



Income Analysis

CORPORATE MARGINS ARE FANTASTIC WHICH IS ONE CAUSE OF THE MODERATE INCREASE IN INFLATION

IMPLIES STRONG ARGUMENT FOR A
CONTINUATION OF THE BULL MARKET IN
EQUITIES

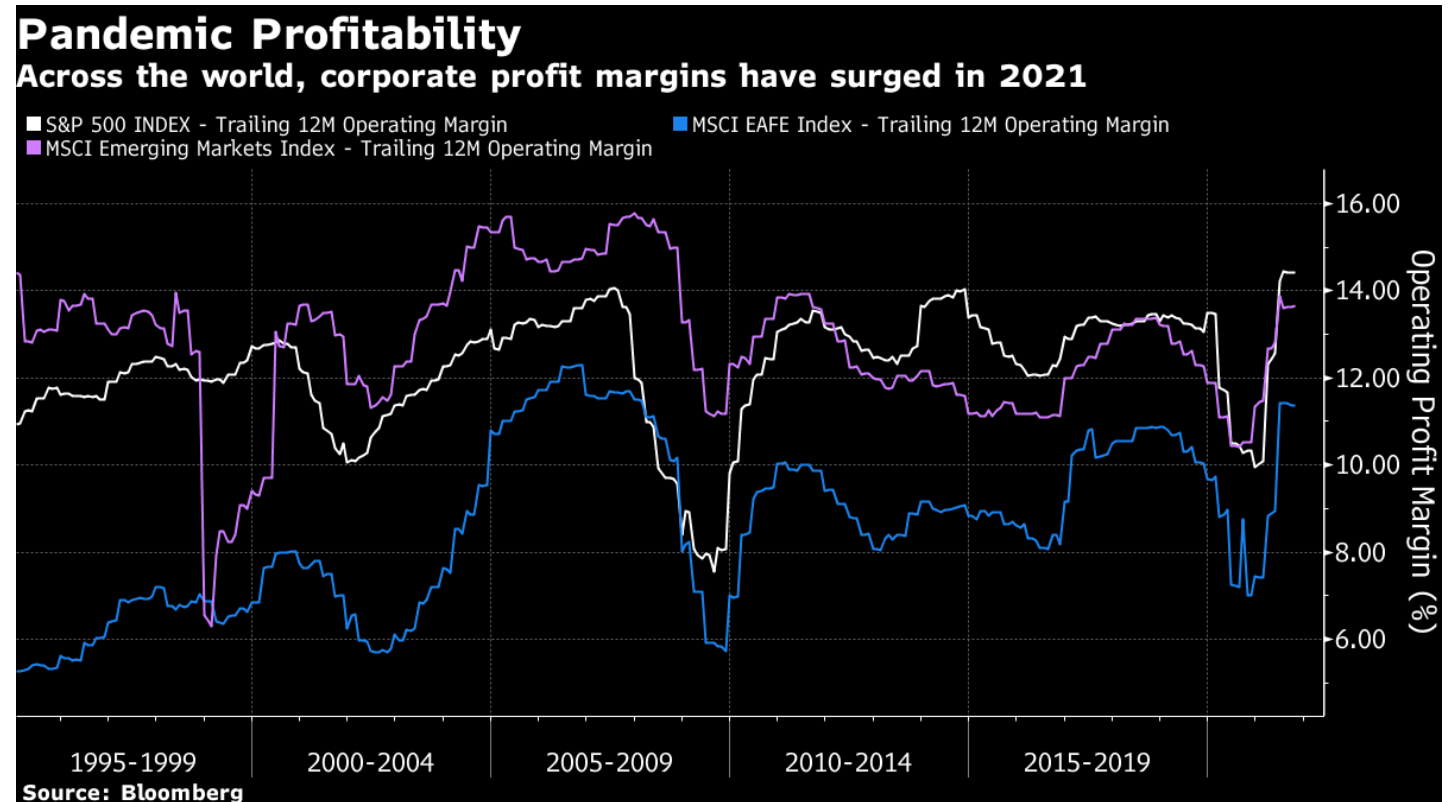


PROFITABILITY
(MARGINS, CASH)
DO MAKE AN
ECONOMIC
SLOWDOWN
MUCH LESS LIKELY

- ✓ Hiring is seen picking up and the unemployment rate falling with US employment numbers due on Friday 8 October
- ✓ Mixed Opinions Continue --- Treasury yield curve flattens as inflation expectations steady. 10-yr Bond 1.49%. US Corporate profits on this scale leave companies with lots of cash. Share buybacks? Paying dividends?
- ✓ US inflationary expectations have increased in the range of 2%-3% as can be seen on many charts
- ✓ There is No Alternative to Equities

CORPORATE
PROFITABILITY
COMPLIMENTED
BY AN
IMPROVEMENT IN
MARGINS

Better Margins Helped Improve Corporate Profits.

