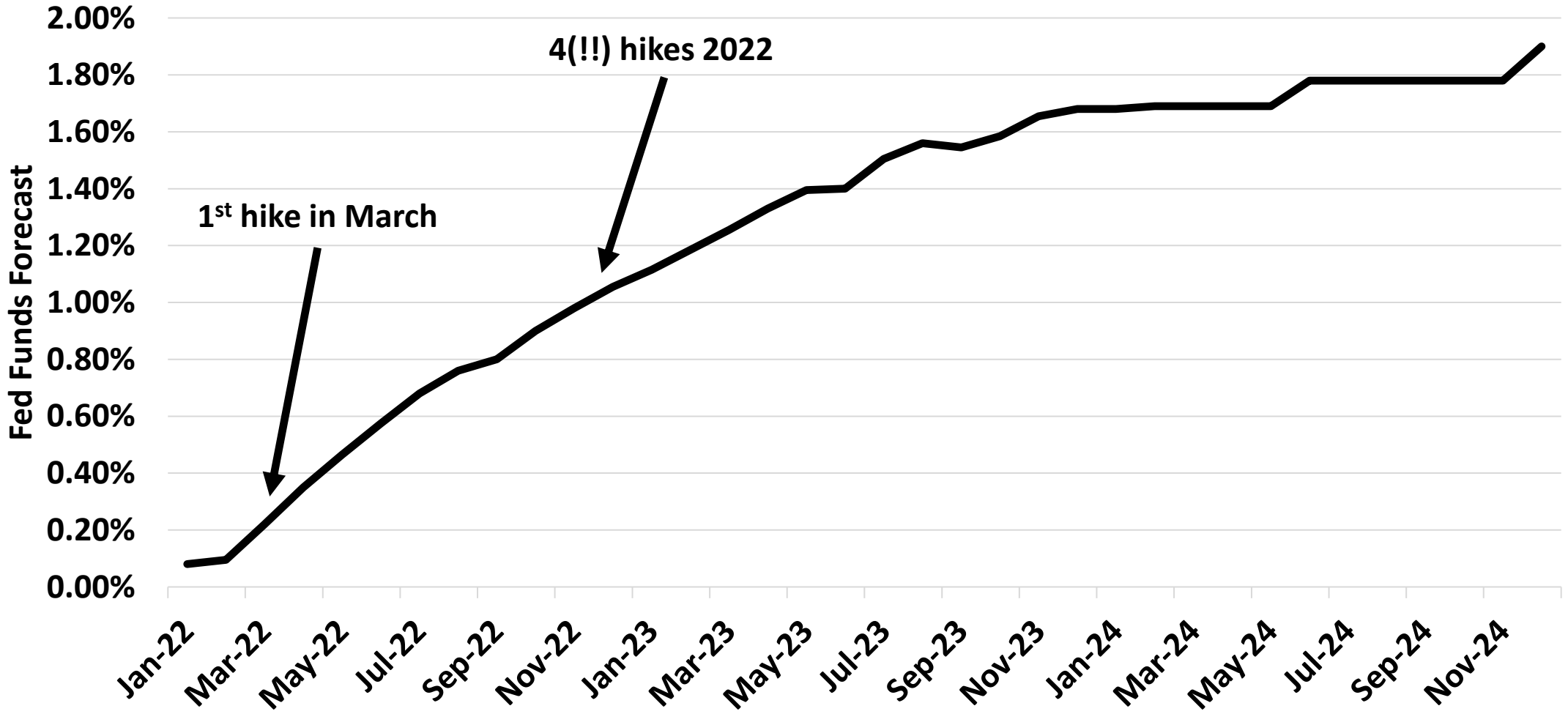
Won’t Powell Stop Inflation?

- So why doesn’t the Fed just stop inflation?

- Only have two not great options
  - Option #1: Raise interest rates a lot so that demand means supply
  - Option #2: Deal with a little inflation

- Option #1 leads to a recession. Which would you prefer?

Won’t Powell Stop Inflation?

