



GARCIA HAMILTON & ASSOCIATES

Presented By:

Gilbert A. Garcia, CFA
Managing Partner

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5 Houston Center
1401 McKinney, Suite 1600
Houston, TX 77010
Tel: (713) 853-2359
Fax: (713) 853-2300

Ruby@GarciaHamiltonAssociates.com
www.GarciaHamiltonAssociates.com

Pensions & Investments ★ ★ 2020 ★ ★

**BEST PLACES TO WORK
IN MONEY MANAGEMENT**

MULTIYEAR WINNER
2016 ★ 2017 ★ 2018 ★ 2019

**FIXED-INCOME
MANAGER
OF THE YEAR**

HOUSTON BUSINESS JOURNAL
B P t W

2018 BEST PLACES TO WORK
Signatory of:
PRI Principles for Responsible Investment

Investor
2018
U.S. INVESTMENT MANAGEMENT AWARDS

Institutional Investor Awards
2014
FIXED INCOME
INVESTMENT GRADE
MANAGER OF THE YEAR

TCFD

Fundmap
Institutional Asset Management Awards 2018
Winner
U.S. Fixed Income Manager

Emerging Manager Monthly
2010
Core Fixed Income Manager of the Year

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Different Measures of Inflation

Consumer Price Index (CPI)

- A measure published monthly by the U.S. Bureau of Labor Statistics (BLS) and looks at the price changes of a basket of goods and services purchased by consumers. The basket includes categories such as Food, Housing, Energy, and Medical Care. The largest component (approximately 42%) is housing.

Personal Consumption Expenditures (PCE)

- A measure produced by the U.S. Bureau of Economic Analysis (BEA) which evaluates inflation in household expenditures. PCE is used in adjusting for inflation in the calculation of Real Gross Domestic Product (GDP). PCE is different from CPI in what is included in the basket of goods and services and how those goods/services are weighted. As compared to CPI, it places a smaller weighting on housing (approximately 24%) and larger weightings on medical care (approximately 14% greater) and other goods and services (approximately 10% greater).

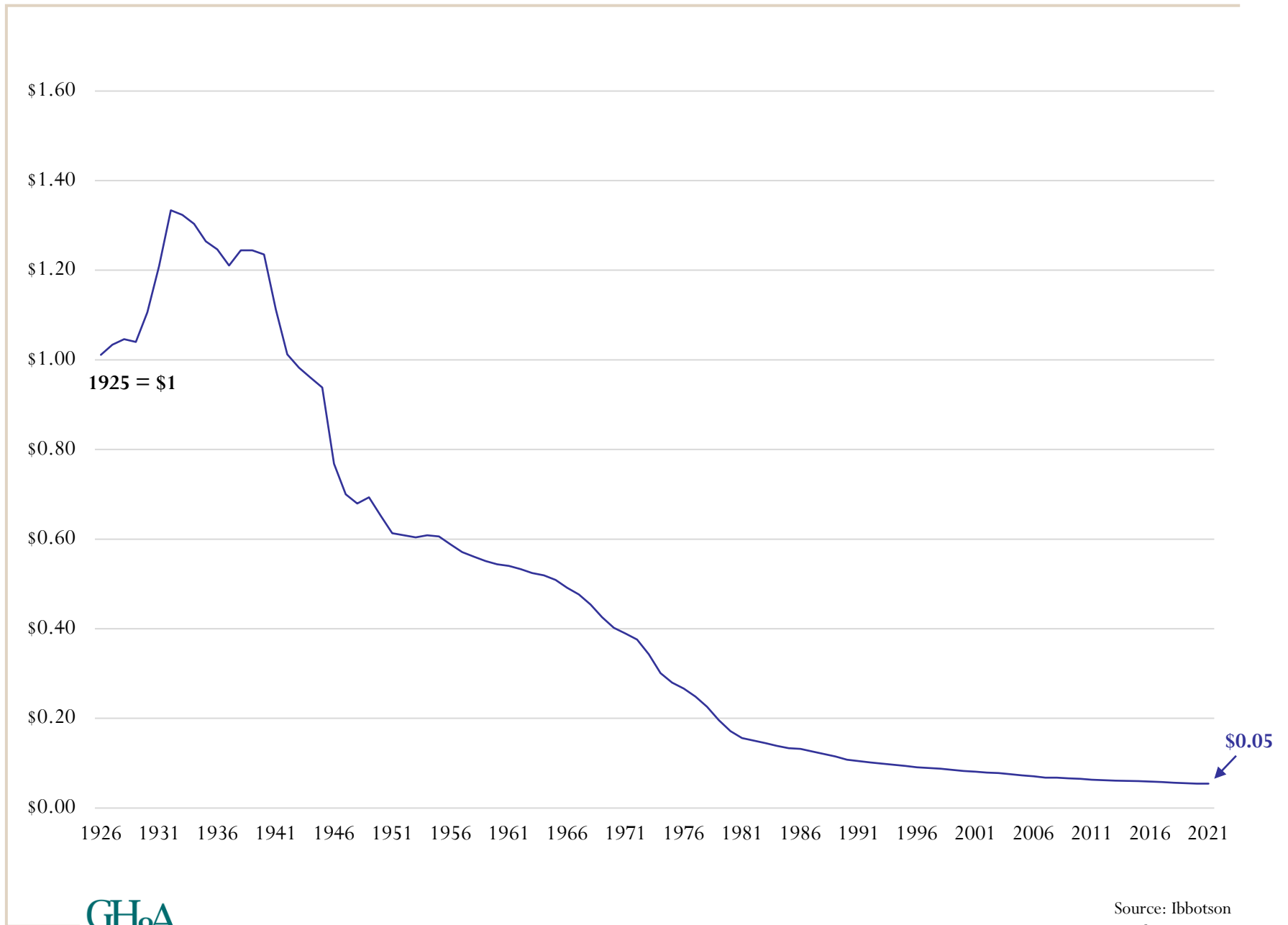
Producer Price Index (PPI)

- Published monthly by the BLS and is effectively the inflation businesses experience in their supply chains and business expenses. PPI is a measure of the change in the price of goods as they leave their place of production.

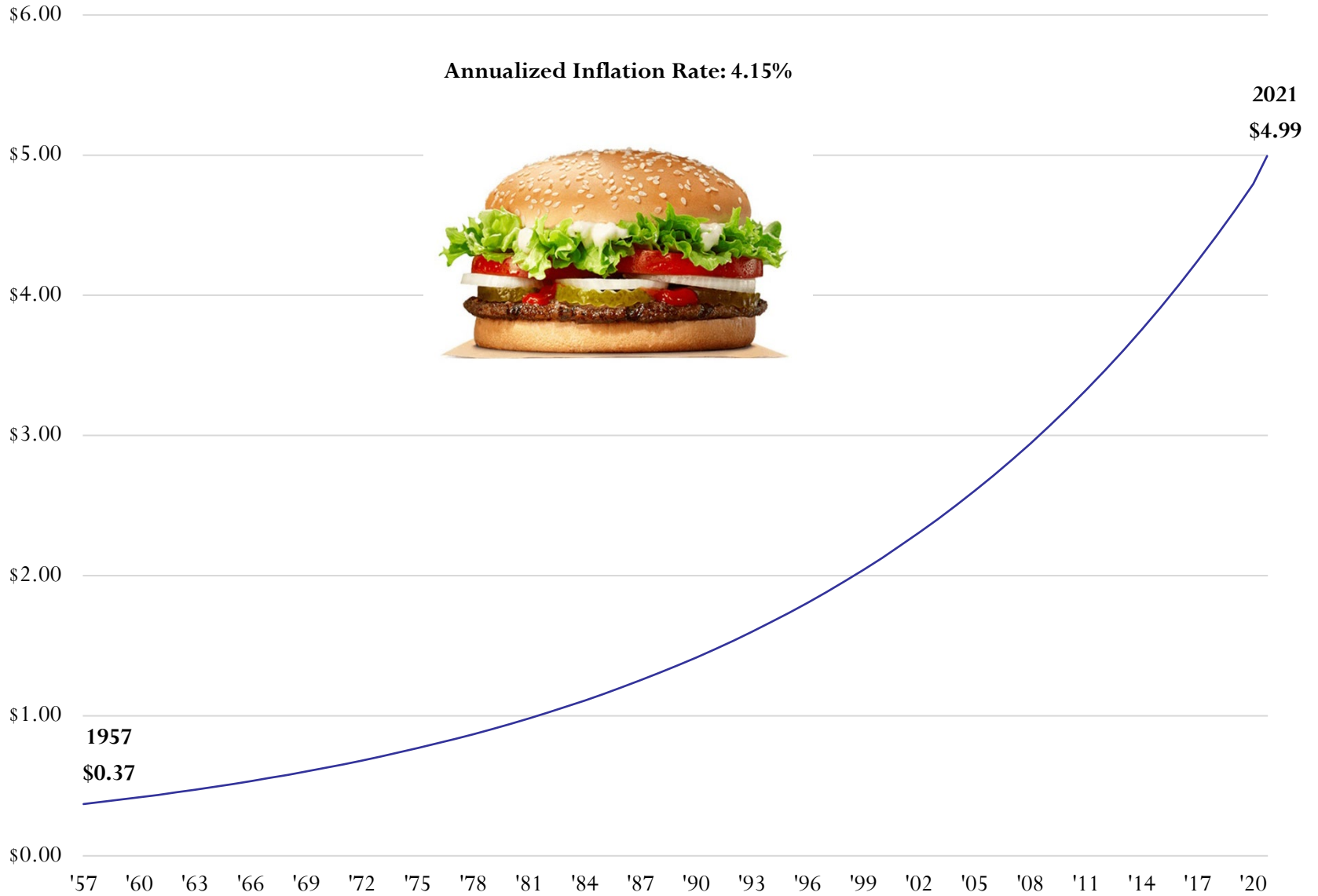
ISM Prices Paid Index

- A monthly indicator of U.S. economic activity based on a survey of purchasing managers and supply executives. Published by the Institute for Supply Management. It indicates whether the prices paid by organizations for raw-materials and services are increasing or decreasing.