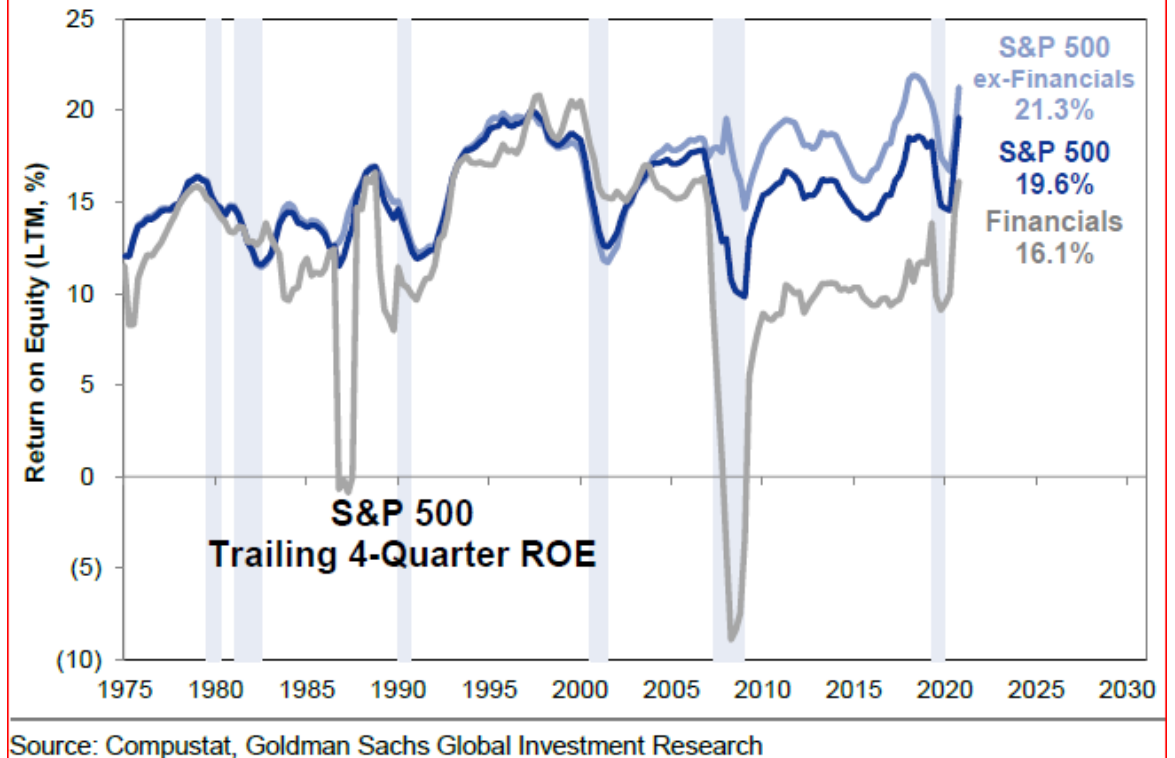


- ✓ The COVID-19 pandemic has helped improve corporate margins.
- ✓ US margin improvement outpaced the rest of the world.