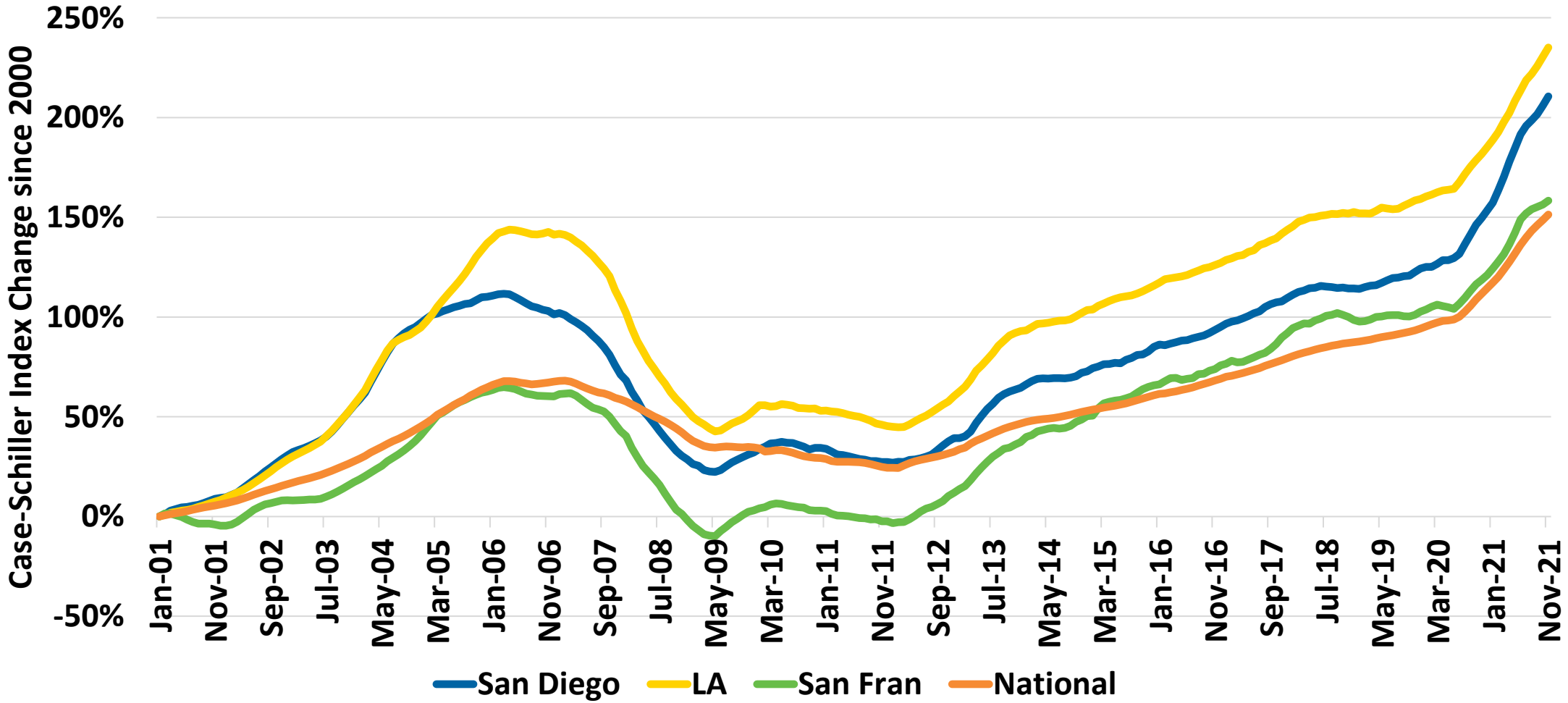


You Think You're Different California? Well Here It Is

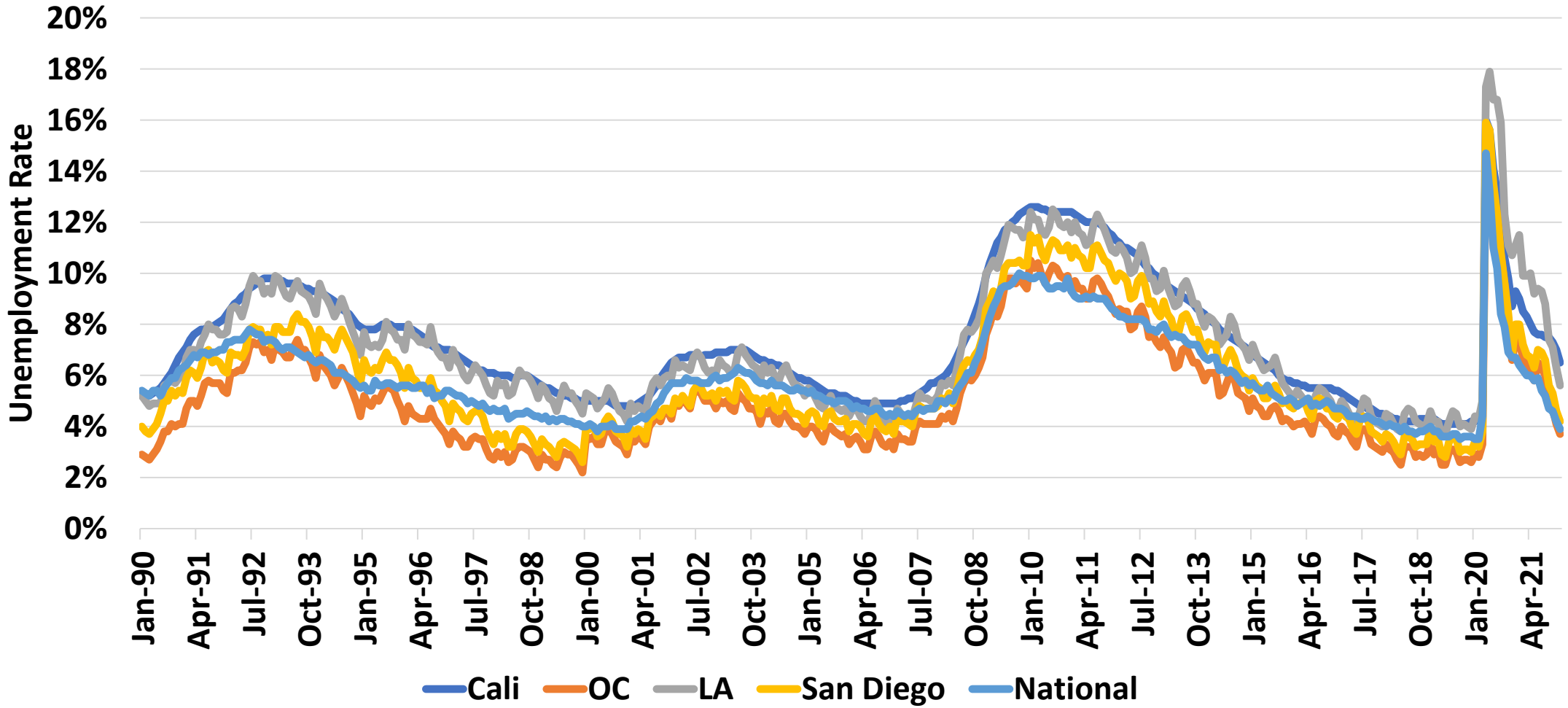
- California is 12% of the US population
- California is 15% of the US economy

You Think You're Different California? Well Here It Is

California Housing Prices



California Unemployment Rate



Economy Summary

- 2022 will feature a growing economy with inflation > 2%
- Supply issues will drag down growth potential