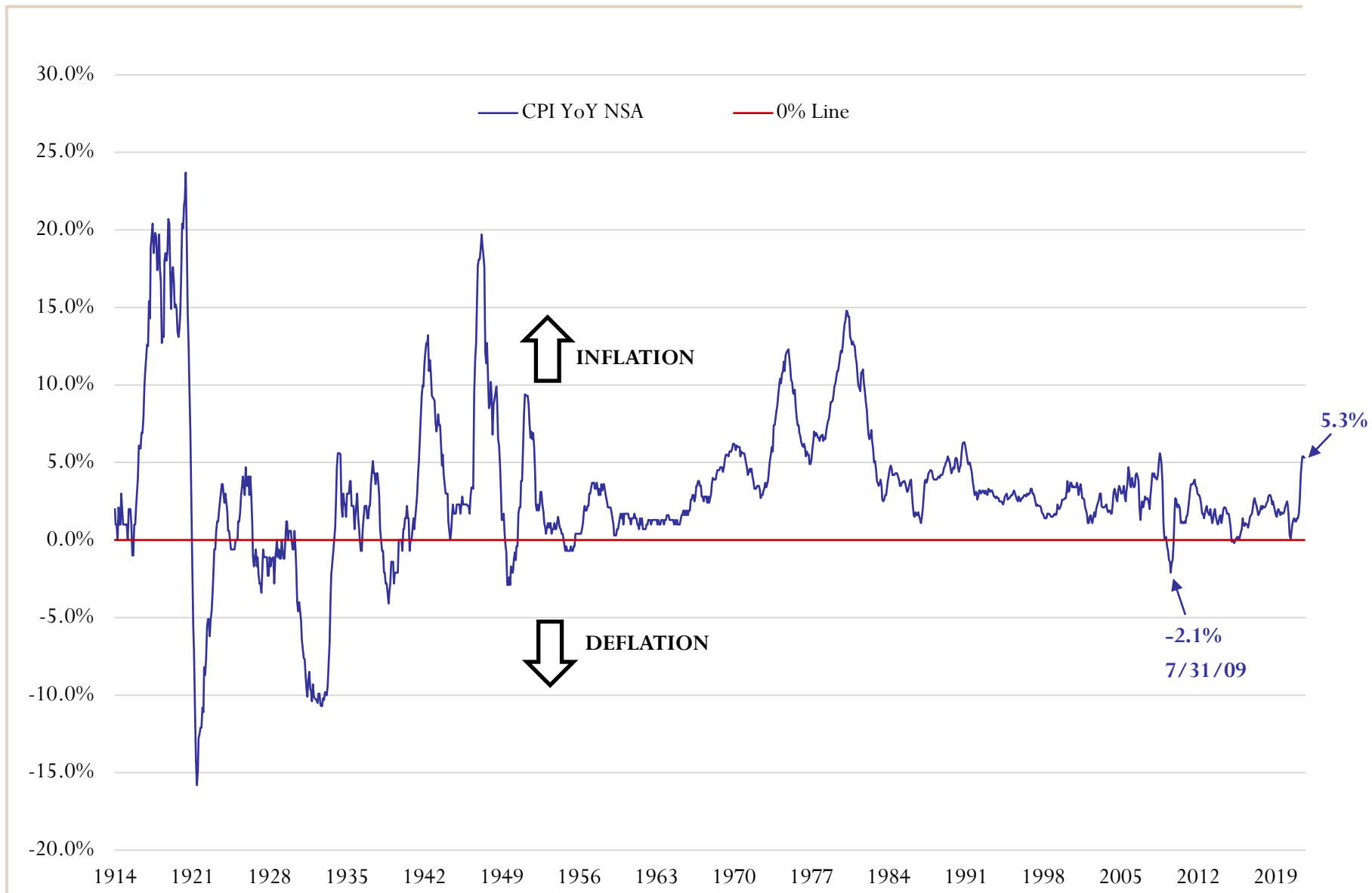
The Real Value of a Dollar After Inflation



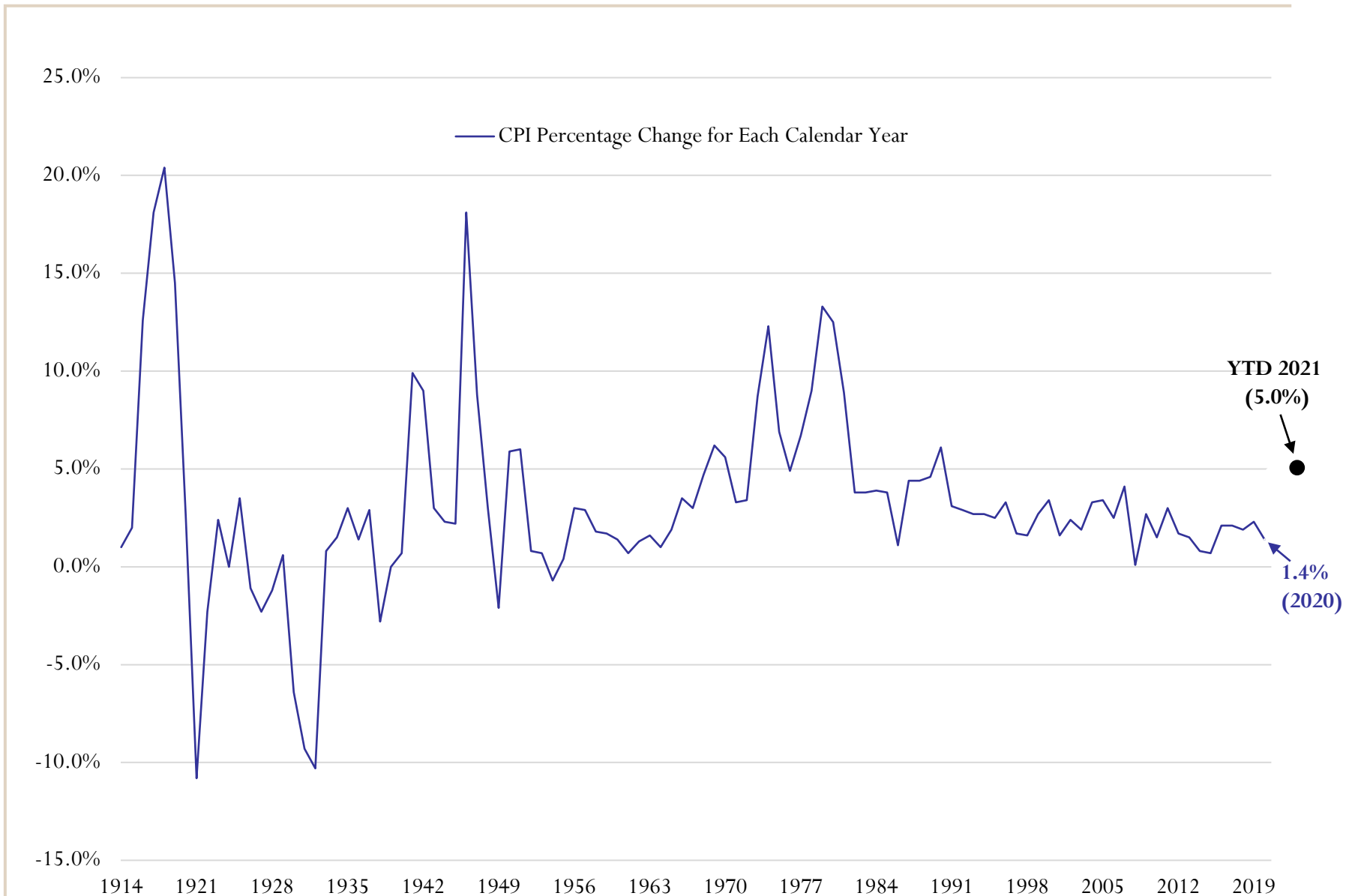
Whopper Price Index (WPI)



