

Autumn 2021

If you're like many of us here at OCM, Christmas shopping isn't currently in the forefront of your mind. But this might be the year all of us should get it done early. And that includes Santa.

Over the next couple months, Saint Nick will be inundated with orders, largely in the form of children's letters. Given the huge advancements in technology, one can logically assume Santa's elves no longer manufacture toys. (Constantly training and retraining such a massive workforce, one estimated to toil year around and roughly 18 hours per day, would put too big a strain on the operation.) More likely, Santa has built an enormous North Pole Fulfillment Center, where the elves receive, and stock finished product.

Santa is magical, but he's not, as far we know, a mind reader. Until he receives children's wish-lists, he's unable to place orders. Under normal circumstances, with overnight shipping and smooth-running supply chains, this isn't a problem. This year, however, it's best Santa predicts trends, and starts placing orders now. (Given the fact he's capable of delivering 500 million toys in one night, the product need only arrive by December 24.)

Why? Many of the world's biggest toy companies have already announced that the global shipping crisis and labor shortages will handcuff their ability to meet massive demand, one increased by the pandemic, this holiday season. "There is going to be a major shortage of toy products this year," Isaac Larian, CEO of MGA Entertainment, which owns and distributes last year's top toy, LOL Surprise! among many others, told CNN. "The demand is going to be there. What is not going to be there is the product to fill the demand."

Toys are not, by a long shot, the only consumer good being subject to delays and shortages. Everything from apparel to paint to electronics to lumber to sneakers will be scarce in coming days and months. To understand why, let's look at a staple of many Christmas buying lists, Nike.

Phil Knight's outfit was one of the first multinational companies to contract 100% of its manufacturing to independent suppliers, in roughly a dozen countries around the world. By doing so, Nike saved millions on materials and labor, and mitigated the risk of unpredictable occurrences, extreme weather, or labor strikes, say, at any given factory. What the ahead-of-its-time supply chain, and all supply chains, was not protected from is a *global* pandemic. To wit, Vietnam, where a lot of the company's production is done, recently enforced strict COVID lockdowns, costing Nike months of production.

But production, here and abroad, is just one part of the problem. There's also major transportation and shipping container, issues. Last month, the Chinese government temporarily closed part of the world's third-busiest container port, Ningbo, for two weeks after a single dockworker was found to have contracted the COVID Delta variant. Flying into LAX, not far from our OCM headquarters, right now, passengers can look down at Long Beach and LA Harbors and spot dozens of anchored container ships waiting to drop off cargo in undermanned ports and warehouses. This is the norm in nearly every major port in the world.

Shipping containers are the backbone of global trade, and there's massive unavailability. The huge steel boxes move products from manufacturers to destination hubs. Earlier in the pandemic, they were used

to move medical supplies, such as masks, around the world. And they're still sitting in ports, in places like South America and Africa, waiting to be picked up. But shippers have little incentive, at a time when demand for their services (and the prices they can charge) is so high, to send ships to collect empty containers. This, along with those full containers waiting in ports around the world, has caused massive shortages. (Roughly 350,000 sat idle for weeks in Ningbo.) In a twisted irony, these containers, which carry 90 percent of the world's traded goods, according to *The Atlantic*, are overwhelmingly produced in China. All of this has caused the cost of shipping a single container from Asia to the West Coast of North America to increase by nine to thirteen times, and forced many companies to charter airplanes, a much more costly option, in attempt to meet demand.

A flying sleigh, pulled by eight fit reindeer, makes Santa's ability to get finished product to end users unmatched. (NORAD adjusts its satellites to track the team on Christmas Eve and allows kids to watch the journey online.) If he needed to use truckers, like the majority of companies, he'd have even bigger problems—a huge lack of people to drive rigs. The Minnesota Trucking Association estimates that the US has a shortage of about 60,000 drivers, due to recruitment issues, early retirement, and COVID-cancelled driving school classes.

You won't be surprised to know the additional costs incurred by companies in order to get their products on shelves will be passed along to us, the consumers. Financially, COVID, and the delta variant in particular, is stuffing our stockings with a bit of coal.

The good news is it's fleeting. As noted in past *folios*, we've been expecting inflation to be higher and last longer than most are forecast. It's why we've continued to be cautious with our fixed income investments—keeping them short and focused on high quality—and invested more in higher yielding instruments like direct lending and bank loans. We've also reduced our exposure to Chinese investments (selling Alibaba outright), knowing these supply chain issues can be exasperated with the government's increased regulations and restrictions.

All that to say, we're prepared. And you should be, too. When the overzealous start decorating their homes, and retailers start advertising Christmas sales, late October, take it as a cue to get your shopping done early and avoid having to slip IOUs in Christmas cards.

From all of us at OCM, have a happy and healthy holiday season.