- No stagflation since unemployment will not be high
- Unfortunately many of these issue will take time to resolve
- … and my guess is will potentially lead to a glut of supply in 2023/24

I Never Thought I’d See Anything As High As This

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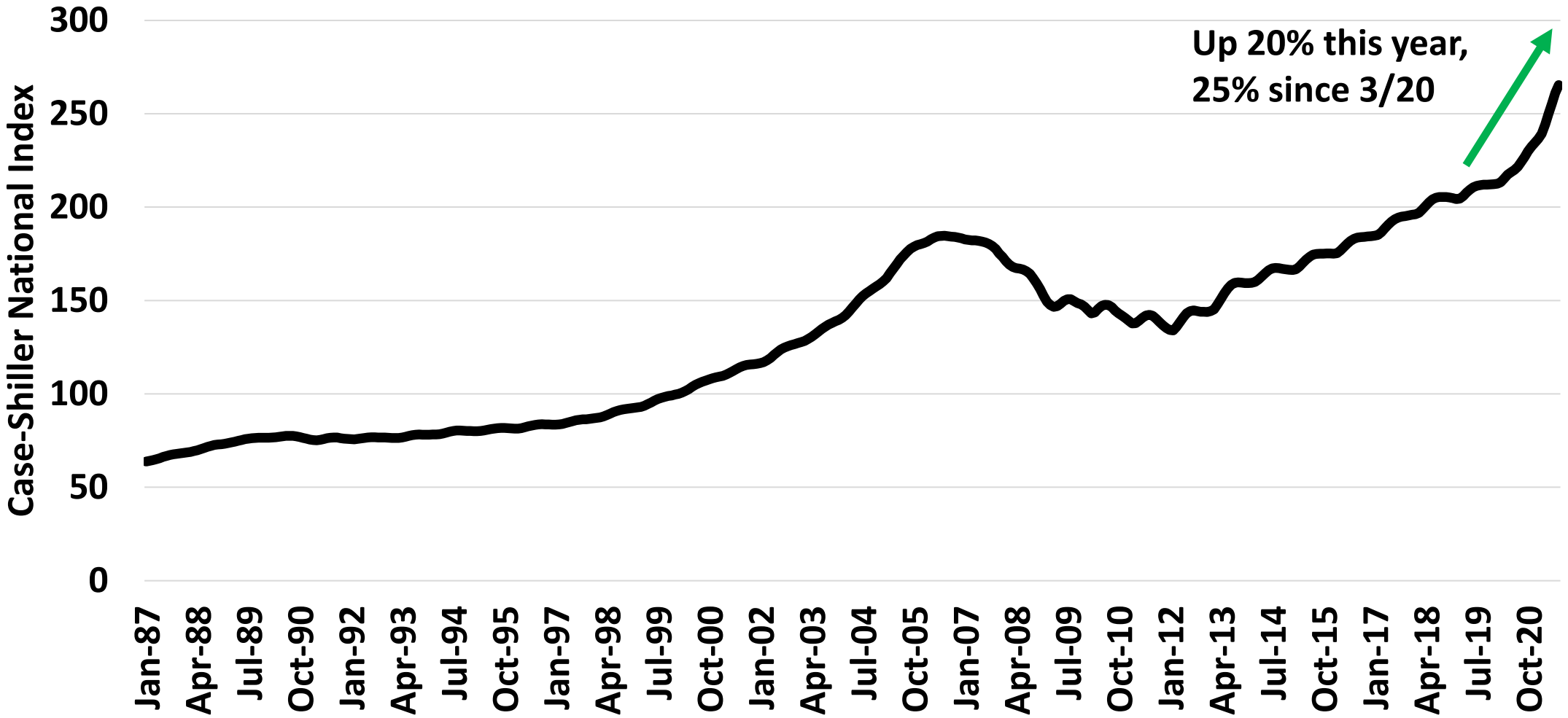
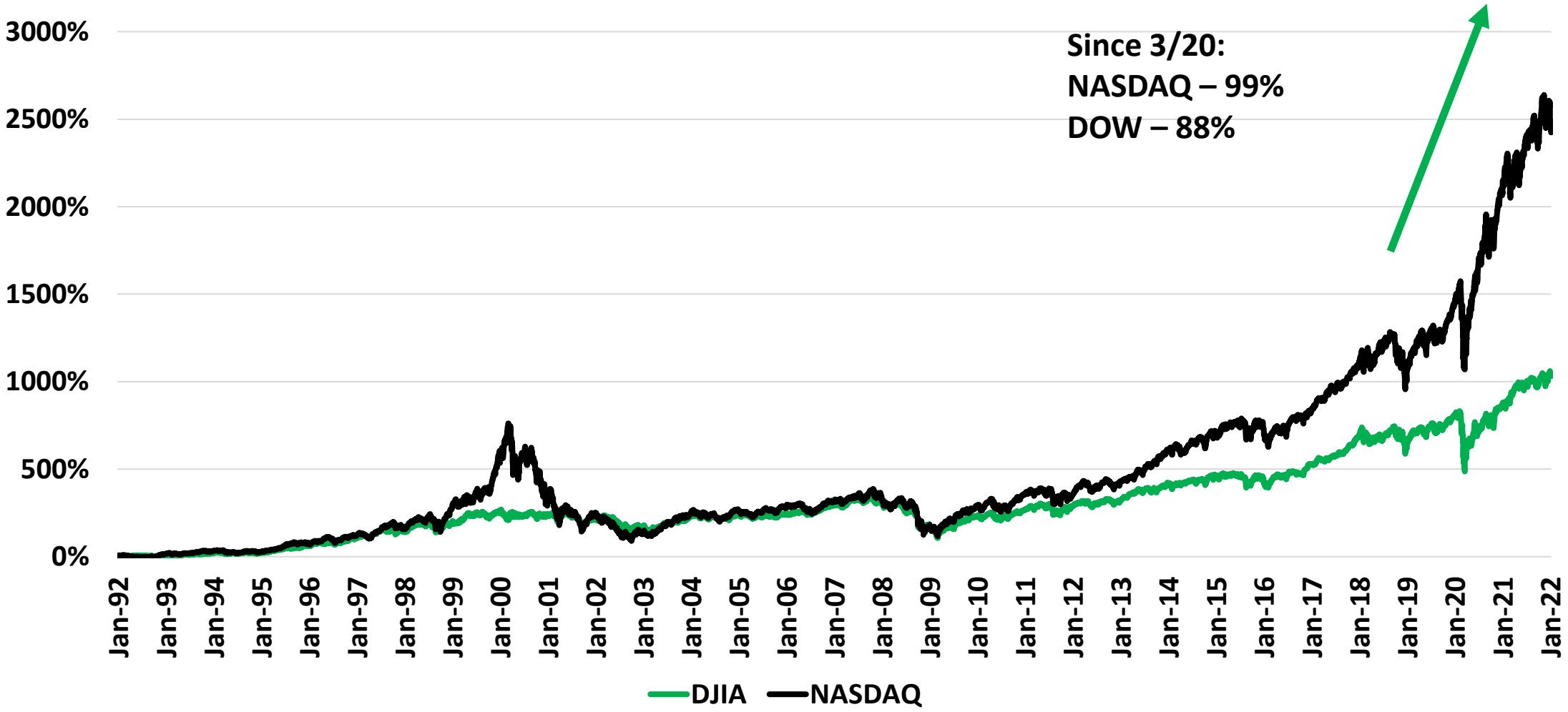
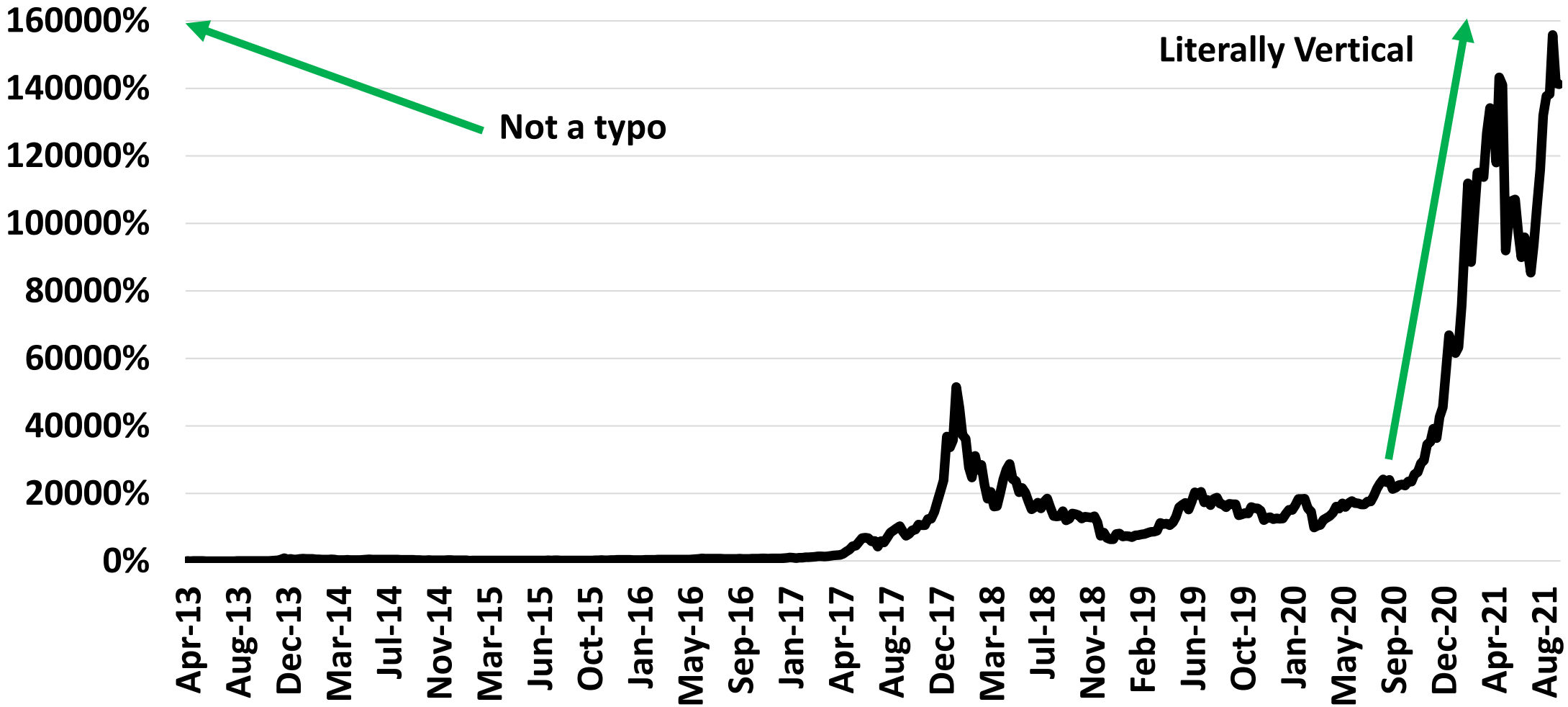
But Then There's Residential RE



