Sean Brodrick
Wealth Megatrends

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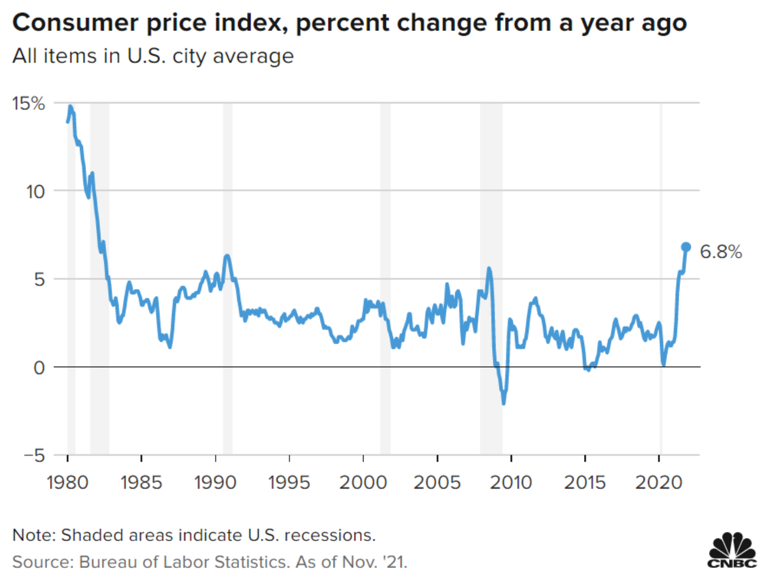
By Sean Brodrick | Editor

Position for a Boom in 2022

As we prepare for the new year, I see three major forces that could push the market around. Combined with global megatrends already in place, this could be a boom for certain stocks … and potential doom for others.

I'll tell you more about the megatrends I'm watching in the January issue. For now, let's look at the three big forces.

Force #1: Inflation. The market is wrestling with inflation fears right now. The November headline Consumer Price Index (CPI) was 6.8% ... and plenty of smart people say it's undervaluing important measures. For example, used cars are up 31%! I'll have more on inflation in one of my picks today.



I believe inflation will last longer and be "stickier" than most of Wall Street is reckoning. Importantly, inflation can adversely affect consumer confidence if wages don't keep up with inflation.

Force #2: Fed tightening. As inflation heats up, there is more pressure on the Fed to tighten monetary conditions … by tapering bond buying and then raising its benchmark interest rate.

The problem is the market is hooked on the high-speed chicken feed of Fed stimulus — and the Fed is STILL stimulating to the tune of about $100 BILLION a month — so the Fed's policy decisions could be most important.

Anyway, the Fed will likely decide to double the pace of its taper to $30 billion a month at its December meeting. As for rate hikes, the first full 25-basis-point rate hike is now priced into the June meeting next year. A second rate hike — or 50 basis points (bips) — is currently priced into the November meeting, with 63 bips priced by the end of next year.

Force #3: Economic boom. The economy is disconnected from the stock market — for proof, we saw the

Inside This Issue ...

market rally while the economy froze up during the pandemic. However, economic activity can be important to some stocks, and the economy is booming.

Over the first three quarters of this year, real gross domestic product (GDP) increased at a 7.8% annual rate. The Federal Reserve expects real growth of 5.9% for all of 2021, followed by another 3.8% increase in 2022. Compare that to average real GDP growth of 2.2% from 2000 to 2019.

Americans' disposable income grew 3% after inflation over the 10 months from January to October. Compare that to 1.7% in 2018 and 0.5% in 2019. Again, we'll see if wages keep up with inflation.

Jobless claims have plunged to a 52-year low. That's astounding. I'll have more on a company this could be very good for in one of my picks today.

America is seeing the biggest capital expenditure (CapEX) spending since the 1940s. Now, more of that spending is going toward robots and automation … to deal with the labor shortage. We'll be talking about the automation megatrend in an upcoming issue.

So, add it all up, and …

- **The economy is positioned for a boom in 2022, as well as the inflation that goes along with it.**

Many in the market can't wrap their heads around that, and they're warning about stagflation. The data just doesn't back up that view.

Now, things could derail a 2022 boom.

China is a big risk, and that country's government seems to alternately turn up economic heat, then pour cold water on it. A new COVID-19 variant is a risk, though the global economy is proving more resilient to each new variant (so far).