Return On Equity (ROE) Has Improved

INDEX-LEVEL
RETURN ON
EQUITY IS BACK AT
THE TOP OF ITS
RANGE AND CLOSE
TO AN ALL-TIME
HIGH

Exhibit 1: Index-level ROE has rebounded from pandemic low as of 2Q 2021

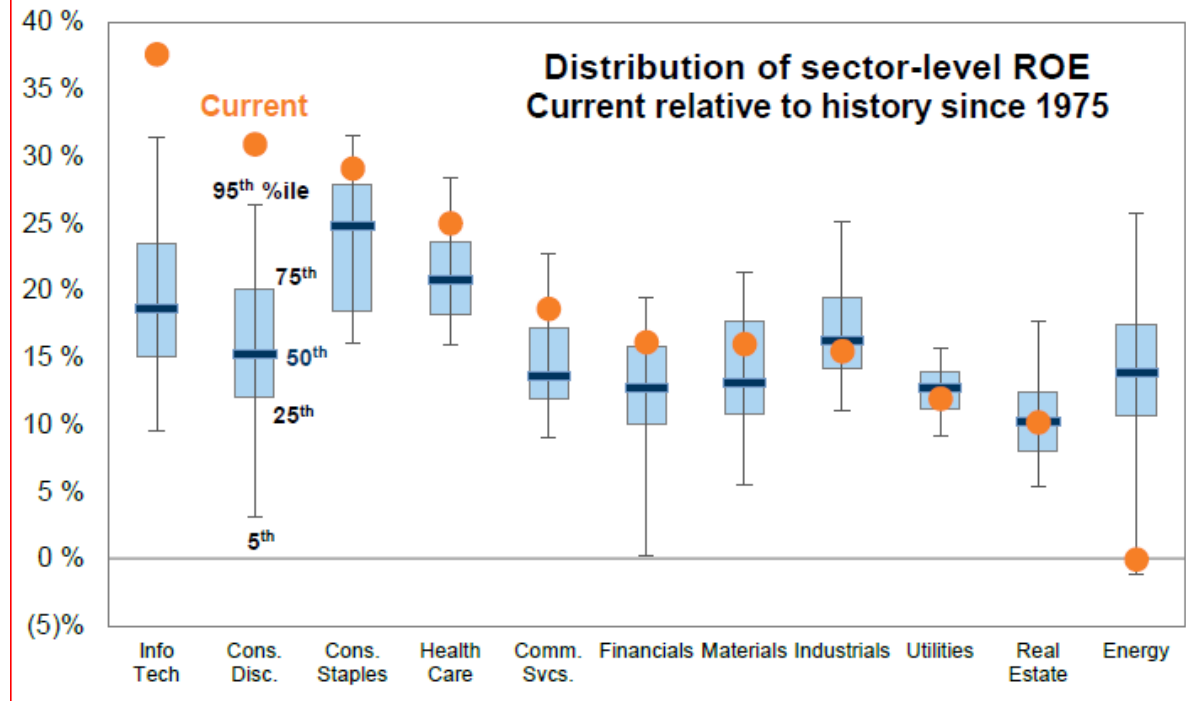


- ✓ S&P financials remain extremely good.

RETURN ON EQUITY IS IN EXCESS OF ALL HISTORICAL NORMS EXCEPT ENERGY

Most S&P 500 Sectors Are Above Their ROE Average

Exhibit 3: ROE sits near or above long-term average in every sector but Energy as of 2Q 2021



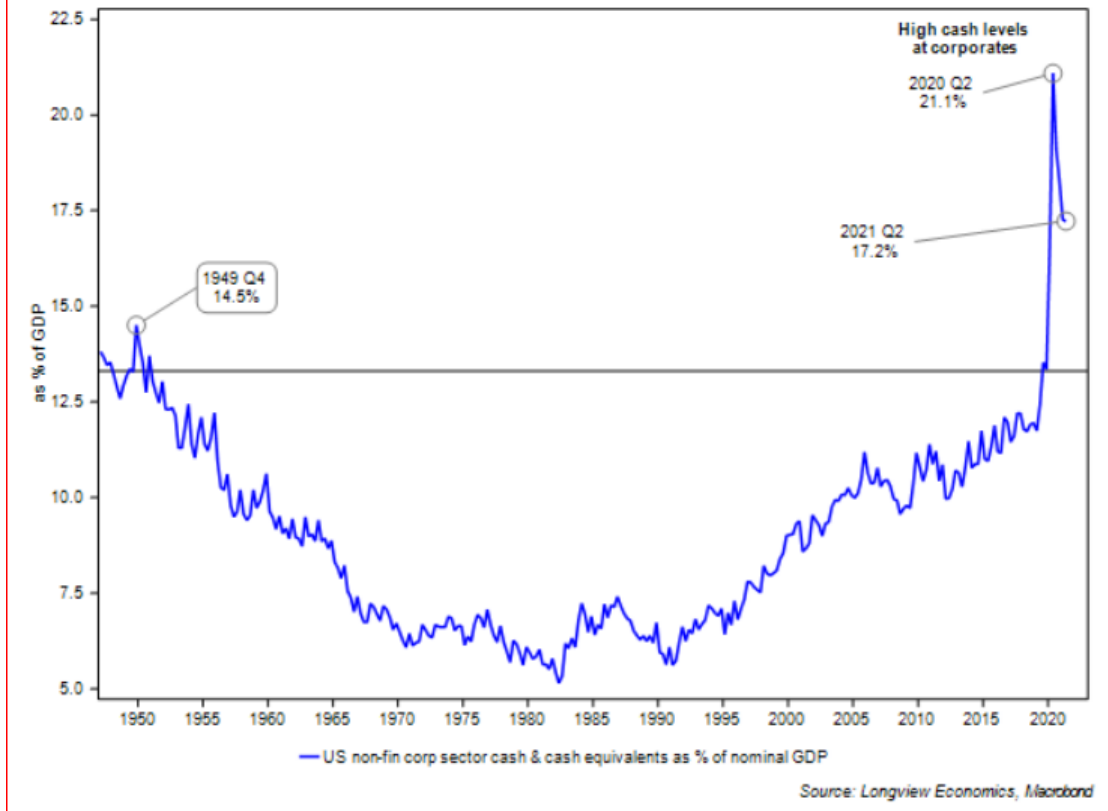
Source: Compustat, Goldman Sachs Global Investment Research