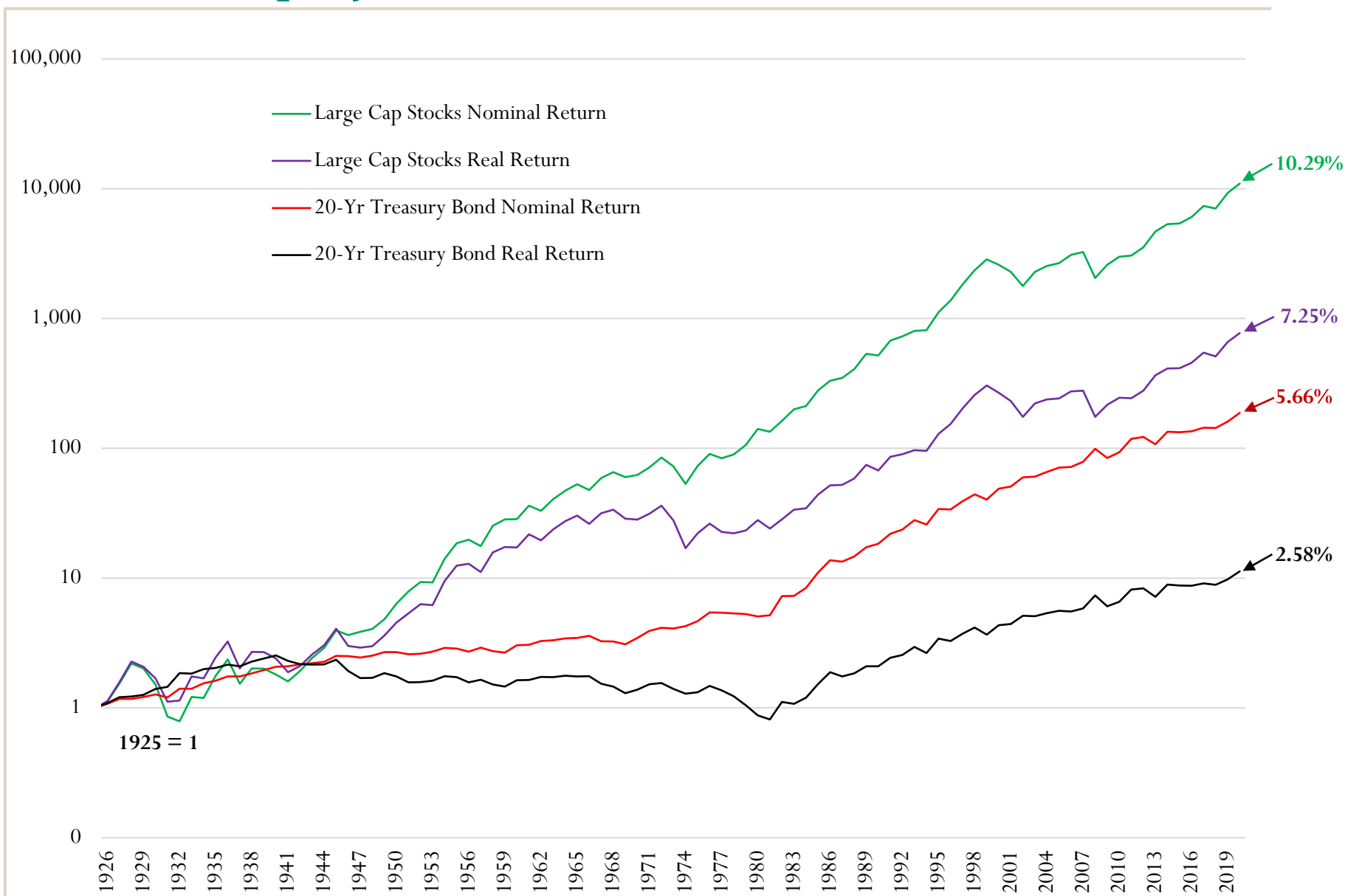
Monthly YoY Percentage Change in CPI



CPI Calendar Year Percentage Changes



Historical Equity and Bond Nominal and Real Returns



Causes of Inflation

Temporary

Droughts

Hurricanes

War

Disease

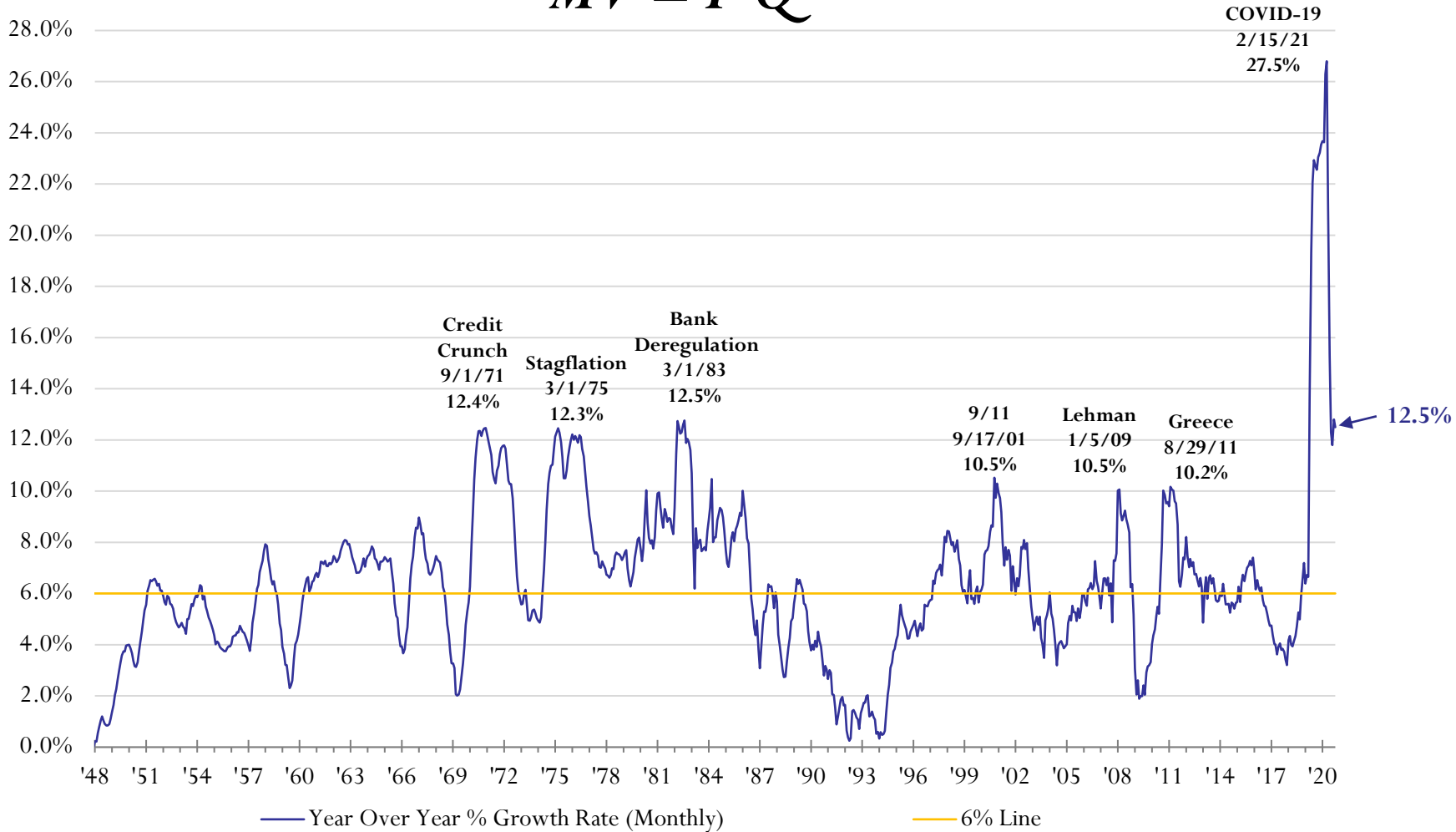
Long-Term

Monetary

Fiscal

Money Supply Long Term Growth

$$MV = PQ$$



The data used to create the long-term year over year growth rate was compiled from data published by the Federal Reserve Historical Monetary Aggregate Data. The monthly series from Jan 1948 until November 1980 was compiled from the M2SA and M2SL series and is used to calculate the year over year annualized growth rate. After November 1980, the weekly data series for M2 is used to calculate the year over year annualized growth rate.

Historic Fiscal Stimulus

Events	Amount	% of GDP	Today's Dollars	Date
COVID-19	\$5.7 T*	27.1%	\$5.7T	2020-2021
Great Financial Crisis	\$939 B	3.2%	\$1.2 T	2008-2009
World War II	\$350 B	30.5%	\$6.8 T	1939-1945
Great Depression	\$42 B	7.5%	\$825 B	1933-1939