A bigger risk is if the Fed tightens financial conditions faster than the market is pricing in now. Inflation could force its hand. The market would hate that. So, we could have the paradox of stocks going down even as the economy runs hot.

There's also political risk — particularly here in the United States. I hate to swim in the sewer of politics, but if the Republicans win either the House or Senate in the 2022 midterms, they will likely throw a monkey wrench into any programs for economic growth.

We know this because Sen. Ted Cruz (R-TX) and others have said that's exactly what they will do. They view President Biden as illegitimate and will do anything to derail his perceived success.

Paradoxically, Wall Street may like a Republican takeover of Congress — if it comes hand in hand with bigger corporate tax cuts.

So, there are many risks for the market. But the market always climbs a wall of worry. We want to position in inflation-sensitive names and stocks that will ride higher with an economic tide. And your arsenal of dividend raisers gives you extra ammo every quarter.

That said, we are exiting three stocks this month — two nice profits, and one small loss. Look for those details in this month's portfolio update.

From the Farm to Finance

2 companies riding megatrends into the new year

Fintech Pioneer Is a Dividend Grower

This month, I have a pick for you that's riding the megatrend of electronic payments. It got a boost from the pandemic. It's also leveraged to the U.S. jobs boom that recently saw unemployment drop to a 52-year low. Finally, it pays a dividend and has increased that dividend for the past seven years.

I'm talking about **Western Union (NYSE: WU)**. Your grandad's telegram company now focuses on money transfers with a network of more than 500,000 locations serving 150 million customers in 200 countries.

Western Union makes money primarily by facilitating cross-border money transfers, something it's been doing for over 150 years. The fee it charges is on a sliding scale, becoming a smaller percentage the more money users send.

Earnings grew 8% last year and are projected to grow 11% this year. However, I think some things are coming into play that could boost earnings quite a bit.

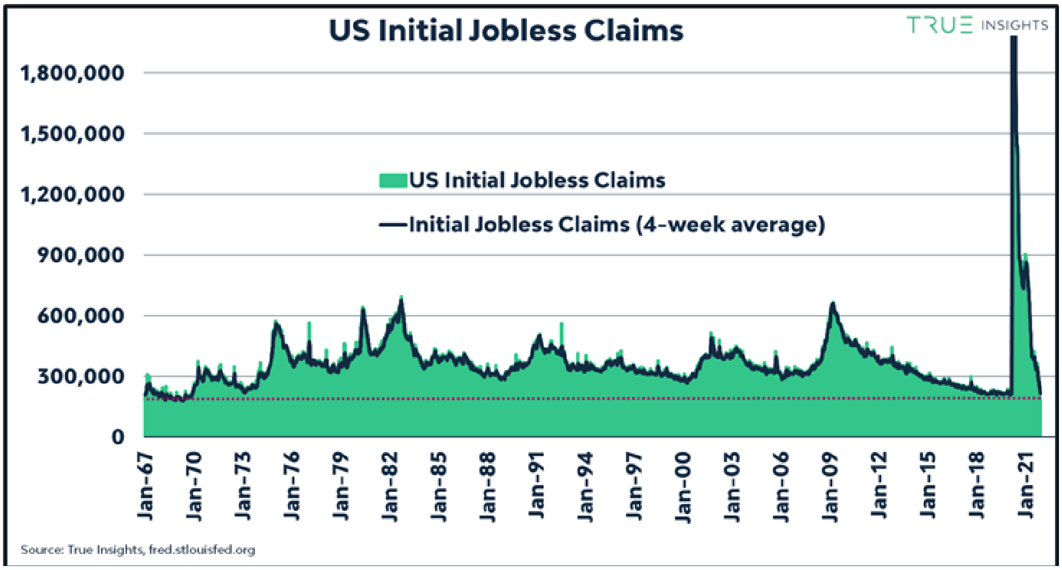
The Potential

As I mentioned, U.S. jobless claims from the most recent month fell to a 52-year low!

What that means is we are rapidly approaching a worker shortage. And that means more and more migrant workers — legal or otherwise — are going to be crossing the border for work.

And once they have jobs in the U.S., those migrants send money back home. In fact, it's already happening. Mexico's central bank recently reported that …

- **Cash sent electronically to Mexico climbed to a new record high of $4.819 billion in October. Not only is that a new high, it's the eighth straight month the figure for cash sent from abroad has remained above $4 billion.**



By comparison, remittances were $3.602 billion a year earlier.