- ✓ Tech and Consumer Discretionary (Amazon) lead the ROE surge.

US CORPORATIONS
HAVE EXTREMELY
HIGH CASH & CASH
EQUIVALENTS AS A
% OF GDP

Corporate Cash Is Near All-time Highs As A % Of GDP

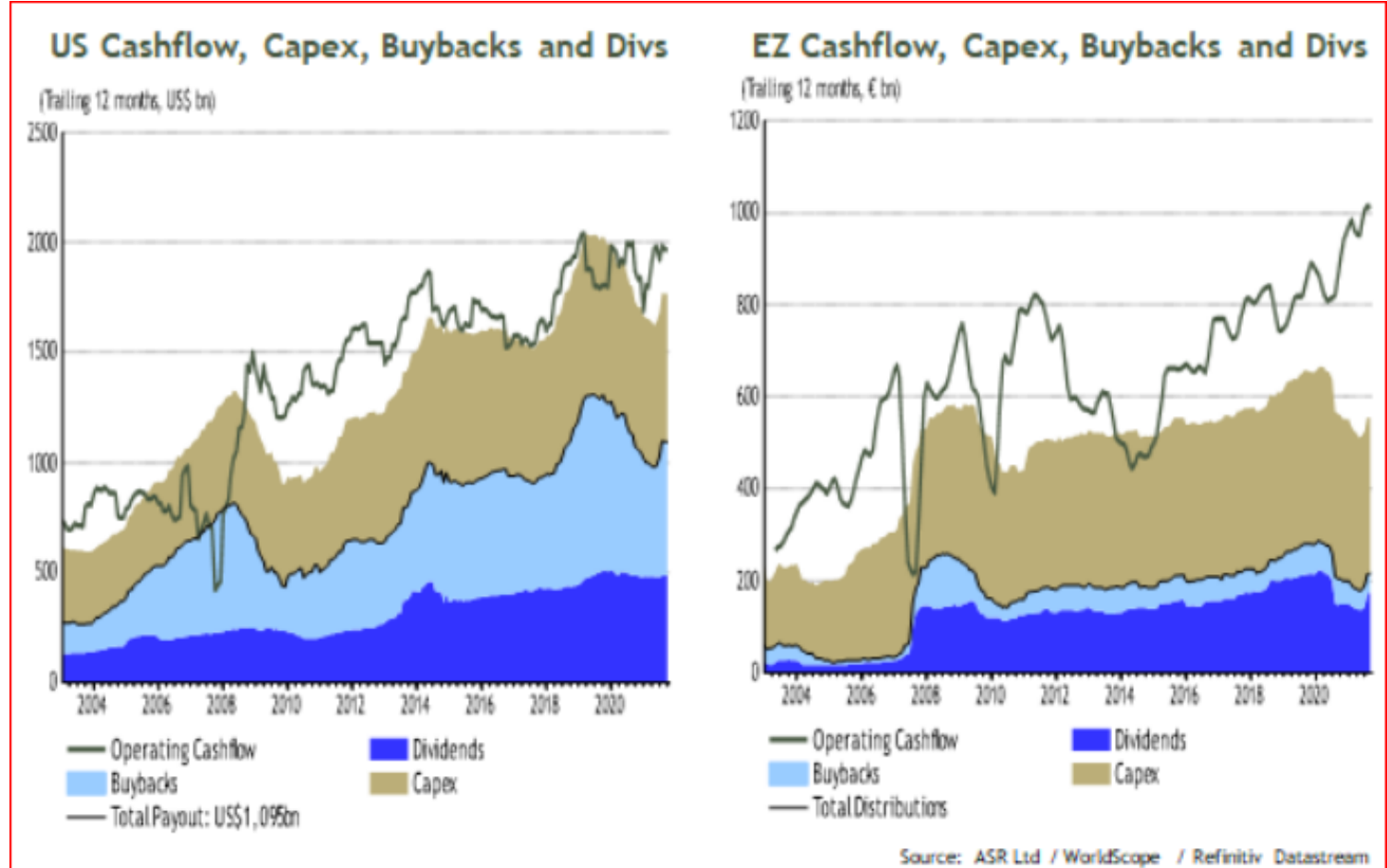
FIG 4: US corporate sector cash & cash equivalents (as % of GDP)