Stocks, Especially the NASDAQ



Crypto


160000%
140000%
120000%
100000%
80000%
60000%
40000%
20000%
0%
Not a typo
Literally Vertical
Apr-13
Aug-13
Dec-13
Mar-14
Jul-14
Nov-14
Mar-15
Jun-15
Oct-15
Jan-16
May-16
Sep-16
Jan-17
Apr-17
Aug-17
Dec-17
Mar-18
Jul-18
Nov-18
Feb-19
Jun-19
Oct-19
Jan-20
May-20
Sep-20
Dec-20
Apr-21
Aug-21

And if These Things Are High, NFT's OD'd

NFT bubble: The craziest nonfungible token sales so far

Someone paid over $400 for a 52-minute recording of farts.

And if These Things Are High, NFT's OD'd (cont.)

SOMEONE PAID $450,000 FOR VIRTUAL 'LAND' NEXT TO SNOOP DOGG'S NFT HOUSE

The four leading virtual land platforms have sold $100 million worth of virtual land NFTs in one week.

I’m Just Waiting for Us to Go All Inception…

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I’ve Had To Starting Asking My Self the Question

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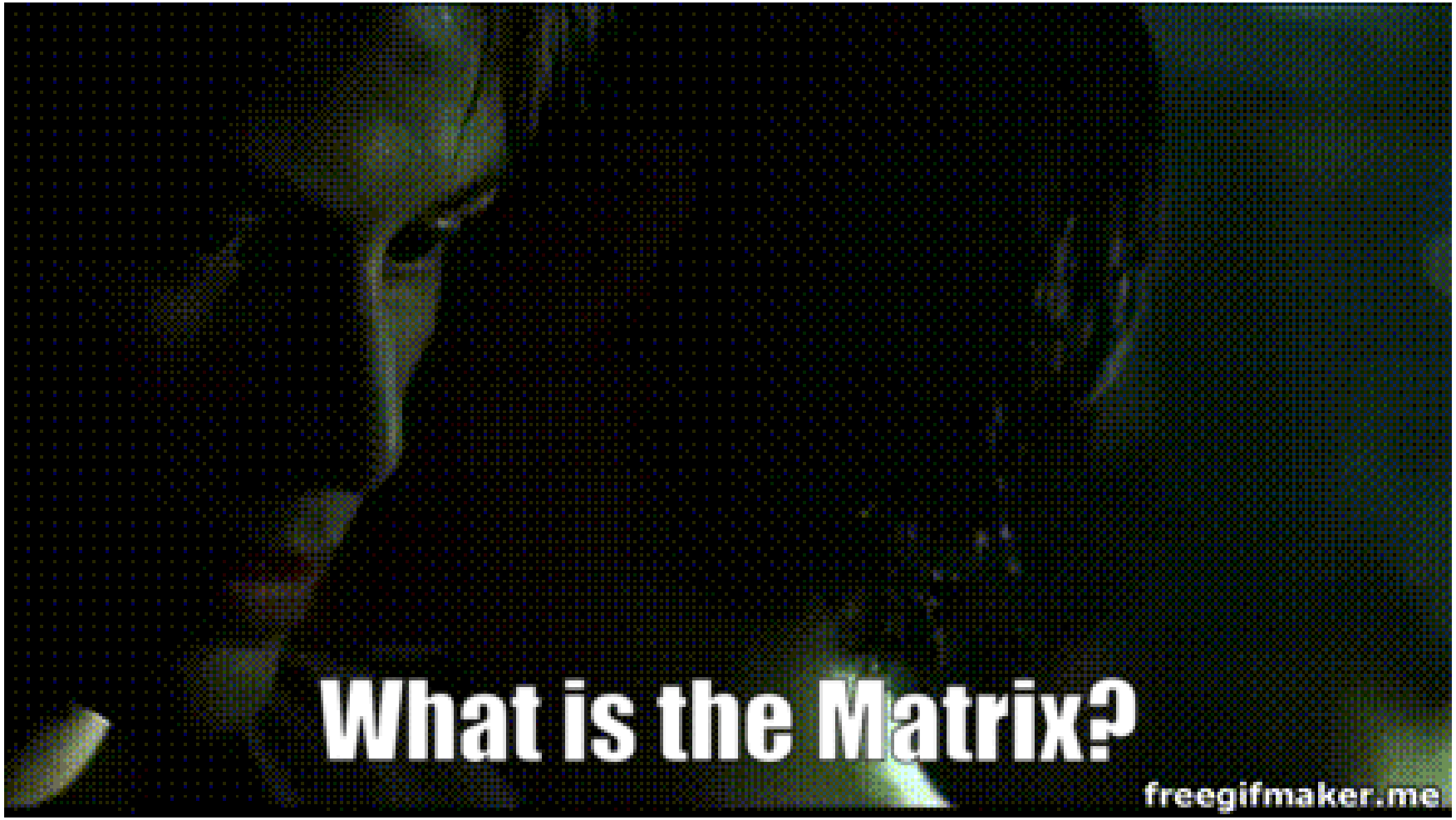
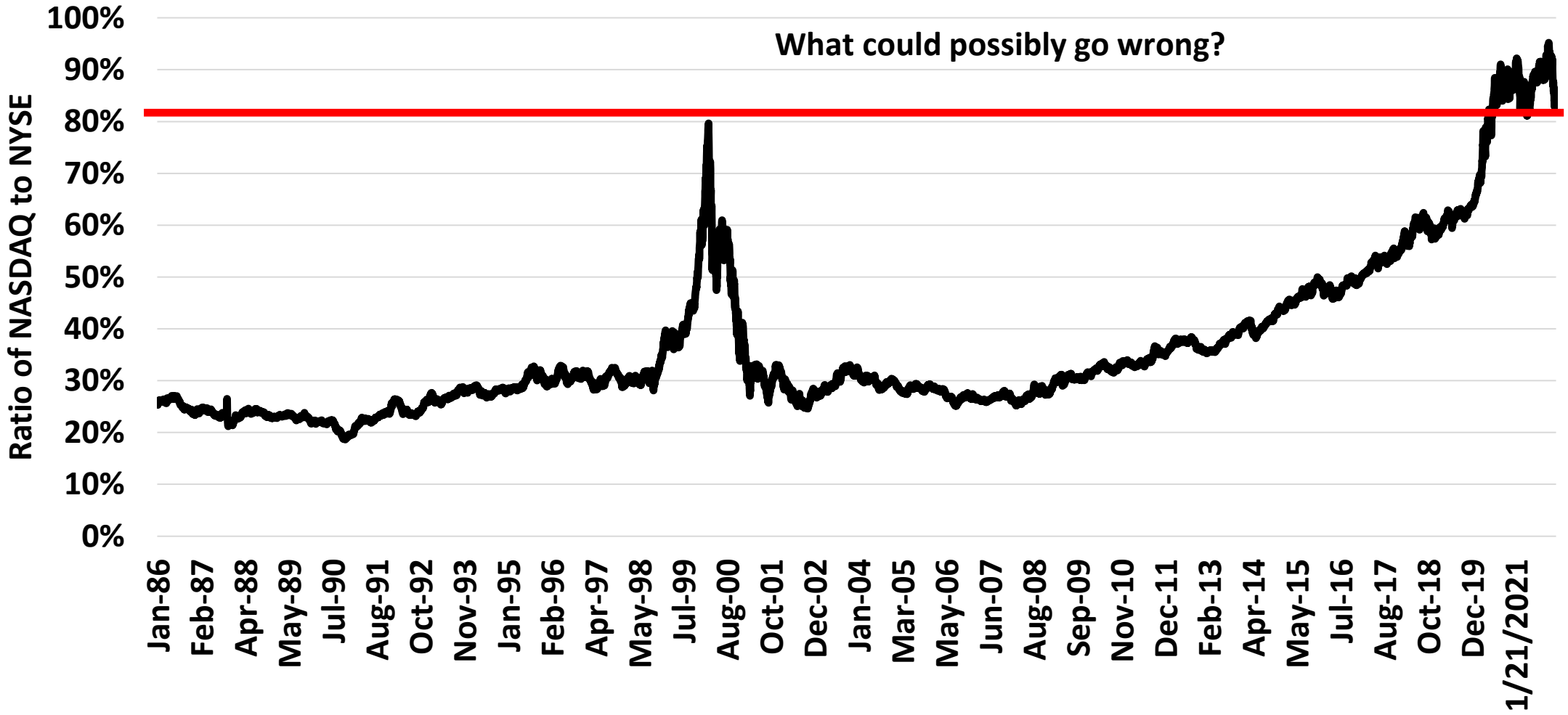