*More pending in 2021

Inflation Clues

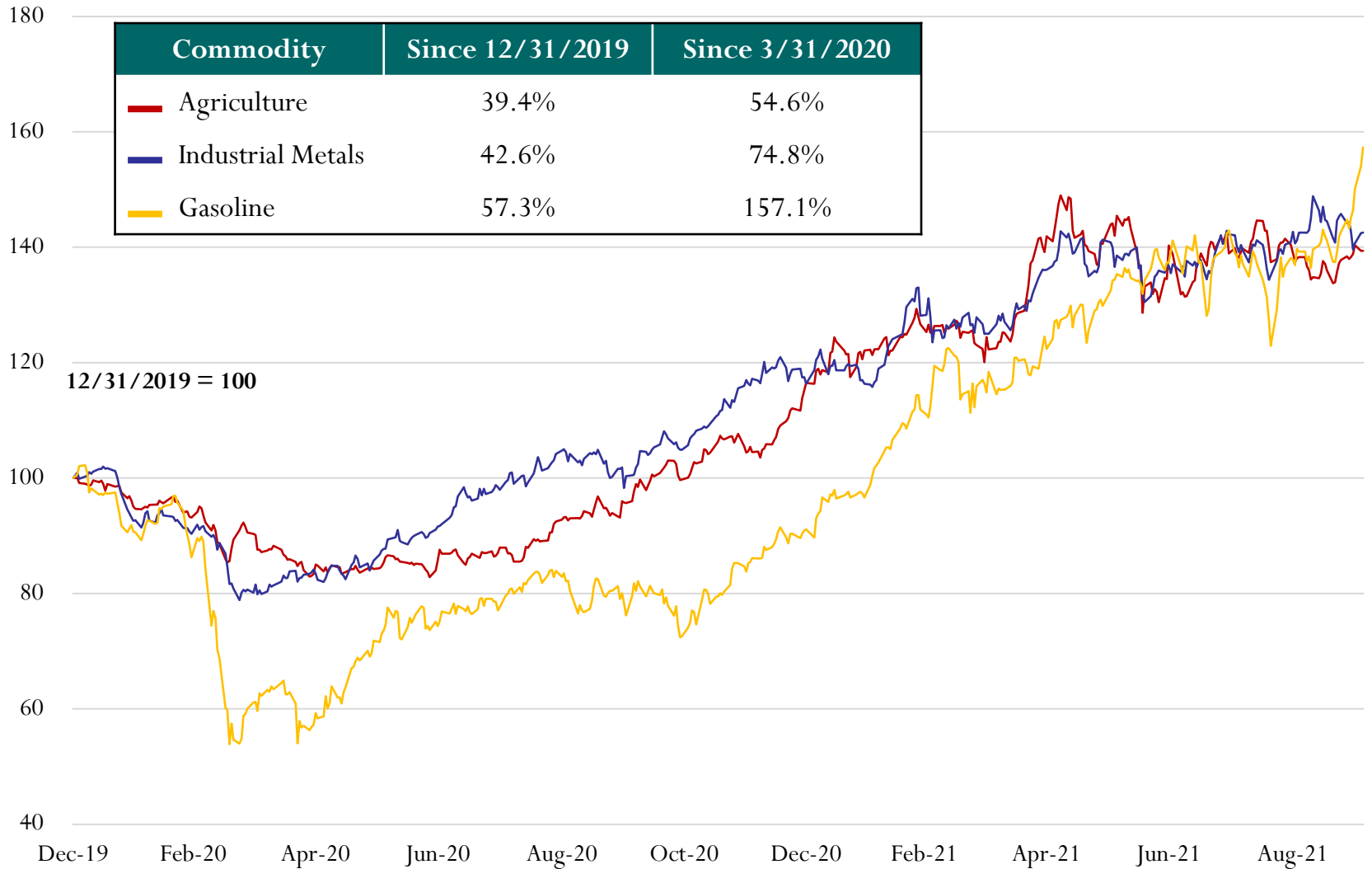
Commodities

**Businesses
Raising
Prices**

**Inflation
Expectations**

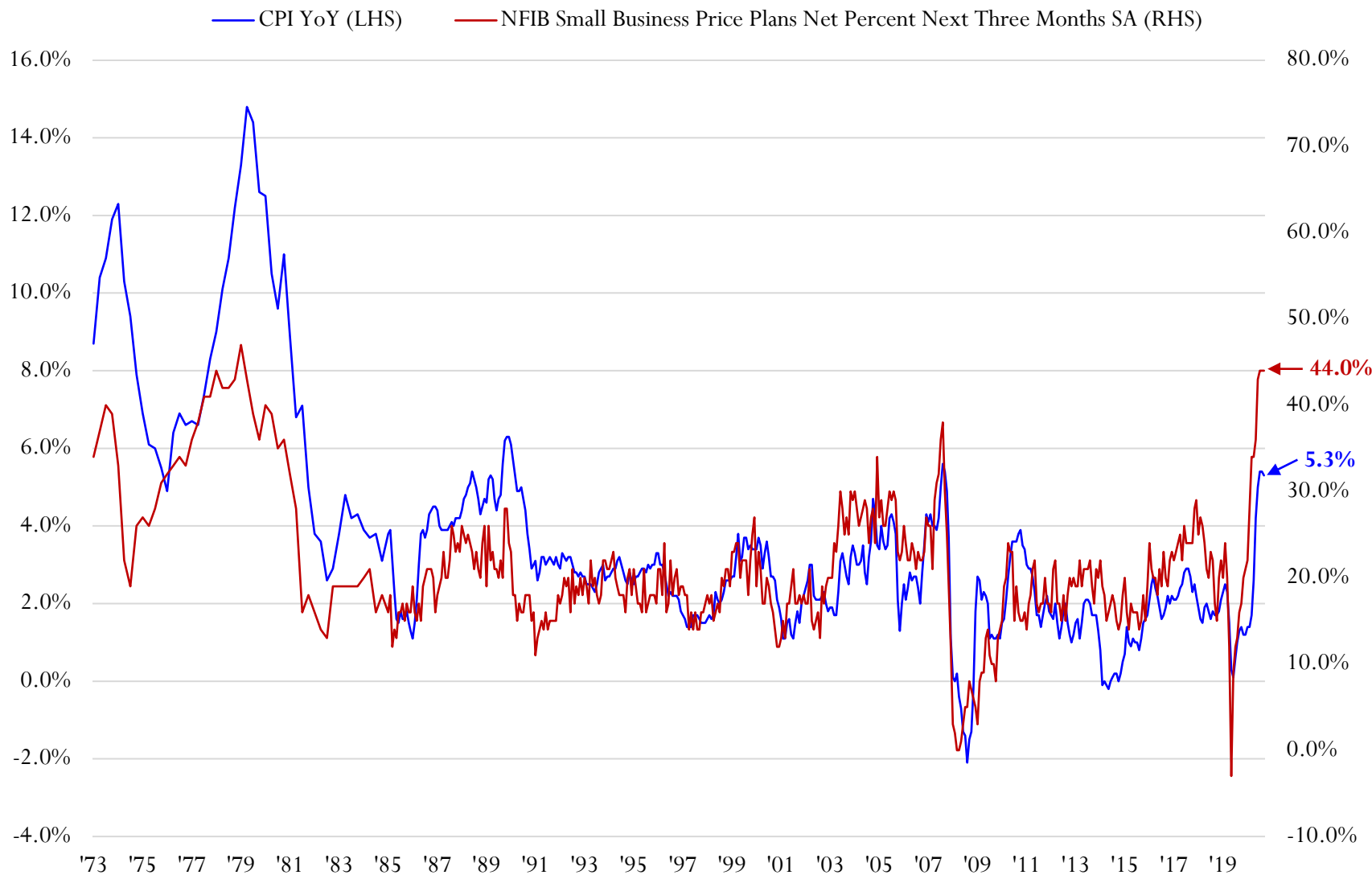
Wages

Higher Commodity Prices (Since December 31, 2019)



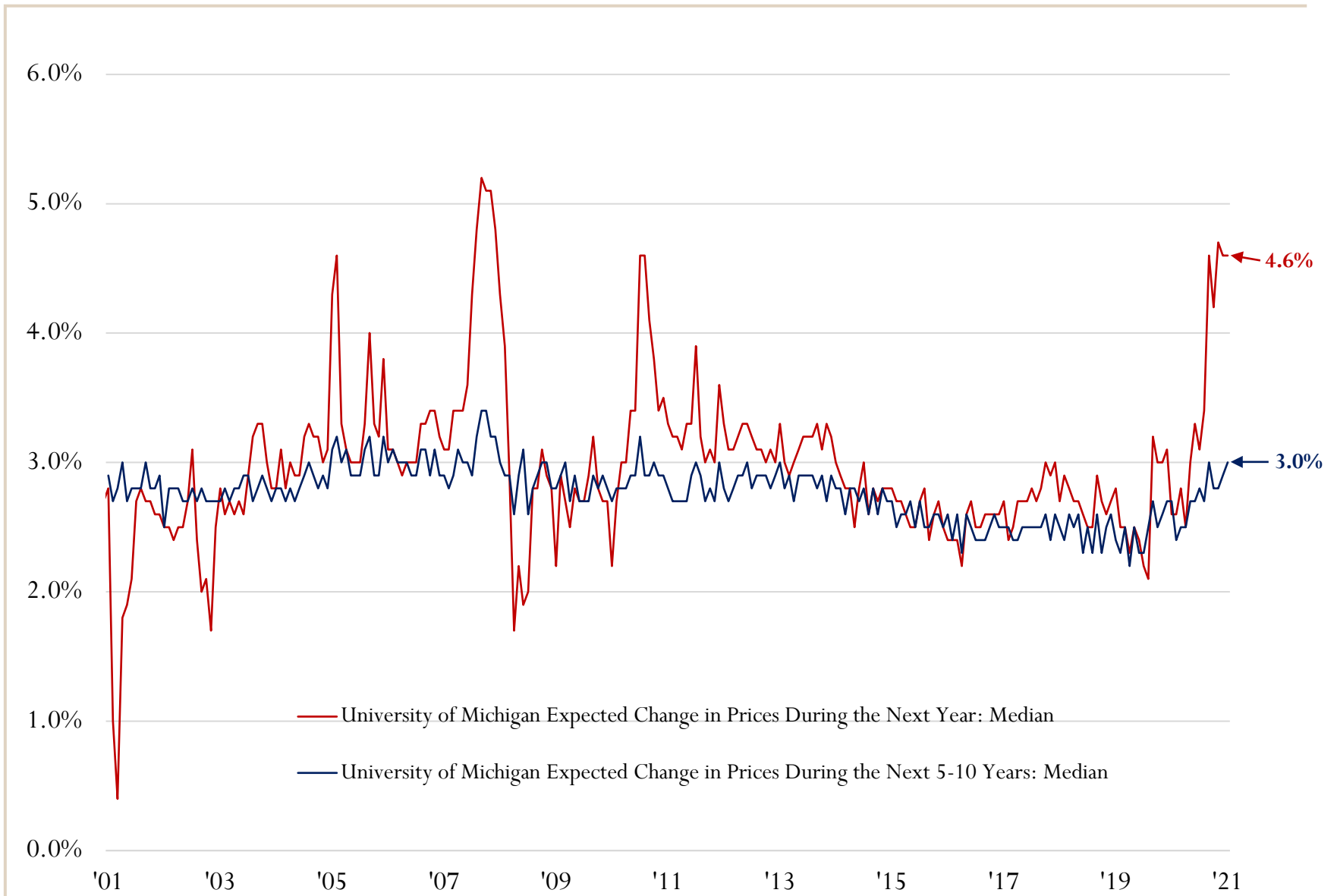
Bloomberg Agriculture Subindex is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat.
 Bloomberg Industrial Metals Subindex is composed of futures contracts on aluminum, copper, nickel, and zinc.
 Gasoline is unleaded gasoline futures contract.

Small Businesses Raising Prices


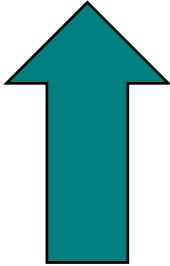


Source: Bloomberg
Index: Consumer Price Index (CPI) for All Urban Consumers Non-Seasonally Adjusted
As of 8/31/2021

Inflation Expectations



Inflation Expectations

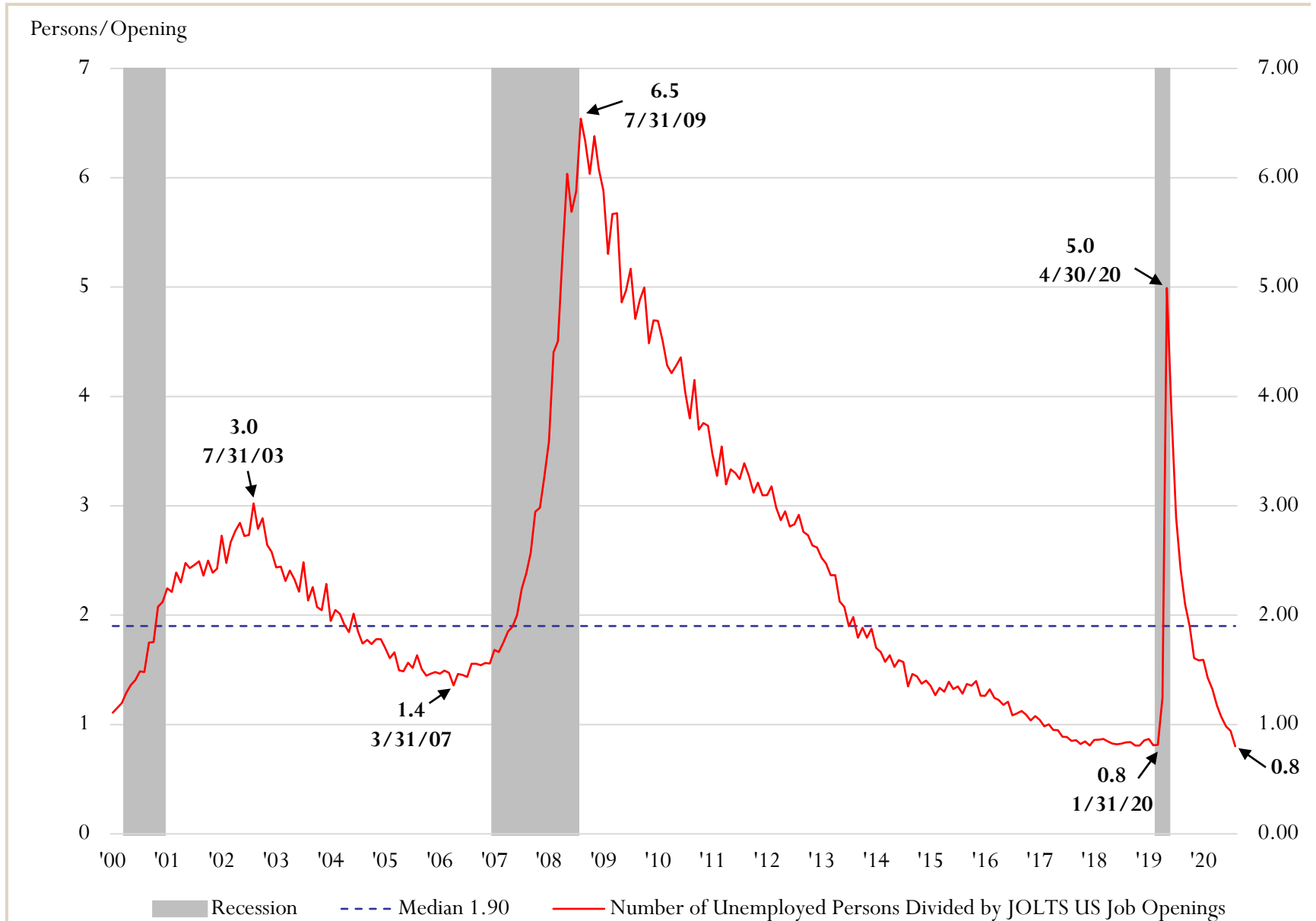
CPI  = Rates 

Nominal Yield = Real Return + Implied Breakeven Inflation

2 Yr Yield	0.28%	=	-2.56%	+	2.84%
5 Yr Yield	0.97%	=	-1.55%	+	2.52%
Implied 2 Yr Yield	2.74%	=	-2.56%	+	5.30%*
Implied 5 Yr Yield	3.75%	=	-1.55%	+	5.30%*