- ✓ Cash on hand helps US Corporations adjust to economic changes.

Corporate Cash Gets Returned to Investors through Dividends and Buy Backs.

CORPORATE CASH IS
CASHFLOW FOR
BUYBACKS AND
PAYING DIVIDENDS



Corporate Buy Backs Are Correlated With The Rise in the S&P 500

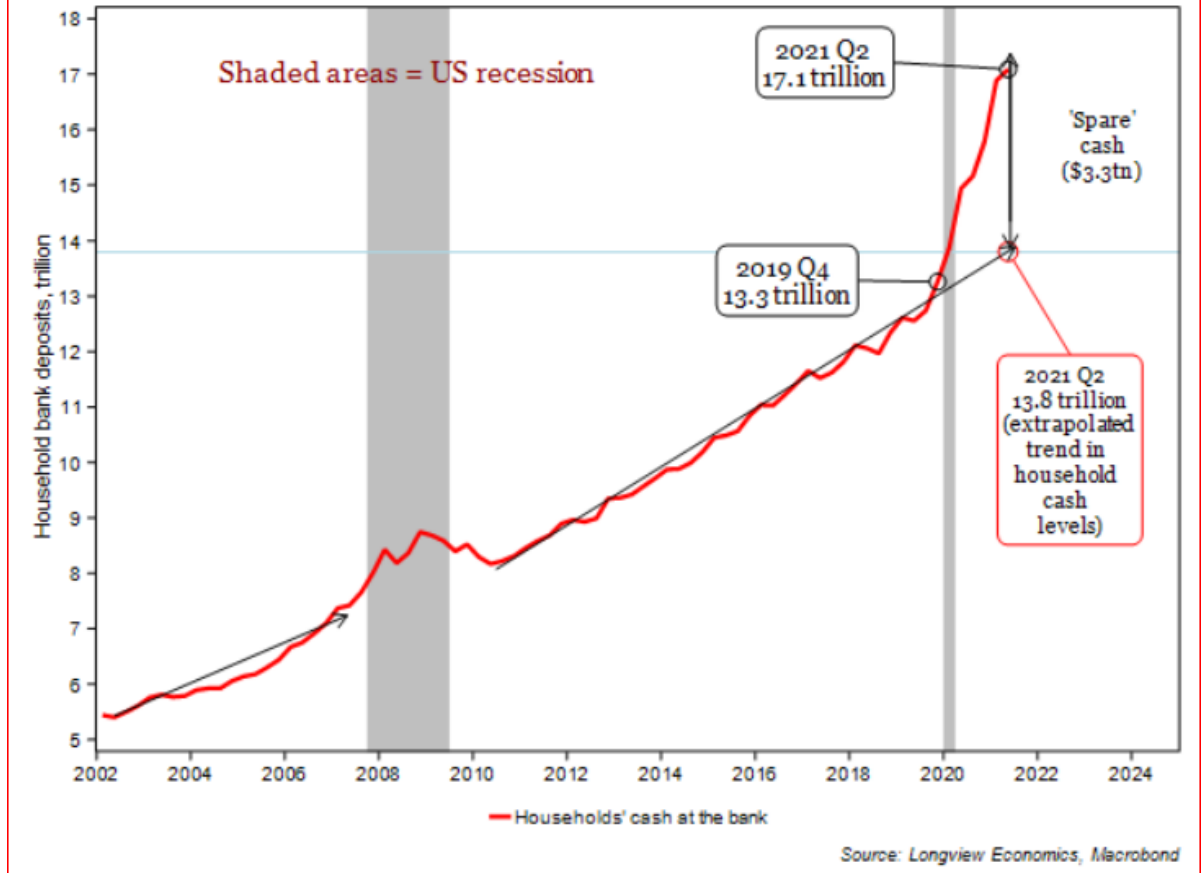