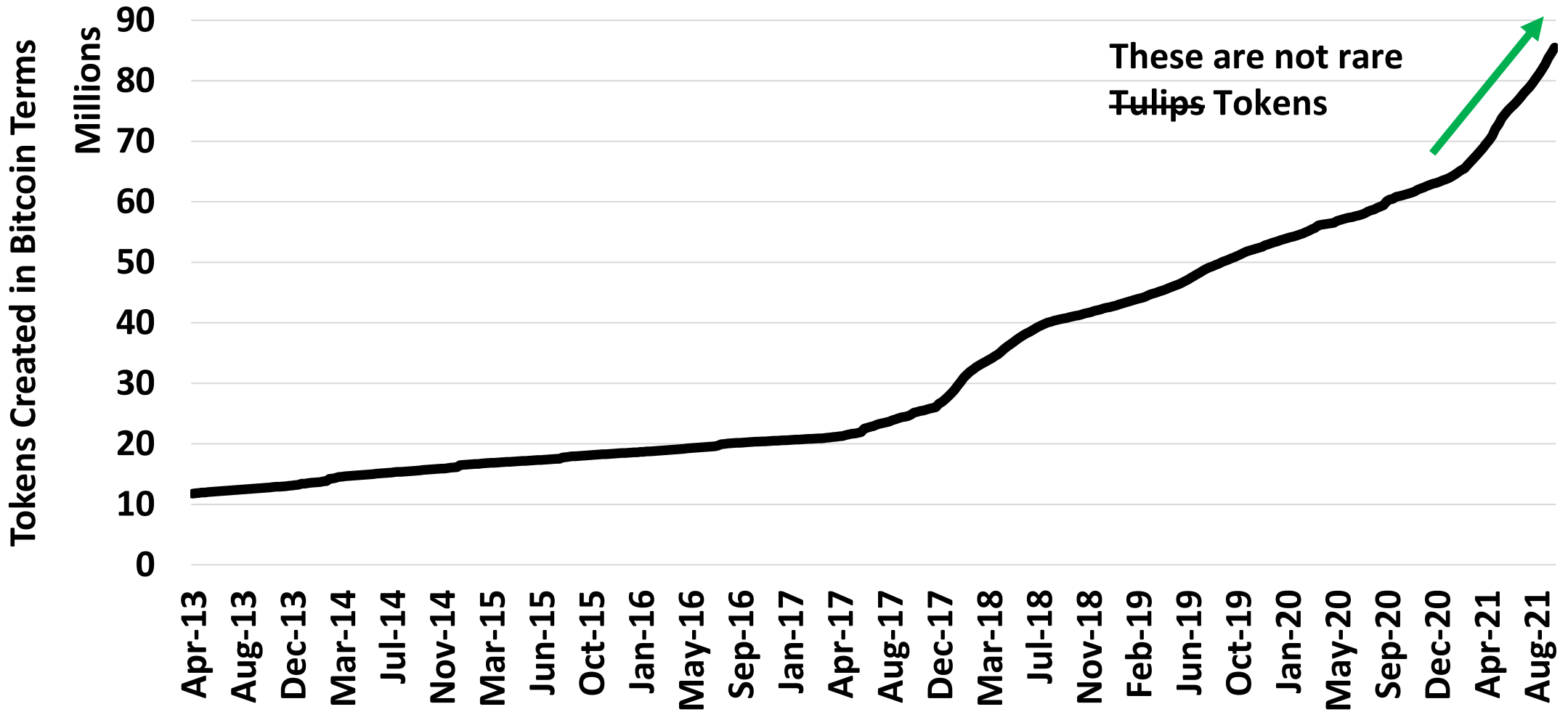
NASDAQ to NYSE



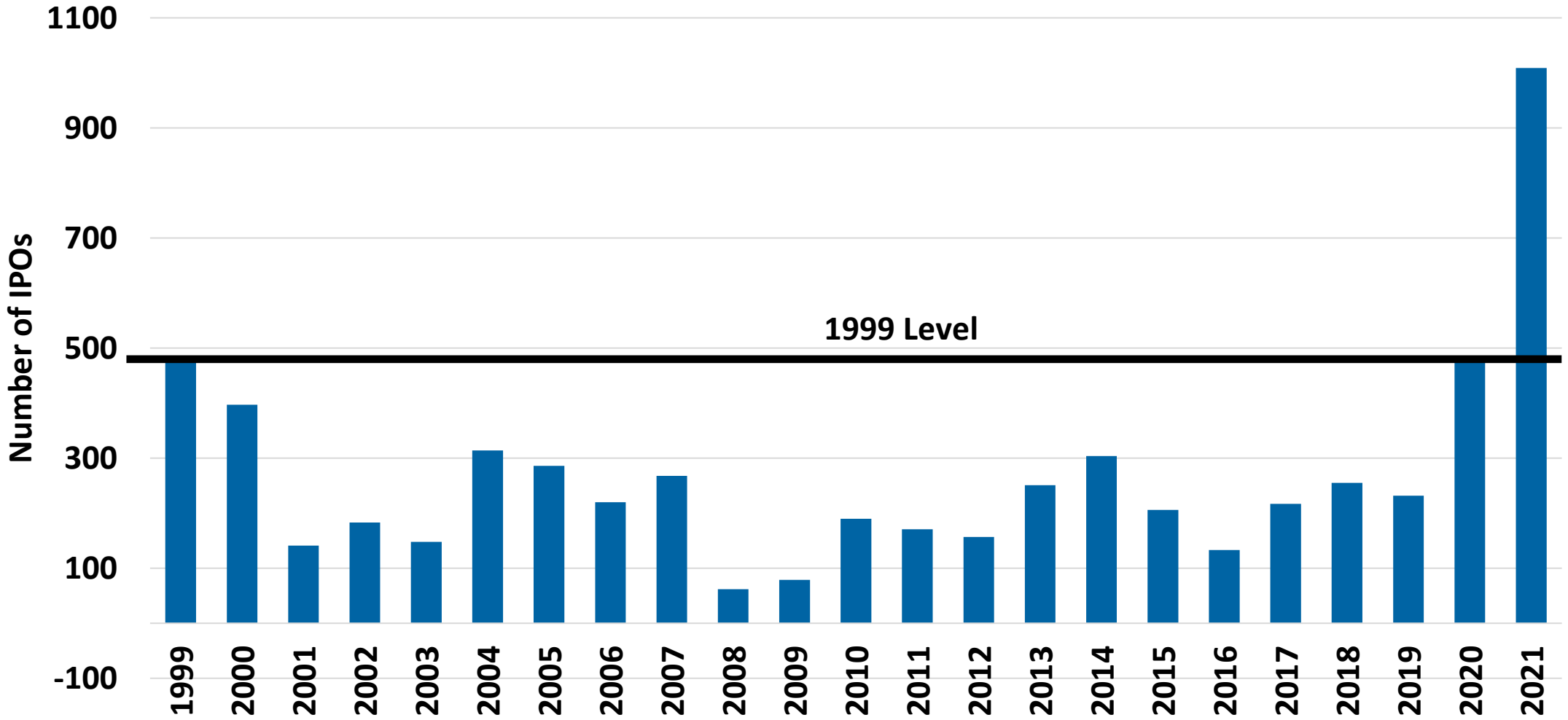
Just to Be Clear

- Crypto (even Bitcoin) doesn't meet any of criteria of a currency
- Crypto is not a financial asset (no future cash flows)
- Crypto is not a commodity
- Crypto I guess could be a collectible … ?