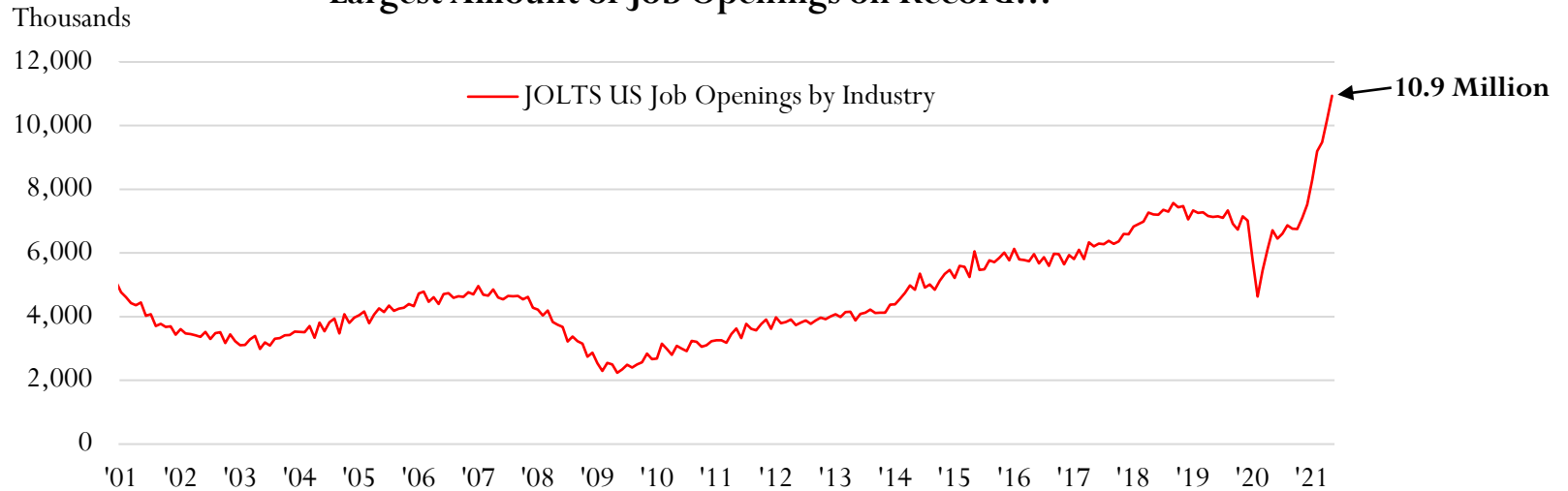
*CPI YoY as of 8/31/2021

Number of Unemployed Per Job Opening

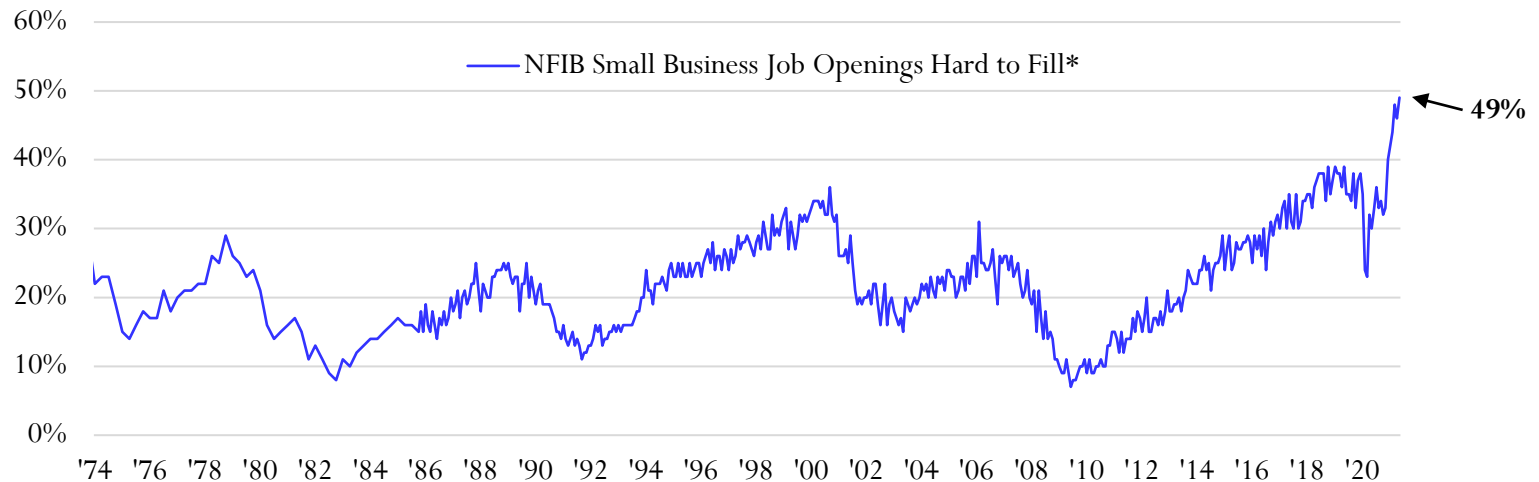


Businesses May Need to Raise Wages to Fill Openings

Largest Amount of Job Openings on Record...



But Employers Finding It Increasingly Difficult to Fill Them



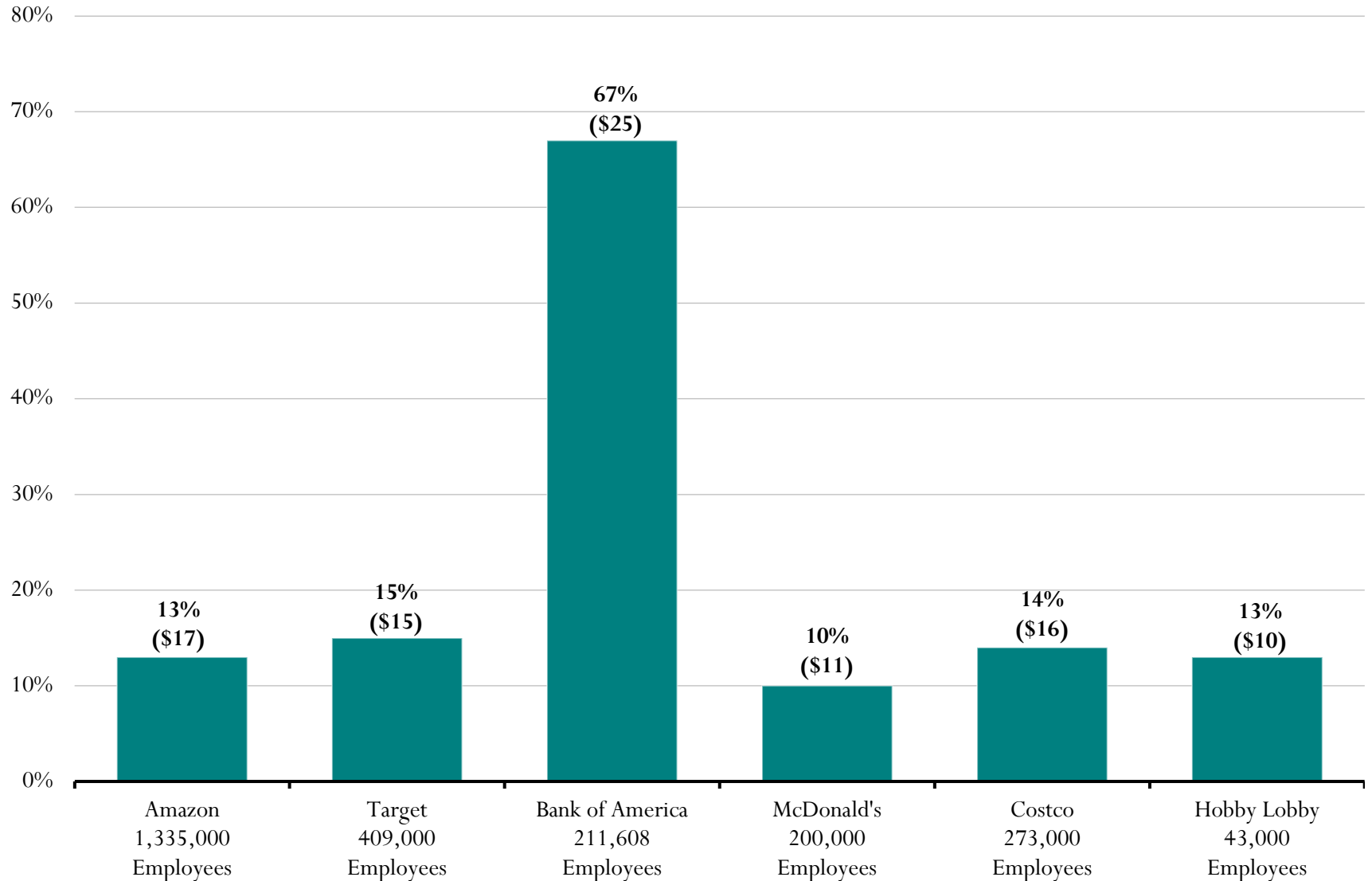
Source: NFIB, BLS, Bloomberg

NFIB Small Business Job Openings Hard to Fill as of 7/31/2021

JOLTS US Job Openings by Industry as of 7/31/2021

*Quarterly: 12/31/1973 – 12/31/1985, Monthly: 1/31/1986 – 7/31/2021

Wage Increases Since 2018



Source: Business Insider, Macrotrends, Footwear News, CBS News, Market Watch, McDonald's, The Frontier, Chain Store Age, North State Journal, WFAA, Bloomberg, Reuters
As of 2021