According to Reuters, "Mexicans abroad, mostly in the U.S. where economic growth has benefited from stimulus measures, are sending more money to help relatives at home."

And it's not just Mexico. Where I live in Florida, there are large populations of Guatemalans and Nicaraguans. Heck, I just hired someone to paint my house, and the guys who worked for him were Haitian. They did a great job!

Pandemic Altered Cross-Border Business

The COVID-19 pandemic massively accelerated the trend of all things moving to digital. And that goes for wire money transfers, too. In 2020, Western Union's overall digital money transfer revenues climbed by 38%, to $850 million.

Do you think we've seen the last of COVID-19? Even if we have, the move to digital-everything is staying. This can only help Western Union's business.

It has other things going for it as well …

- **Walmart alliance:** In January, Western Union began offering money transfers at **Walmart (NYSE: WMT)**. It now offers services at 4,700 Walmart stores and is growing.
- **Cybersecurity:** After a hacking incident in 2018, Western Union cranked up its cybersecurity efforts. This is becoming increasingly important as hacking and electronic theft soar, more than doubling this year over 2020. But you know who hasn't been successfully hacked since 2018? Western Union.
- **Digital banking:** Western Union now offers banking to its customers, who can do that AND wire transfers all through its app. While that might not appeal to you, to migrant workers, that could be very attractive.
- **WU.com:** You don't even have to go to a Western Union office to do a wire transfer anymore. You can do it through the app or just use their website.

It's all part of simplifying services for customers. Digital channels accounted for 29% of transactions in 2020 and 20% of revenue for the company's consumer-to-consumer (C2C) business ... up from 16% and 14%, respectively, in 2019.

The company's third-quarter earnings were mixed. Generally accepted accounting principles (GAAP) earnings per share (EPS) came in at 57 cents, beating by 2 cents. Revenue rose 2.4% year over year to $1.29 billion, missing expectations by $30 million.

What happened? A lot of business got pulled into the second quarter as the country reopened from the pandemic. So, revenue became uneven.

You know what's probably going to boost revenue? That chart of jobless claims I showed earlier. People from south of the border are going to take jobs in the U.S. — there simply isn't anyone else to hire — and they're going to send more and more money back home.

- **Looking forward, Western Union put its full-year EPS between $2.05 and $2.10, which matches consensus. But it's beaten earnings in six of the past eight quarters, and it has those other growth tailwinds I mentioned.**

The company trades at just 7.9 times forward earnings; the median for its peer group is 45. It trades at 7.8 times free cash flow; the median for its peer group is 24. Heck, it trades at 1.37 times forward sales. This stock is cheap! It's priced for no growth whatsoever, despite having tremendous growth potential.

- **Oh, and it has a billion dollars in cash and $328 million in free cash flow in the most recent quarter, up 43% year over year.**

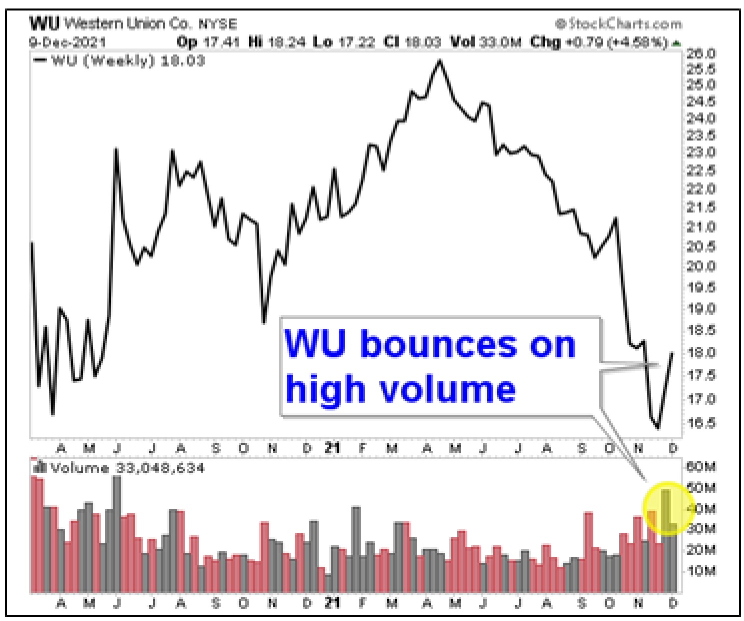
So, along with everything else, Western Union looks like a better-than-average buyout candidate. The combination of its well-known brand and its global presence offers a competitive advantage in the money transfer industry.