S&P BUYBACK INDEX
VS S&P500 INDEX



US HOUSEHOLD BANK DEPOSITS

US Household Balance Sheets Are Strong

FIG 3: US household bank deposits (US\$), actual data with Longview forecast

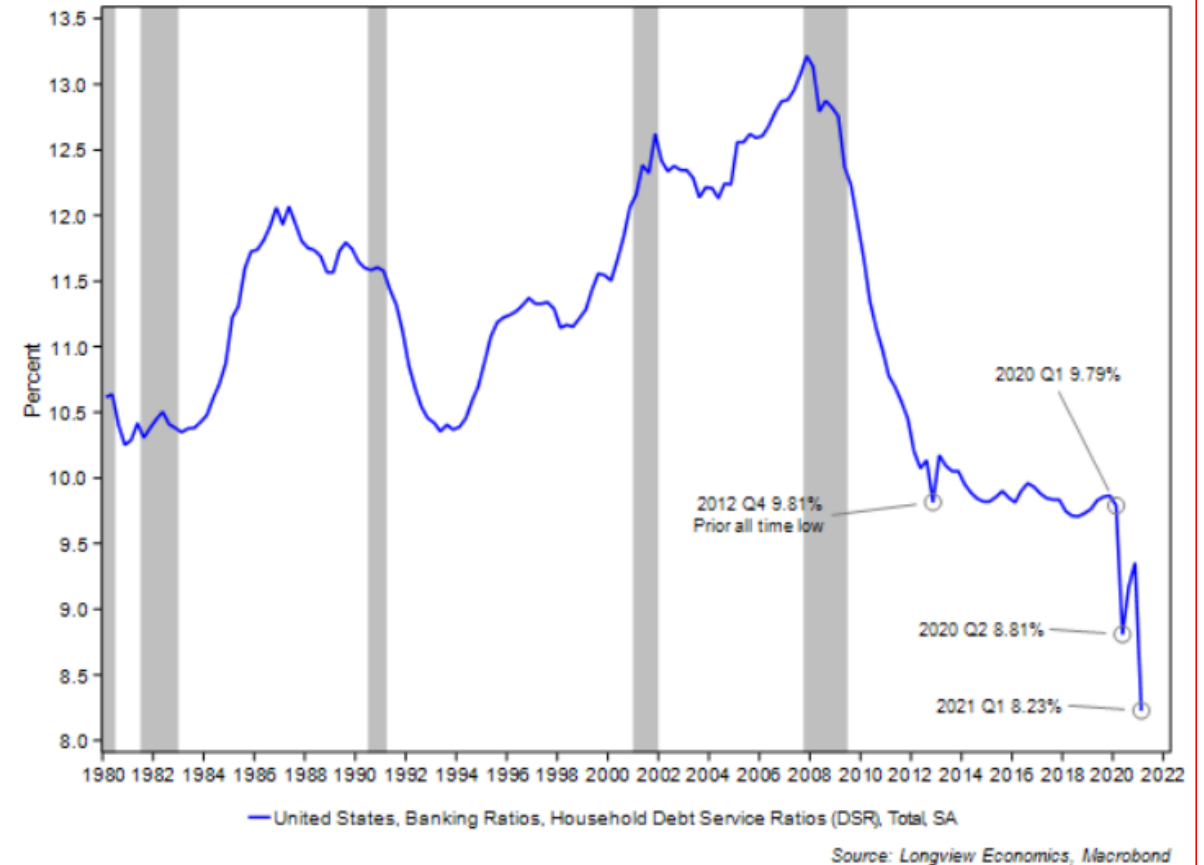


- ✓ The US consumer put away cash during the pandemic.