Increase in State Minimum Wages Since 2018

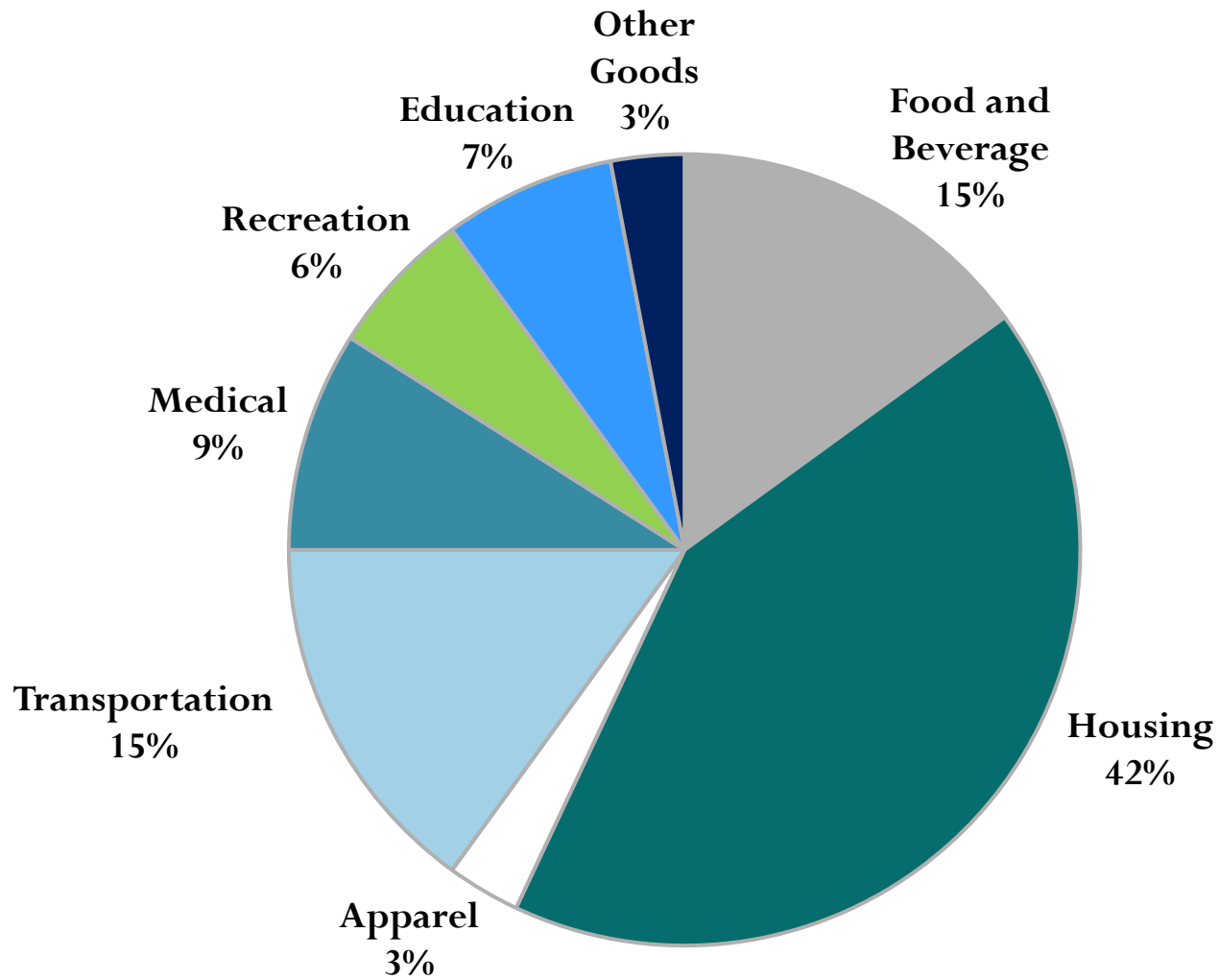
The average minimum wage of all states has increased by 10.3%.

Average Increase	10.3%
Population Weighted Increase	12.3%
GDP Weighted Increase	13.8%

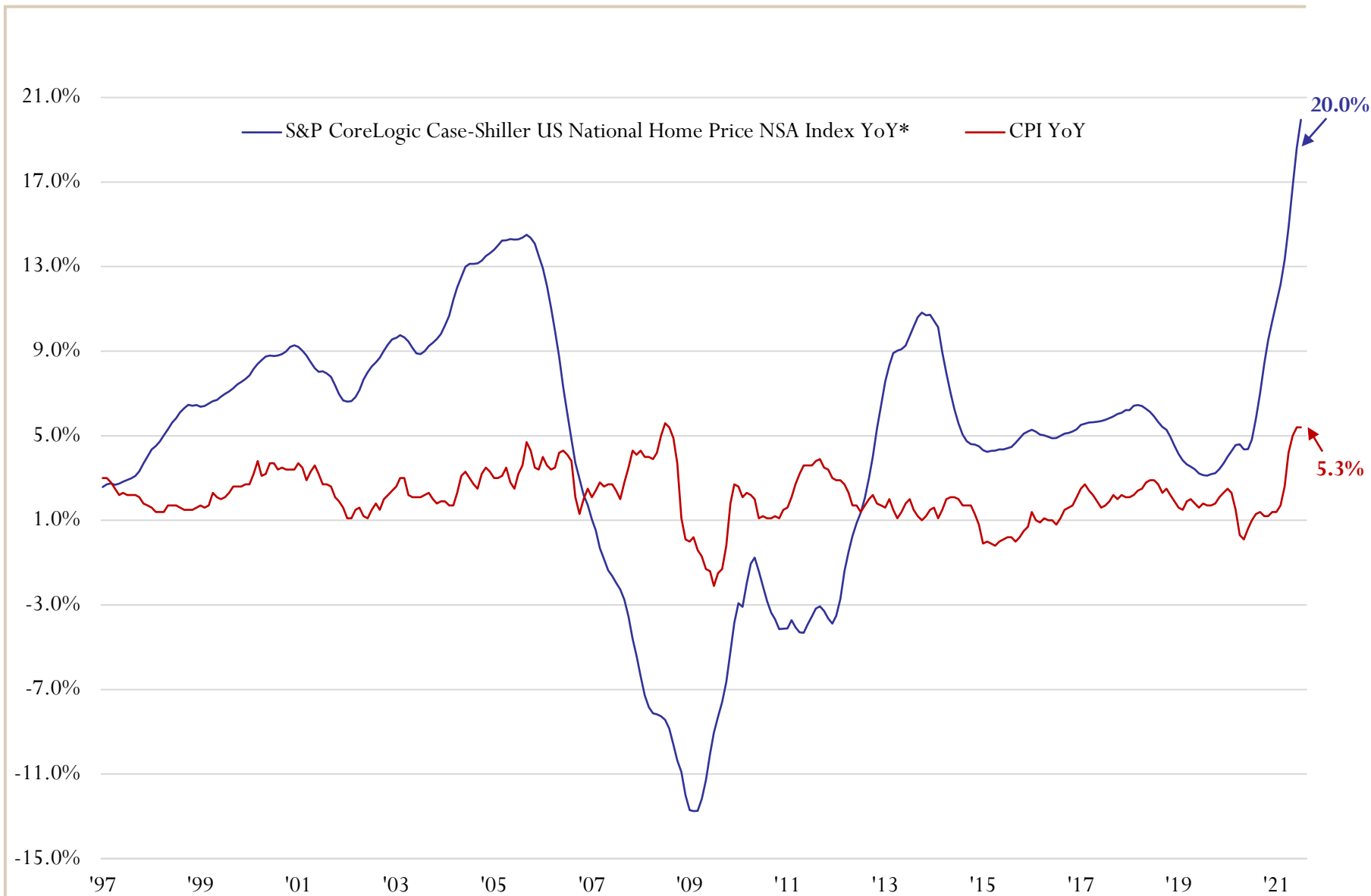
The minimum wage has increased by more than 20% in these listed states.

State	% Change	% of GDP	% of Population
New Mexico	40.0%	0.50%	0.63%
New Jersey	39.5%	3.00%	2.68%
Illinois	33.3%	4.10%	3.86%
Missouri	31.2%	1.50%	1.85%
Virginia	31.0%	2.60%	2.57%
Arkansas	29.4%	0.60%	0.91%
Connecticut	28.7%	1.30%	1.07%
California	27.3%	14.70%	11.91%
Massachusetts	22.7%	2.80%	2.09%
Maine	21.5%	0.30%	0.41%
Colorado	20.8%	1.90%	1.74%
New York	20.2%	8.10%	5.86%
Sum		41.40%	35.58%

Components of CPI



Housing Prices (24% of CPI)