Get High, Then Supply - Crypto

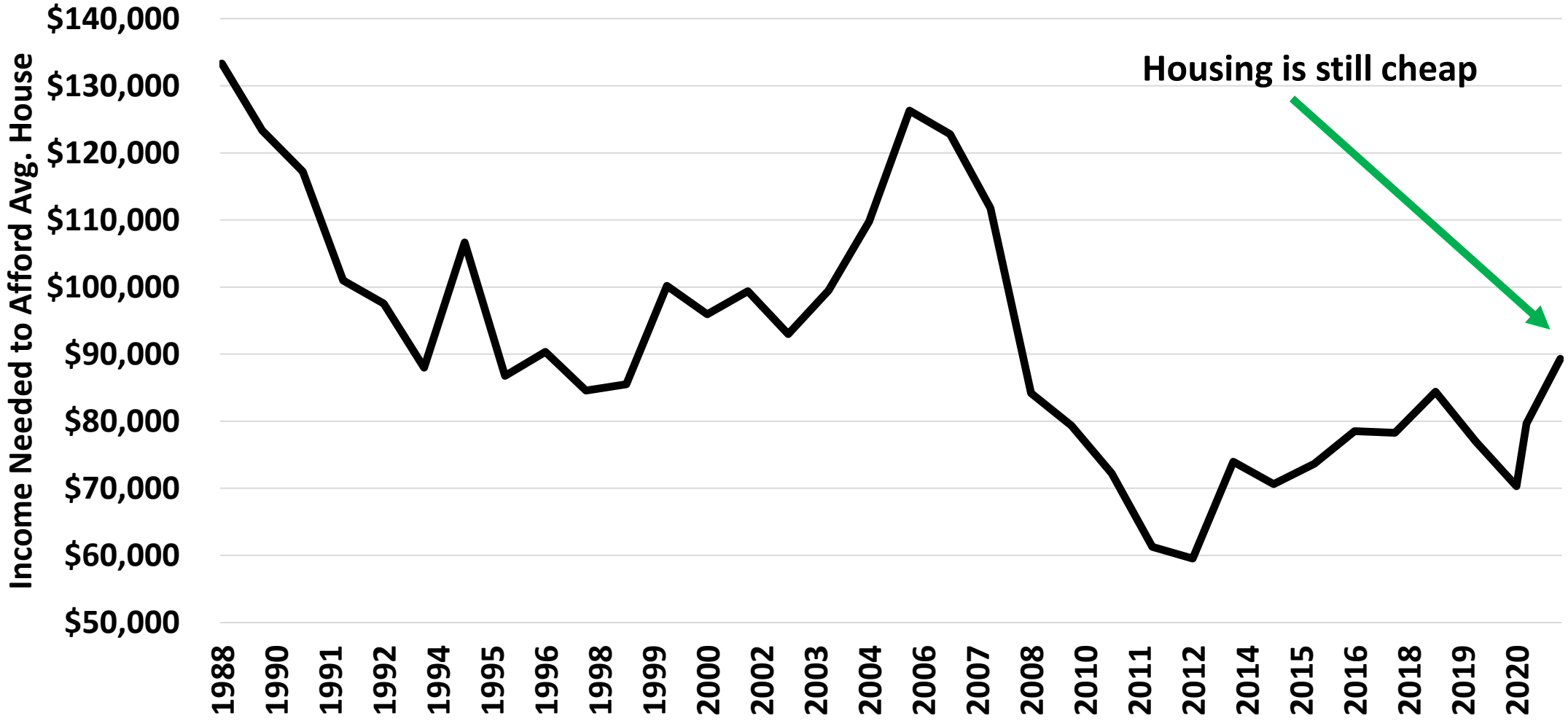


Get High, Then Supply - IPOs

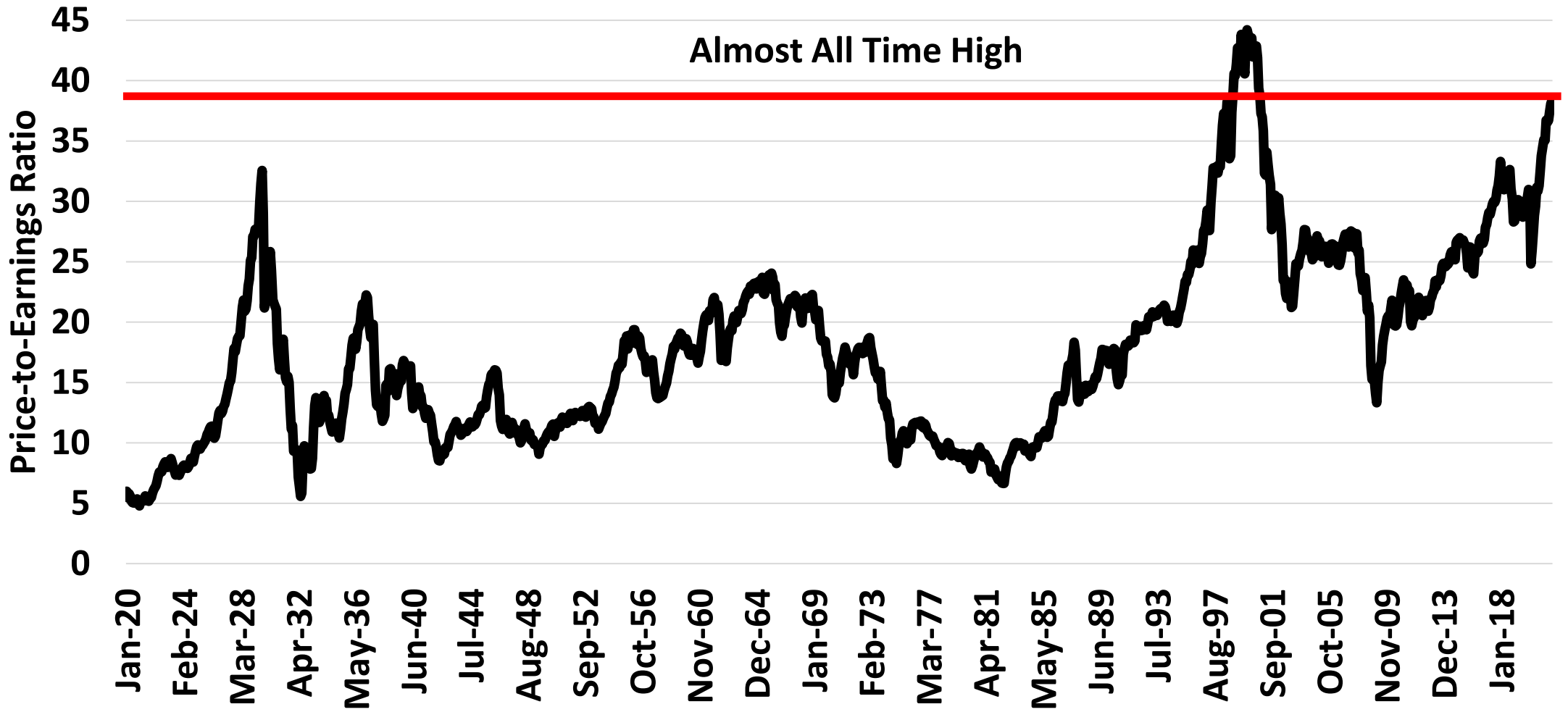


Expensive != Bubble: Thank Interest Rates

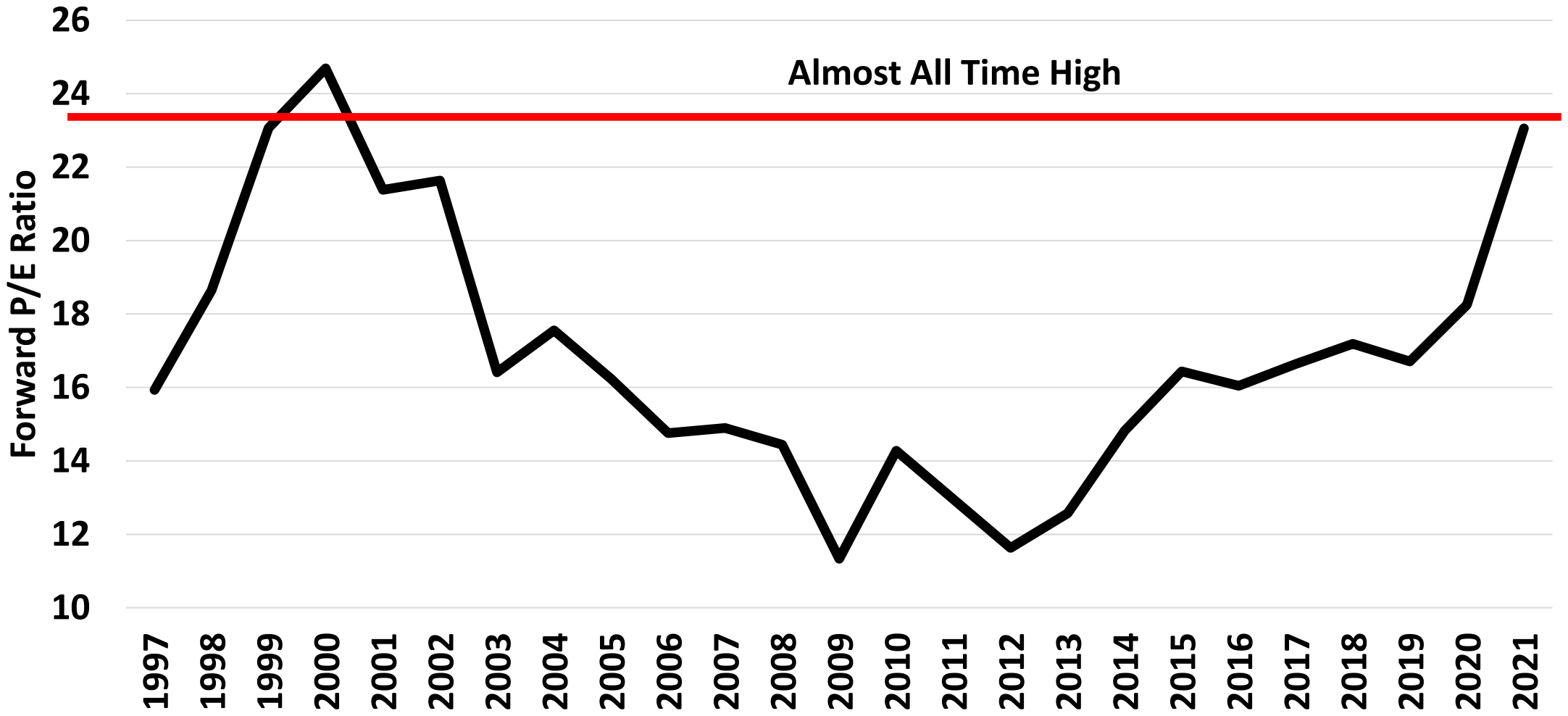
Expensive != Bubble: Home Affordability