FAMILIES AREN'T
EXPERIENCING ANY
PARTICULAR
DIFFICULTY PAYING
THEIR DEBTS
BECAUSE INTEREST
RATES REMAIN
HISTORICALLY LOW

Interest Rates Remain Near All-time Lows

FIG 6: US household debt service ratio, shown with US recession bands

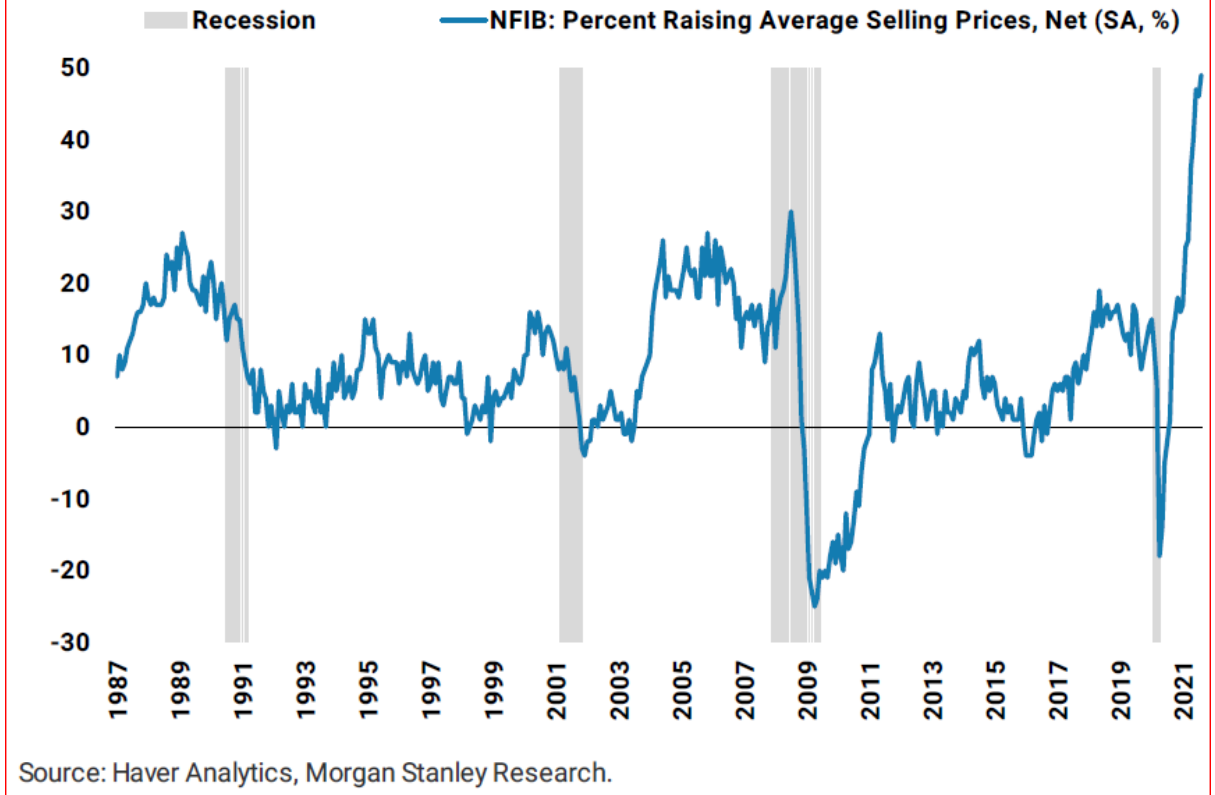


- ✓ Along with strong balance sheets, the US consumer can borrow at low rates.

Companies Are Passing On Cost Hikes

COMPANIES
BELIEVE THEY
HAVE PRICING
POWER AND THEY
WIDELY INTEND TO
TRY TO PASS COSTS
ONTO THE
CONSUMER

Exhibit 10: In Response to this Inflation Pressure, Companies Are Raising Prices at a Historic Clip



- ✓ So far the consumer has accepted these price hikes.

THE RESULT OF
THESE THINGS AND
BOTTLENECK IN OUR
ECONOMIES ARE
LEADING TO
INFLATION

Inflation hasn't Run Away

Which Mean to Trim?