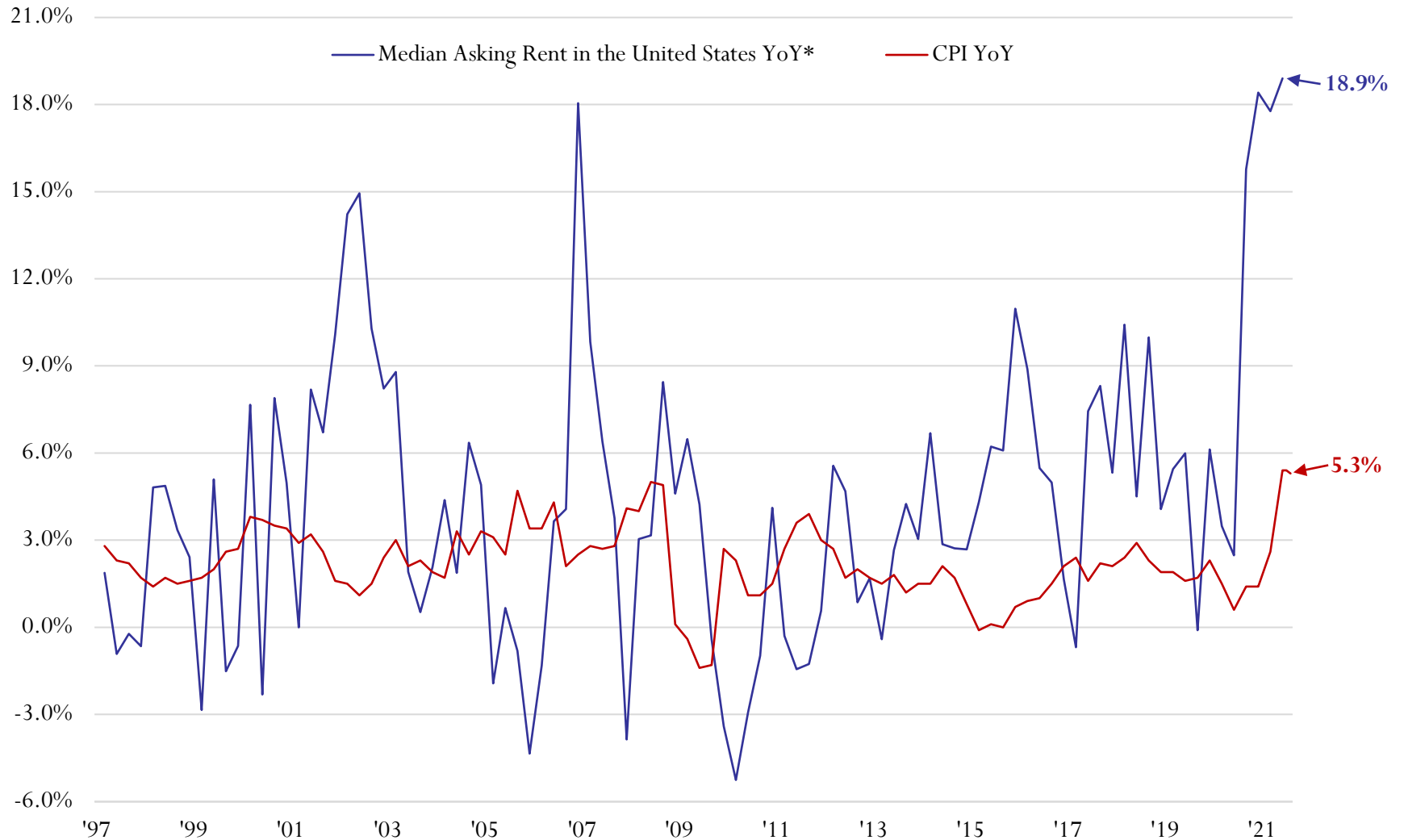
Source: Bloomberg

Index: Consumer Price Index (CPI) for All Urban Consumers Non-Seasonally Adjusted

As of 8/31/2021

*As of 7/31/2021

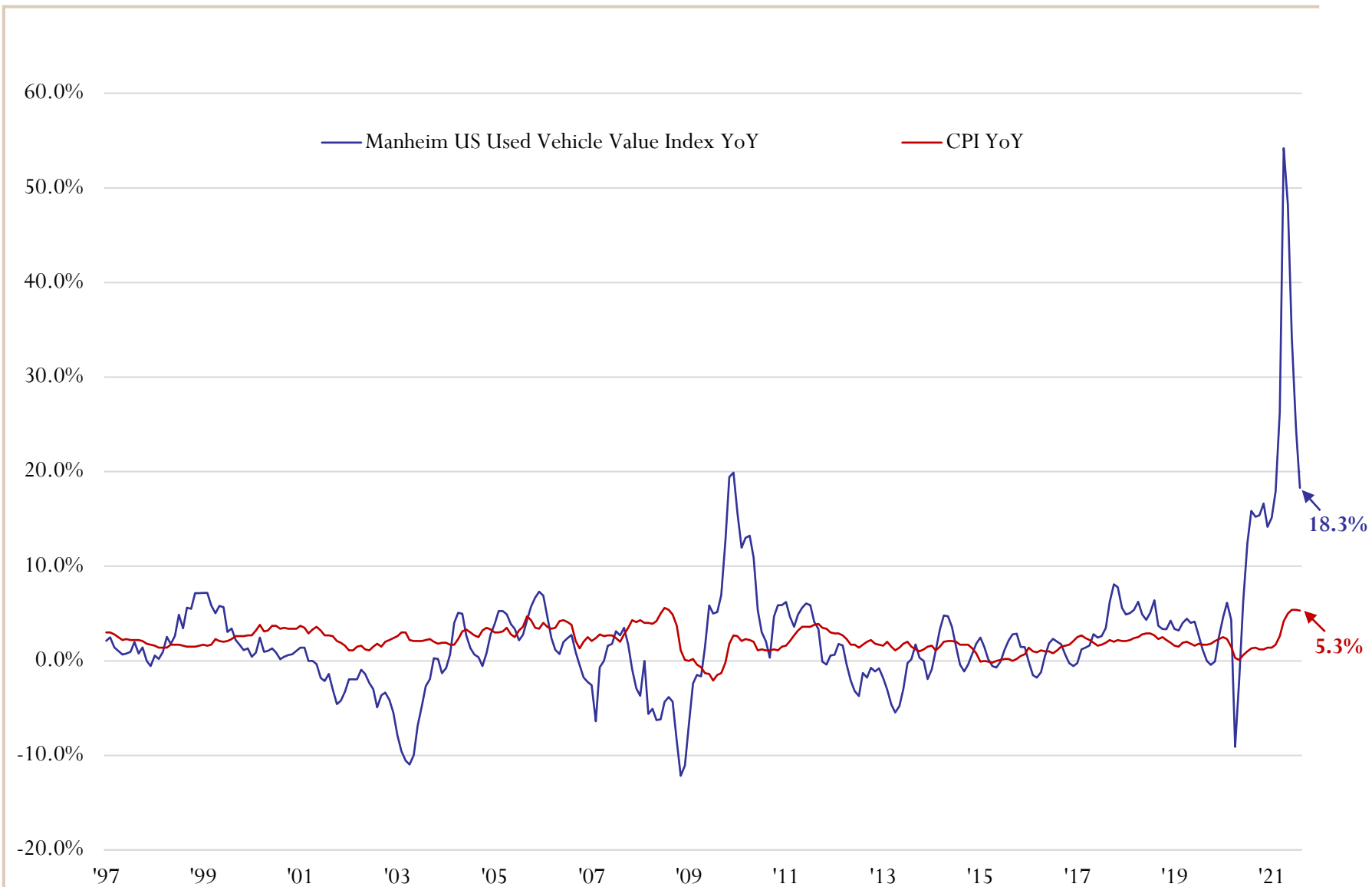
Rental Rates (8% of CPI)



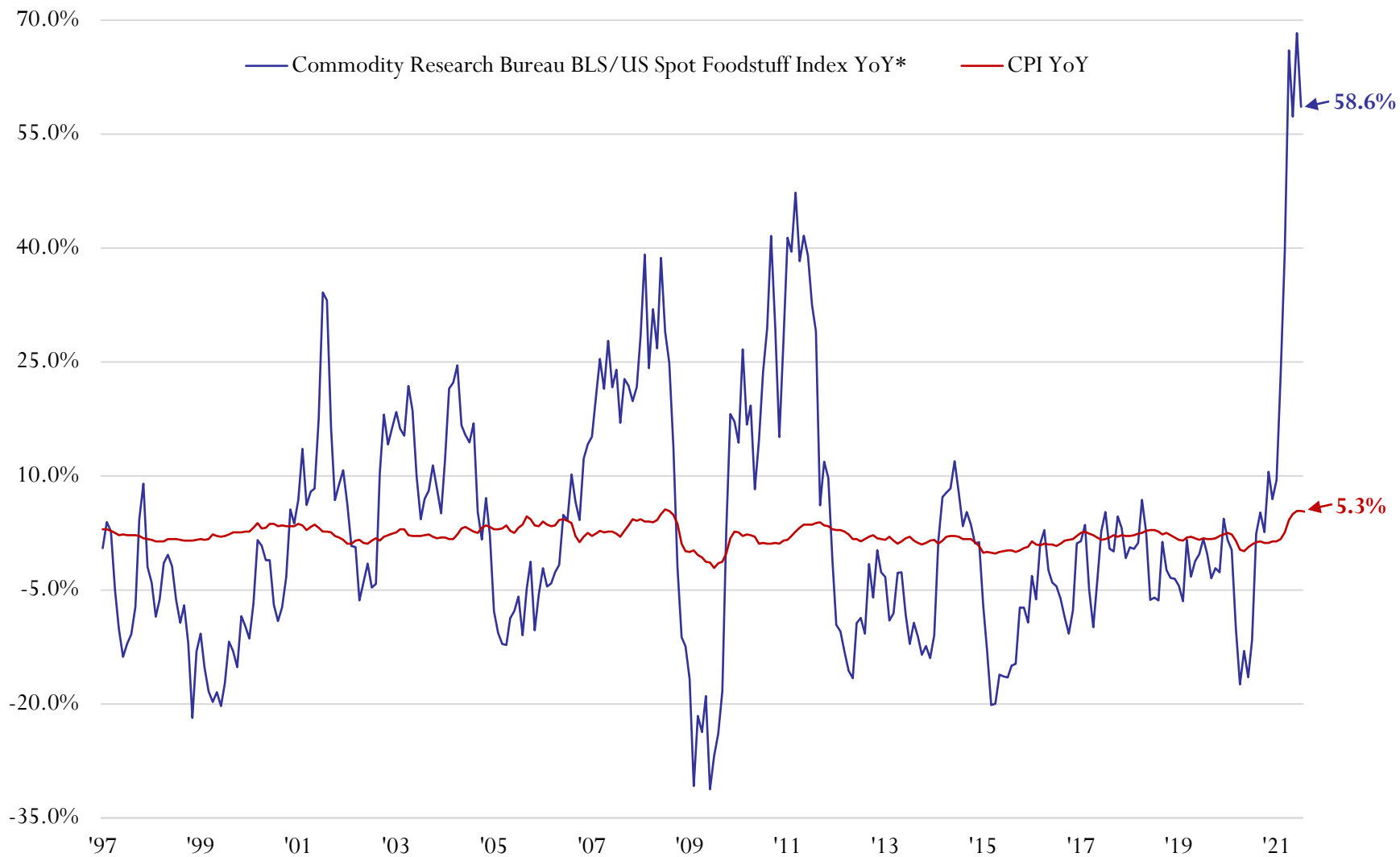
Source: Bloomberg
Index: Consumer Price Index (CPI) for All Urban Consumers Non-Seasonally Adjusted
As of 8/31/2021

*As of 6/30/2021

Car Prices (8% of CPI)



Food Prices (15% of CPI)