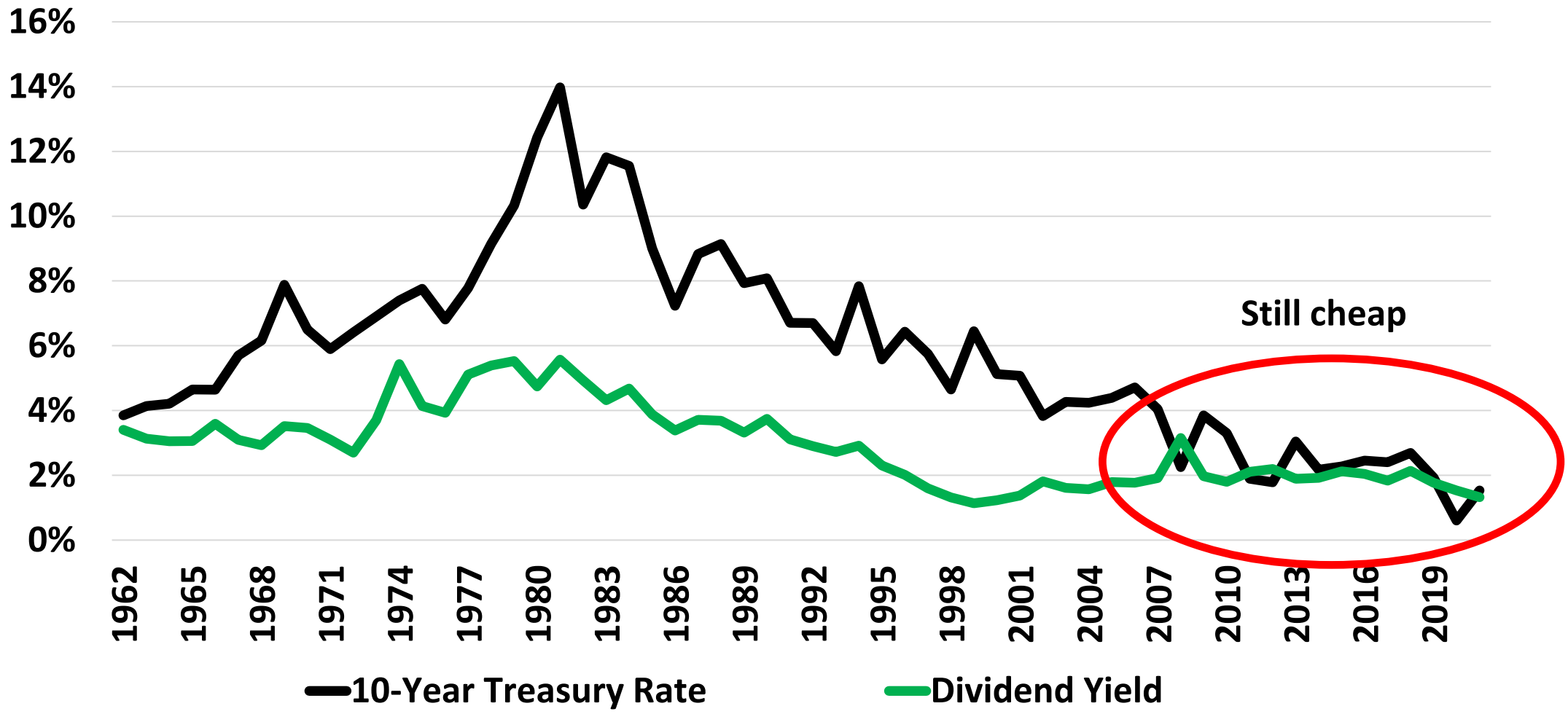
S&P 500 P/E Ratio



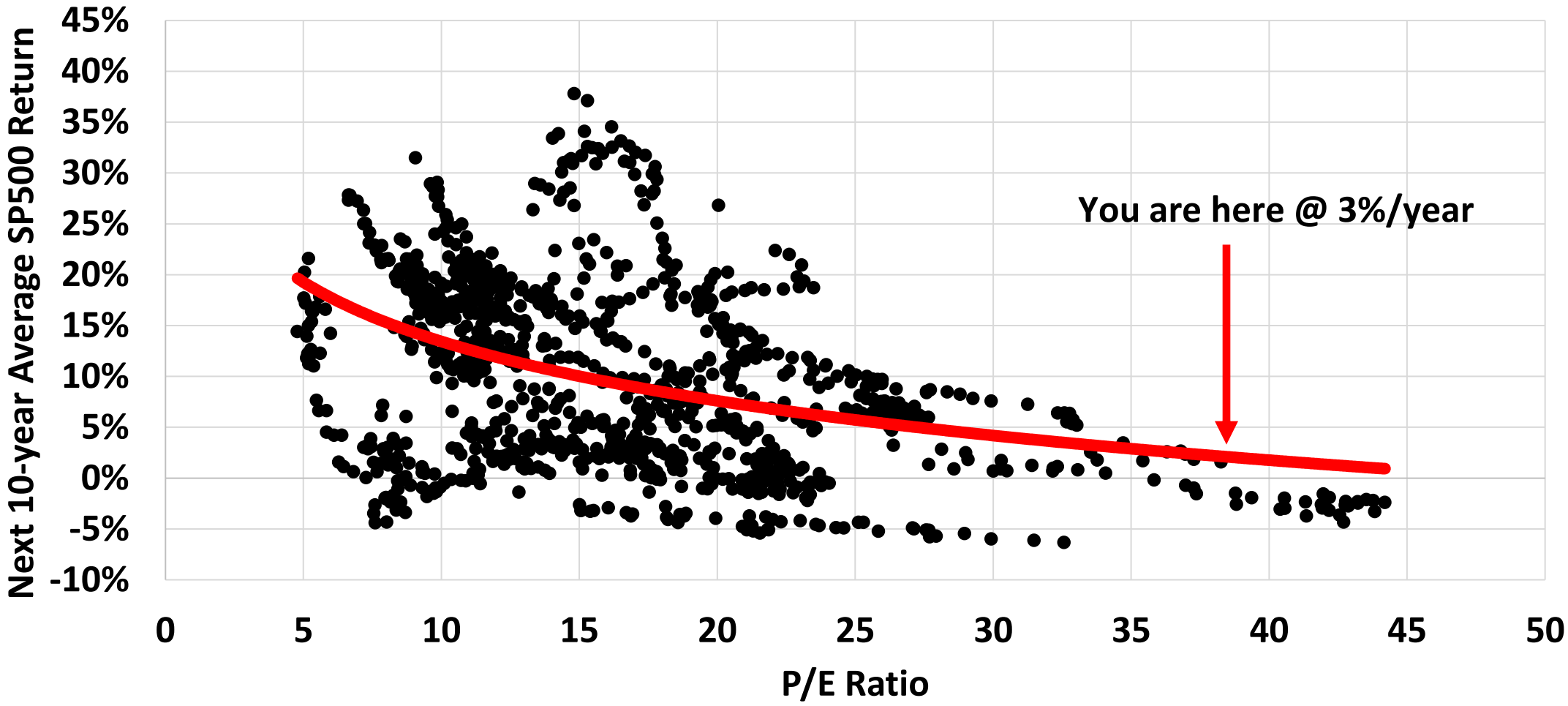
S&P 500 Forward P/E Ratio



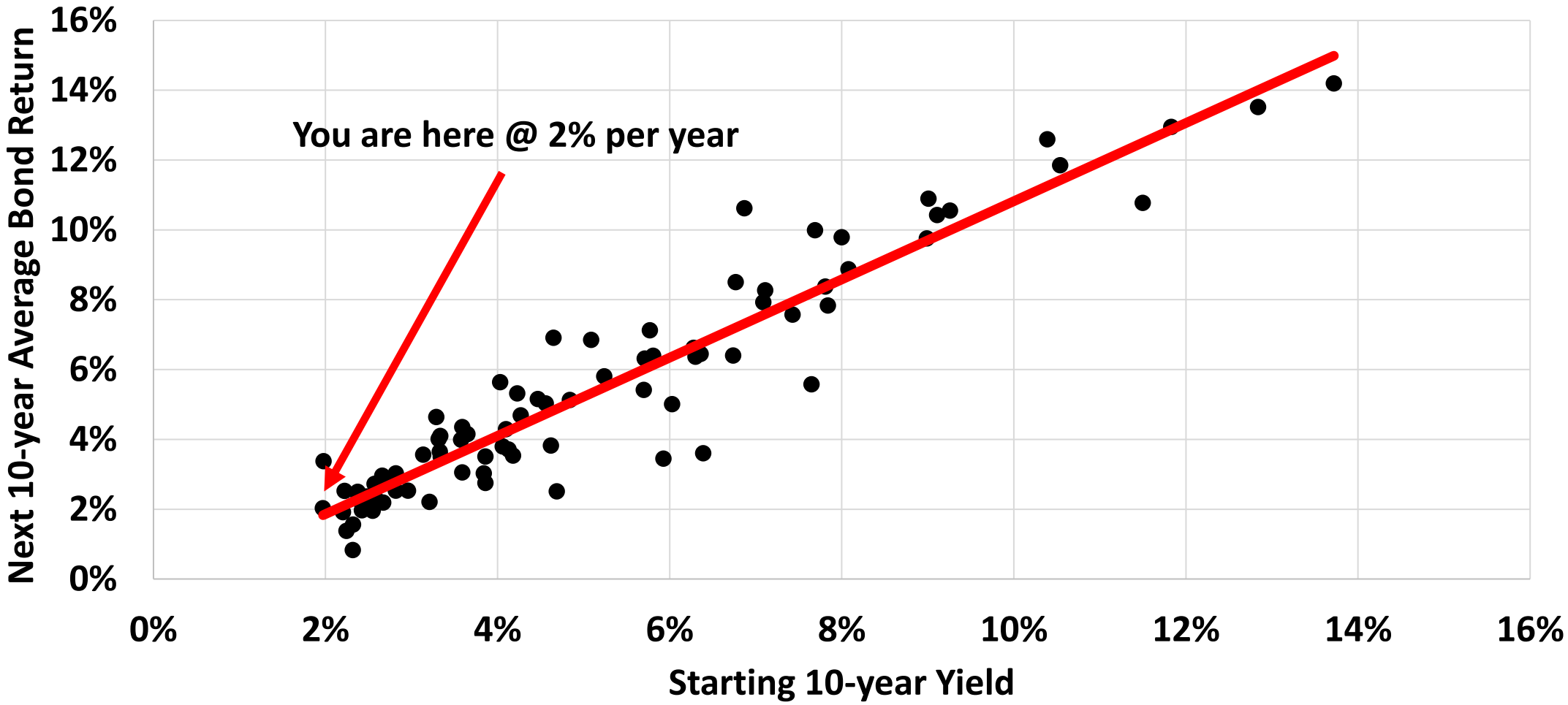
Expensive != Bubble: Interest Rates vs. SP500



Expensive Does Mean Low Returns



Expensive Does Mean Low Returns (cont.)