Over 12 months, core inflation is under control; not so over 6 months

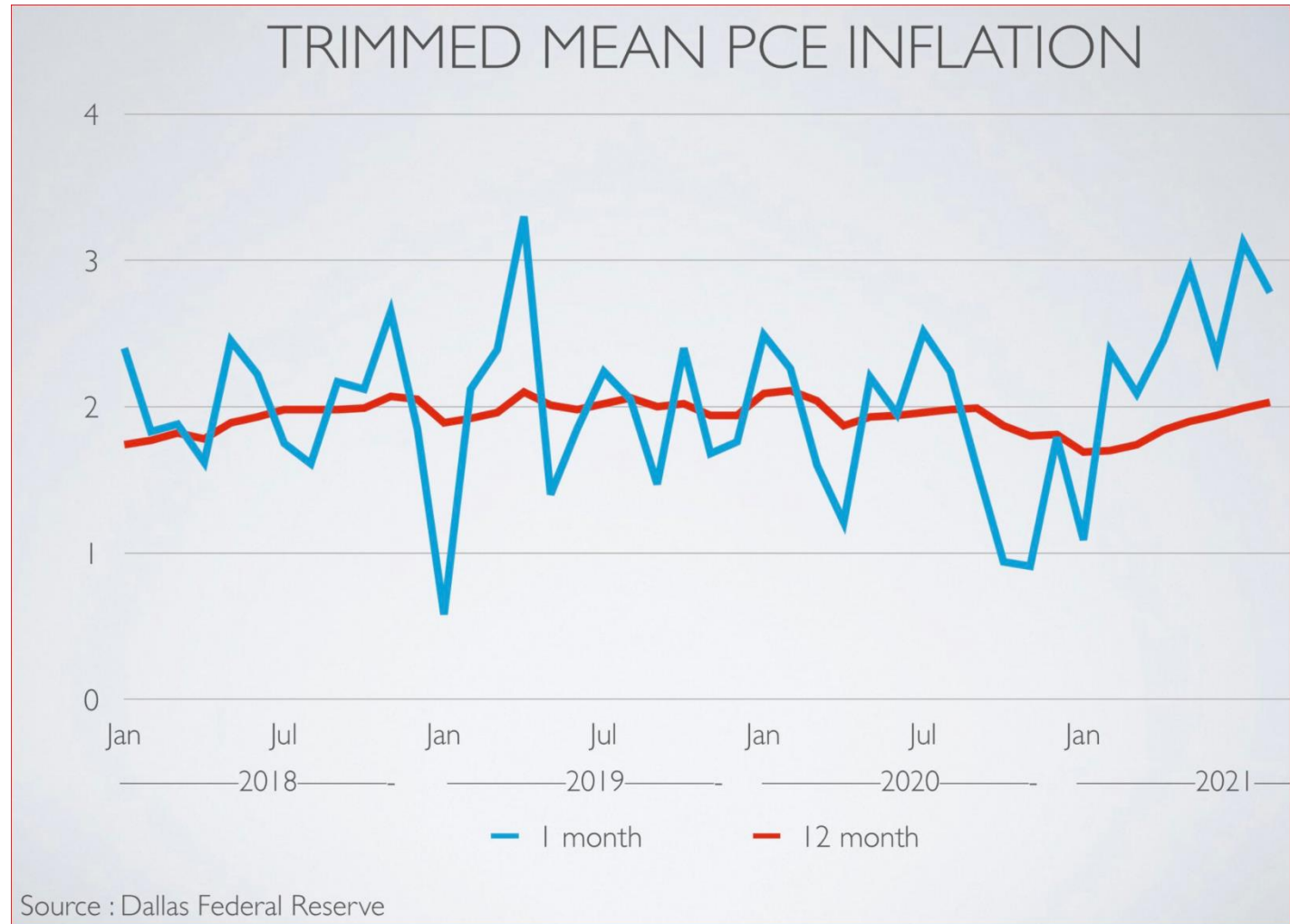
■ Dallas Fed Trimmed Mean Six Month PCE Inflation Annual Rate - Mid Price
■ Dallas Fed Trimmed Mean One Year PCE Inflation Annual Rate - Mid Price



- ✓ Although inflation is up, it is only returning to levels seen in 2008.

Underlying Inflation Rate Remains Reasonable

THE UNDERLYING
RATE OF INFLATION
IS NOTHING TO
WORRY ABOUT



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