

October 20, 2021

Market/Index	2018 Close	2019 Close	2020 Close	2020 Change	As of 09/30/21	2021 Change
DJIA	23,327.46	28,538.44	30,606.48	7.25%	33,843.92	10.58%
NASDAQ	6,635.28	8,972.60	12,888.28	43.64%	14,448.58	12.11%
S&P 500	2,506.85	3,230.78	3,756.07	16.26%	4,307.54	14.68%
Prime Rate	5.50%	4.75%	3.25%	-1.50%	3.25%	0.0%
10-year Treasury	2.69%	1.92%	0.93%	-0.99%	1.52%	0.59%

The Global Supply Chain

Imagine the global economy is like our interstate highway system. As long as everyone moves the same speed with a reasonable amount of care we can have a bunch of cars densely packed on the highway all get to their destinations on time. If there is a wreck, all the cars behind the wreck have to stop moving, wait their turn to get past the wreck, and then accelerate back to the speed limit. That's what's going on in the global supply chain right now and it's fascinating to watch.

In the early days of the pandemic, global trade stopped moving. The decline of maritime shipping was so dramatic that shipping companies canceled trips and docked their ships. In the US, empty shipping containers were piling up near the ports because there weren't any ships to take them back to Asia. Then the economy rebounded, and American consumers unleashed a tidal wave of demand as they started spending their money (and their stimulus checks) on manufactured goods — items that largely come from China on container ships.

At first, it wasn't the ships that were the problem; it was the containers. When the buying spree began, Chinese exporters struggled to get their hands on enough empty containers, many of which were still stranded in the US because of all the canceled trips at the **beginning of the pandemic**. Ships were put back into service and took up space in US ports just to be loaded with empty containers to send back to China. Meanwhile incoming ships had to wait their turn for space at the port to unload their goods. To make matters worse, the containers were in such high demand that no one even bothered to put US raw materials in the containers to be exported to China, and Chinese manufacturers needed those raw materials to manufacture their products. When the empty containers arrived in China, the ship had to take up space at the dock, containers had to be unloaded and driven to warehouses to be refilled, driven back to the port and put back on a ship to return back across the Pacific. This same thing happened in every major port in the world.

That congestion was creating massive delays on both ends of the shipping supply chain, tying up large numbers of containers and ships and leading to growing backlogs and shortages. In March 2021, the Ever Given, one of the largest container ships in the world, got stuck in the Suez Canal in Egypt. While the blockage didn't directly affect the Asia-West Coast shipping corridor, it added to the global shortage of ships and containers by stranding even more of them out at sea.

In May there was a COVID-19 outbreak at the Yantian International Container Terminal in China, which is normally one of the busiest ports in the world. The Chinese government implemented stringent measures to control the outbreak, and as a result, more than 40 container ships had to anchor and wait. And if all this wasn't enough, the Delta variant hit over the summer reducing available labor worldwide. Processing containers has been taking longer because of all the disruptions. Containers have been piling up at dockyards, trains and trucks have struggled to get them out fast enough, and manufacturers dealing with a shortage of raw materials have had trouble assembling new products.

With so much shipping capacity bogged down, importers and exporters have been competing for scarce containers and vessels and bidding up the price of shipping. The cost of shipping a single container from China to the West Coast reached \$15,000 in September, up from \$1,500 before the pandemic. For consumers it's frustrating; but for students of

supply and demand curves, this has been textbook Economics 101. The good news is that this will correct itself as new capacities come online and bottlenecks disappear, but we don't expect that to happen anytime soon. Be sure to order your Christmas presents early this year!

China

For decades, China's economic goal has been to overtake the US as the world's financial superpower. They have increased their acceptance of capitalist ideals and as a result their GDP has grown at an astounding rate between 6 and 15 percent per year over the last 40 years. We may soon see that unravel.

Chinese President Xi Jinping seems to be more of a hardline socialist, emulating communist party founder Mao Zedong, and his emphasis on "common prosperity" has become increasingly pronounced in the last few months. The Chinese government has taken unprecedented steps to take control of money, data and influence from individuals and the burgeoning private sector.

In August, after a meeting with communist party officials, Alibaba, the Amazon.com of China, recently announced that it will give \$15.5 billion, 2/3 of its net income last year, to projects that support "common prosperity." This comes after Jack Ma, Alibaba's founder and China's most well-known entrepreneur, disappeared for 3 months in November 2020 after criticizing China's financial system. This "gift" matched similar gifts from Tencent and Pinduoduo, two other large Chinese tech companies.

Tech companies across China are being forced to share customer data with the government to reduce the companies' monopoly powers over data. The country recently announced that it has given many private sector companies strict deadlines to "rectify" the treatment of their workers and customers.

On August 26, actress Zhao Wei, the Reese Witherspoon of China, was effectively "erased" from the internet in China. Her TV shows and movies were removed from television and streaming services and her Chinese Wikipedia page was deleted. Online searches for her name now come up blank. Ms. Zhao's online disappearance came at the onset of a broader clampdown on the country's entertainment industry as the Communist Party attempts to halt what it sees as a rise in unhealthy

celebrity culture. The Disney movie "Shang-Chi and the Legend of the Ten Rings", the first Marvel Cinematic Universe entry headlined by an Asian character, may not be released in China because its star, Simu Liu, called China a "third world" country in a social media post back in 2017.

To top it all off, the Chinese economy may have a major setback coming. China's economic growth in recent years has been powered in large part by its roaring real estate market. The real estate industry, directly and indirectly, accounts for as much as 29% of China's entire gross domestic product. The Chinese property bubble, which observers have been talking about for years, has encouraged more and more speculation, with investors buying up properties with no intention of living in them. Unfinished and vacant buildings and apartments litter the provinces of China. Estimates vary, but around 20% of China's total housing stock now sits unoccupied. The Financial Times says there is now enough vacant property in the nation to house more than 90 million people. That's enough empty homes to fit the entire population of Canada, France, or Germany. Evergrande, a major Chinese real estate developer, has recently been at risk of defaulting on some \$300 billion of debt, and they would be just the tip of the iceberg.

In a country whose citizens have had progressively more freedom and economic prosperity over the last 40 years, these changes signal a return to policies many entrepreneurs may not want to return to in the years to come. These people could take steps to leave the country for places with a greater chance of economic prosperity. This could be the beginning of the end of China's economic explosion and remove any doubt about the US's dominance of global financial markets in the years to come.

All of us at Anchor would like to thank you for your business and the trust and confidence you put in us each day. We look forward to working with you in the years to come and hope you have a marvelous Holiday Season with your loved ones!



3205 Devine Street, Columbia, SC 29205 • 803-399-9383

admin@anchorinvestmentmanagement.com

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