Western Union has shown great success in adapting to market changes and staying a step ahead of competition. It's slow growth — for now. I don't think it will stay that way.

Now, let's talk about the dividend. Western Union goes ex-dividend on Dec. 17, the day after you receive this. **So buy it today.** That way, you'll be paid 23.5 cents per share on Dec. 31.

Even if you miss it, Western Union pays regular dividends and raises its payouts, too. Its dividend yield was recently 5.45% and is forecast to rise 4.13% per year for the next three years.

Let's look at a weekly chart to the right:



You can see the stock is down considerably from its highs. But it's bouncing ... and that bounce is coming on high volume.

It could just be valuation — as I said, this stock is cheap. Or Wall Street's smart money is looking at the same jobless claims I am, inferring that more Latin Americans will be working in the U.S. ... which means more business is likely for Western Union.

If you agree, here's what I recommend:

Using 3% of the funds allocated to this service, buy The Western Union Co. (NYSE: WU) at the market.

There's no need to set a protective stop. I'll be watching it closely, just like with all of your positions.

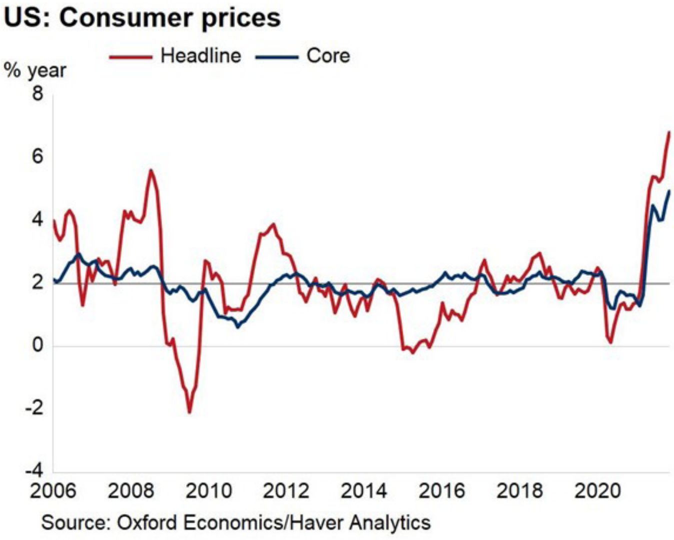
Brace for Inflation With an Agricultural Powerhouse

Plenty of headlines around Thanksgiving focused on rising food prices caused by runaway inflation. On one major news outlet, an idiot even suggested families skip turkey this year! While consumers grapple with rising costs, there's no end in sight.

The Fed was beating the drum about "transitory" inflation since the pandemic sparked unprecedented economic stimulus, but it can no longer hide its stickiness. Last week, Fed Chair Jerome Powell retired the transitory label when describing inflation because consumers will continue feeling the burden past the short term.

- **Higher prices are here to stay in this economic environment, and we already experienced consumer price increases not seen in three decades.**

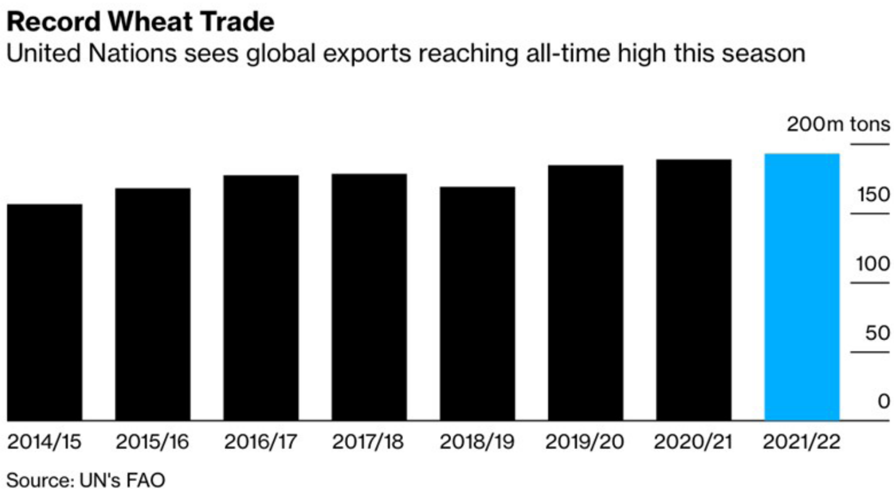
October's data showed a 6.2% increase over the prior 12 months. November numbers came out even hotter, with the headline CPI at 6.8% and core CPI at 4.9%.