Rumor Stocks Do Well After Midterm Elections

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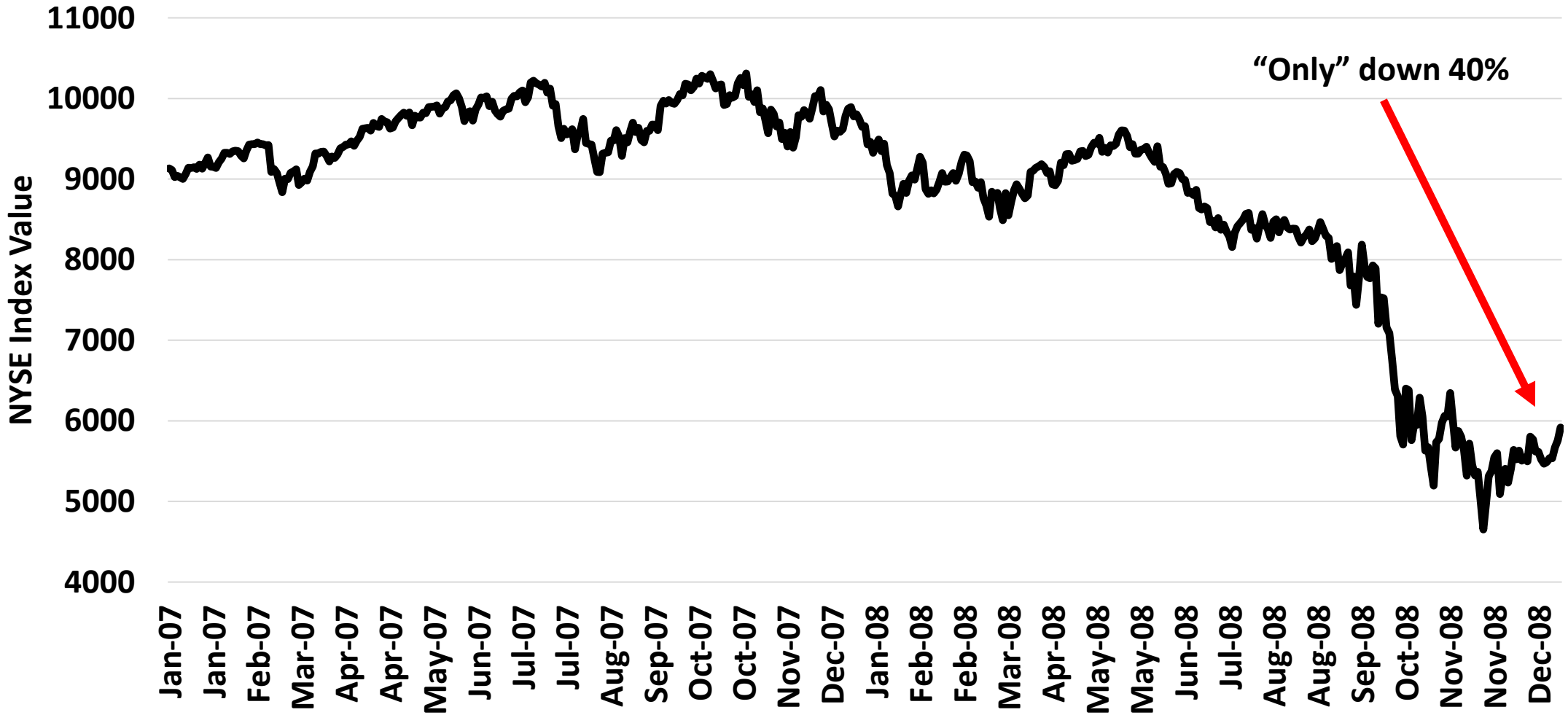
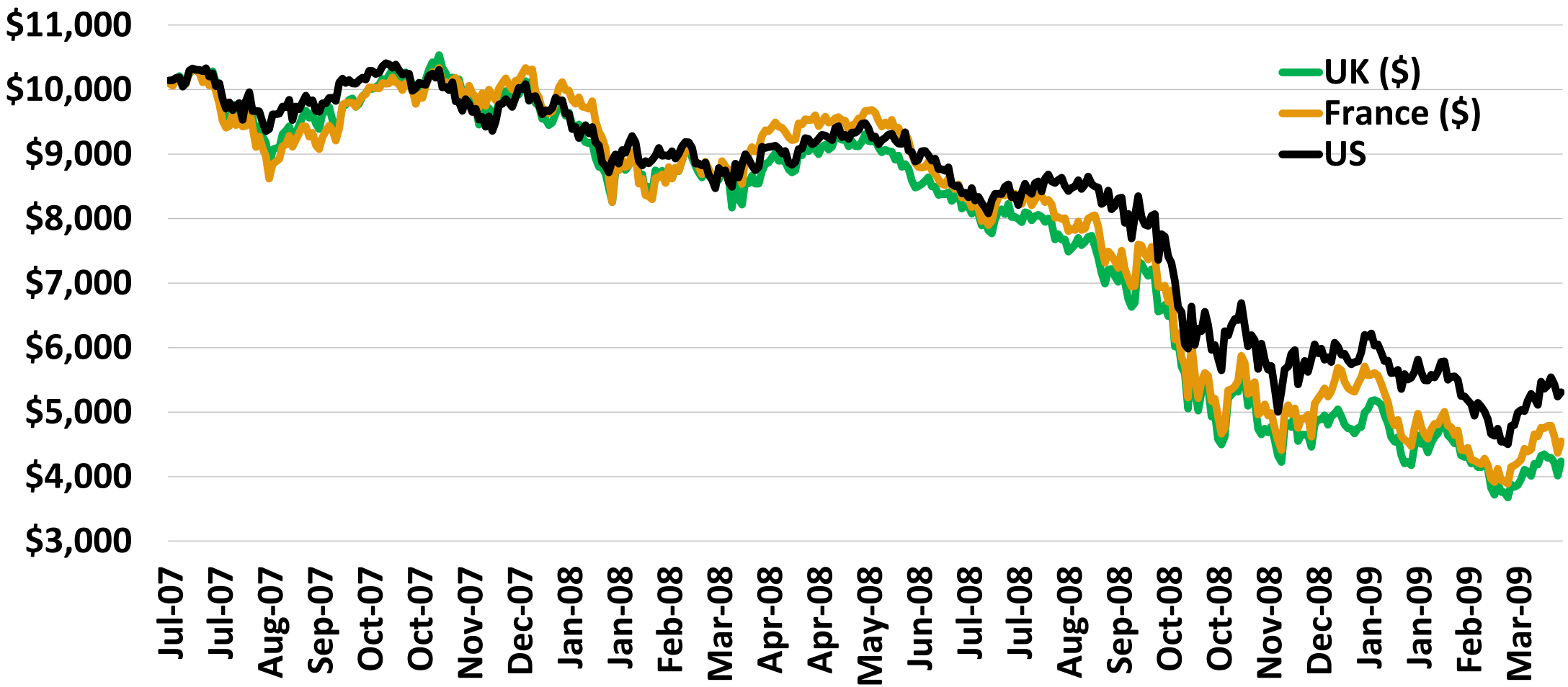
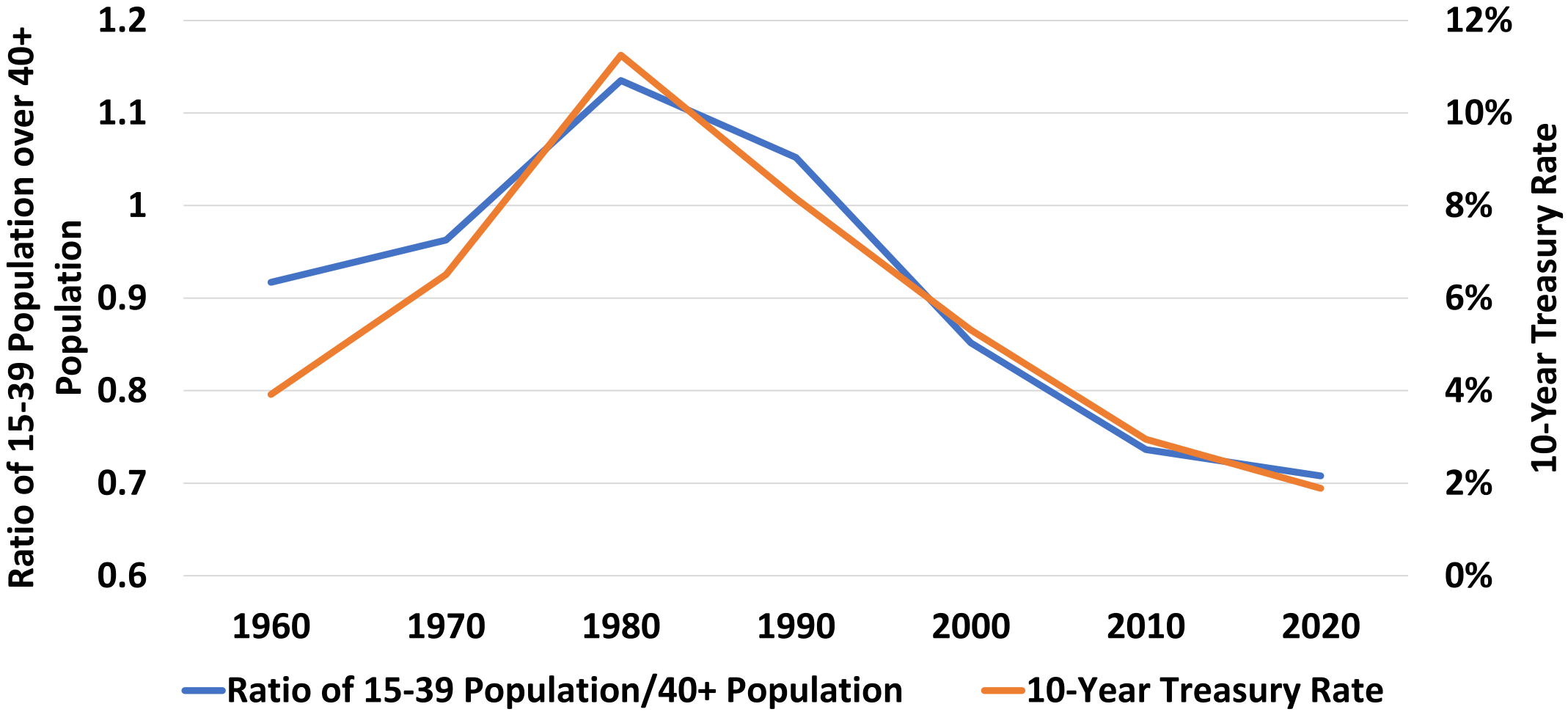


International Stocks Will Not Save You



PS – Interest Rates May Not Go Up Soon



Conclusions

- Economy will have a good year (2.5% – 3%) w/ elevated inflation
- Supply will be the limiting factor
- No particular reason to think financial markets will crash this year
  - But some sectors look a little scary
- Housing will be ridiculous until more homes for sale
- Asset returns on balance will be low next 10-years