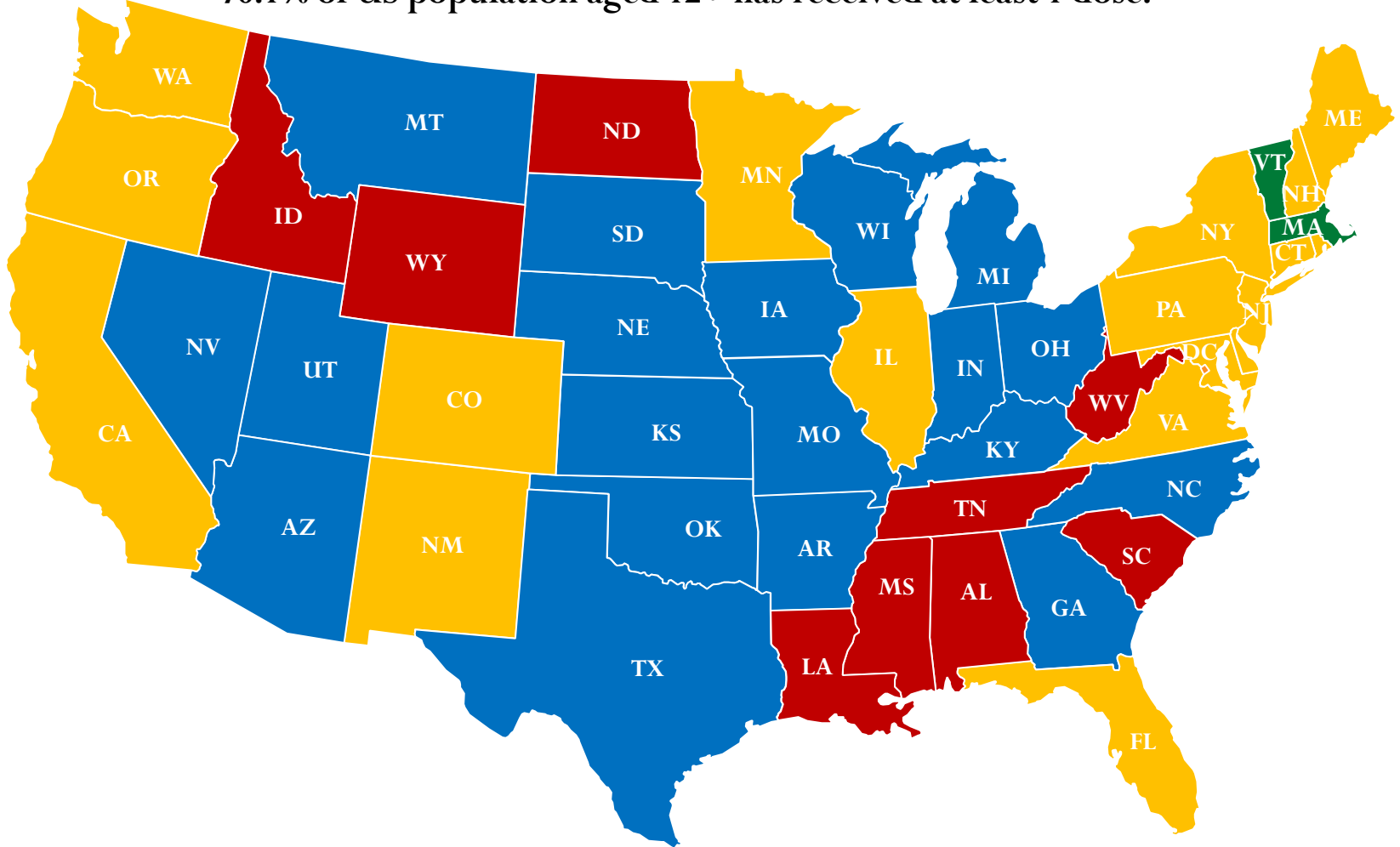


Source: Bloomberg
Index: Consumer Price Index (CPI) for All Urban Consumers Non-Seasonally Adjusted
As of 8/31/2021
*As of 7/31/2021

State Vaccination Rates

72.2% of the adult US population has received at least 1 dose.

70.1% of US population aged 12+ has received at least 1 dose.



9 States

20 States¹

18 States

3 States²



¹Includes Alaska; ²Includes Hawaii

Source: CDC: Adults ≥ 18 Years of Age

As of 8/17/2021

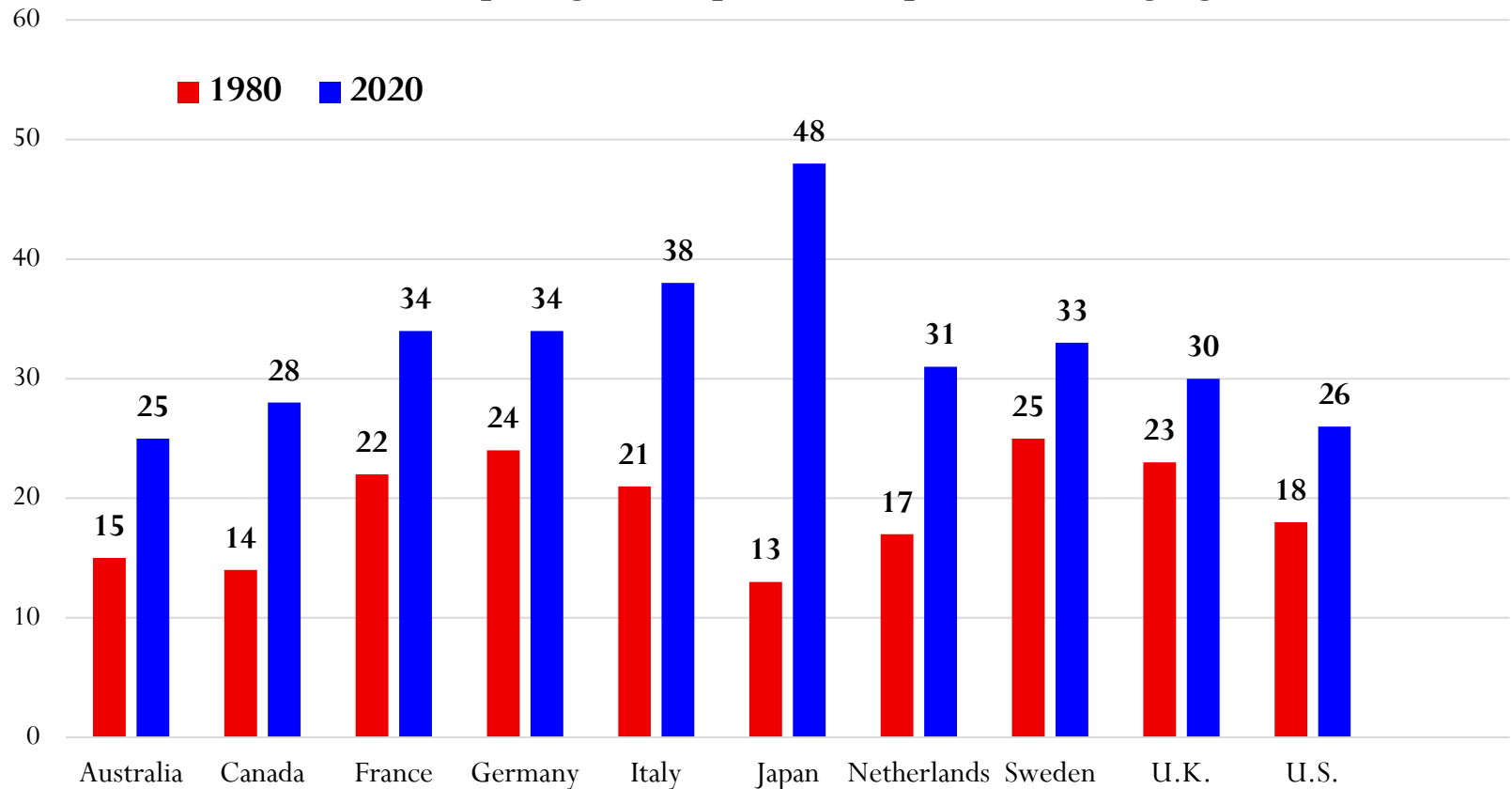
Vaccination Rates for the Largest States

On average, 74% of the 15 largest states with the highest US GDP % have received at least one dose.

State	At least one dose, 18+	% US GDP
California	80.5%	14.7%
Texas	68.1%	8.4%
New York	77.8%	8.1%
Florida	72.7%	5.3%
Illinois	76.8%	4.1%
Pennsylvania	80.5%	3.7%
Ohio	62.4%	3.2%
Georgia	60.1%	3.0%
New Jersey	81.6%	3.0%
Washington	79.0%	3.0%
Massachusetts	85.8%	2.8%
North Carolina	64.5%	2.8%
Virginia	75.8%	2.6%
Michigan	65.4%	2.5%
Maryland	79.5%	2.0%
	Sum	69.2%

Aging Population

Number of People Aged 65+ per 100 People of Working Age



Rate of Natural Increase (per 1,000 population)

1980	8.2	7.6	4.0	-1.5	1.1	6.7	4.1	0.3	1.1	6.4
2020	6.3	2.7	2.0	-1.7	-2.8	-2.9	1.4	2.7	2.2	3.3

OAS Spread Range 2009-2021

Basis Points

500

■ Range ● Current ■ Median

400

300

200

100

0

-100

Mortgage-Backed Securities

Asset-Backed Securities

Government-Related

Commercial Mortgage-Backed Securities

Corporates

Taxable Municipal

BBB-Rated Corporates

All are components of the Bloomberg Barclays US Aggregate Index.
 Taxable Municipal is a component of the Government-Related Sector.
 BBB-Rated Corporates is a component of the Corporates Sector.



Source: Bloomberg
 Daily Data from 12/31/2009 – 8/26/2021

Excess Returns in Rising Rate Environments

Time Frame	10-Year Treasury Yield Change	MBS Index	30-Year Low Coupon	20-Year High Coupon	15-Year High Coupon
7-29-16 To 10-31-18	169 bps	0.18%	0.62%	0.45%	2.93%
7-31-12 To 12-31-13	156 bps	1.17%	0.03%	2.95%	2.56%
12-31-08 To 12-31-09	163 bps	4.95%	2.97%	6.36%	5.79%
5-30-03 To 5-31-04	128 bps	-0.55%	-1.92%	0.73%	1.08%

7-29-16 to 10-31-18: 15-Year is Conventional 15 Year: 4.5 Coupon, 20-Year is Conventional 20 Year: 4.5 Coupon, 30-Year is Conventional 30 Year: 2.5 Coupon
 7-31-12 to 12-31-13: 15-Year is Conventional 15 Year: 5.5 Coupon, 20-Year is Conventional 20 Year: 5.5 Coupon, 30-Year is Conventional 30 Year: 3 Coupon
 12-31-08 to 12-31-09: 15-Year is Conventional 15 Year: 6 Coupon, 20-Year is Conventional 20 Year: 6 Coupon, 30-Year is Conventional 30 Year: 4.5 Coupon
 5-30-03 to 5-31-04: 15-Year is Conventional 15 Year: 7.5 Coupon, 20-Year is Conventional 20 Year: 6.5 Coupon, 30-Year is Conventional 30 Year: 5 Coupon

Contact Information

Gilbert Andrew Garcia, CFA

Managing Partner

GGarcia@GarciaHamiltonAssociates.com

Office: (713) 853-2323 | Cell: (713) 443-4330