That's the hottest headline inflation in 39 years!

Food prices have been a major contributor to that increase, as many household products became more costly. Groceries overall are up 6.1% over the past year. Individually, steak is up 25% and bacon is up a whopping 21%! Pork is up 17%, eggs 8%, milk 7% and flour 6% … the list goes on.

While prices are increasing — exacerbated by droughts diminishing crop yields — demand isn't going anywhere. The U.N. is predicting this year will see a record of global wheat exports.



Sources: Farm Policy News; UN FAO

I want you to play this trend by adding a company that thrives with higher food costs. It's an old friend, and you had the opportunity to grab a 16% gain if you acted on my recommendation to sell it in July.

Capitalize on Higher Food Prices

Archer-Daniels-Midland (NYSE: ADM) is an American food processing company that acts as a middleman for the industry. It's a massive company that brought in over $80 billion in sales over the past 12 months. ADM does business in 200 countries and operates 320 processing plants worldwide.

It collects 91% of its revenues from producing and wholesaling agricultural products, while the remaining 9% comes from packaged food.

- **Two of the major factors impacting ADM's financials are crop demand and commodity prices: When prices go up, so does the company's sales and earnings because it passes them along.**

In October, ADM found that rising agricultural commodity prices were not causing a drop in demand, which is an excellent sign considering the inflationary landscape. Since inflation isn't compromising sales volume, the higher prices reflect nearly pure upside for the company.

A large portion of ADM's agricultural business comes from corn, grain and soybean processing … prices of which have surged over the past year, with wheat, corn and soybean oil futures rocketing 35%, 41% and 57%, respectively! ADM's net income margin in the third quarter was 3%, and the rising prices should improve earnings.

ADM has consistently beaten earnings consensus, and its outlook is brightening. The company has eclipsed analysts' EPS forecasts by double digits in each of the past nine quarters. ADM's earnings before interest, taxes, depreciation and amortization (EBITDA) is predicted to increase 29% year over year to $1.1 billion, while its revenues are projected to grow 11% over the prior year to $20 billion.

ADM is attractive from a valuation perspective: The stock is trading at 1.6 times book value, and its price-to-earnings ratio is reasonable at 13.7 times. Although it's trading slightly above peer averages, there should still be plenty of room for growth.

As a mature company, ADM is focused on establishing leading positions in emerging markets to drive future growth. Specifically, the company is looking to capitalize on the growing popularity of plant-based protein.

Last month, ADM closed the acquisition of Sojaprotein, a European leading producer of non-GMO soy products. The transaction will bolster ADM's presence in the alternative protein market and help it satisfy rapidly increasing demand for plant-based products.

You'll be paid a solid dividend, too, to watch runaway inflation blast prices and profits higher. ADM's dividend yields 2.3% at current prices, and it's one of the safest payers in the market. The company's payout ratio of just 31% leaves plenty of leeway to strengthen its balance sheet and fund its growth initiatives.

- **Icing on the cake? ADM is a dividend aristocrat. It's reliably raised its distributions each year for a minimum of 25 years!**

And ADM is only three years away from becoming a dividend king, the milestone achieved after 50 consecutive years of raising dividends. The company is projected to grow its payments 3% per year moving forward.

Like most companies, ADM suffered from the Omicron-induced pullback. However, it bullishly bounced off of its trendline after finding support. ADM should retest overhead resistance near $65 per share before challenging its all-time high of $69. From there, I believe it could surge to $76 a share.

If you agree, here's what I recommend:

Using 3% of the funds allocated to this service, buy Archer-Daniels-Midland Co. (NYSE: ADM) at the market.

Again, no need for a protective stop. I'll closely watch it and alert you if action is needed.

Portfolio Update & Industry Outlook

This month, I recommend you grab two rounds of gains and exit an underperformer. Your recommended portfolio pulled back along with the rest of the market in the Omicron-fueled panic earlier this month. That's OK — dividends cushion the fall, and stocks that raise dividends should have twice the cushion.

However, there are some positions that are weakening. So, if you agree, I recommend you exit. I don't dislike them, and we may revisit them later. But for now …

I suggest you ditch **North Shore Global Uranium Mining ETF (NYSE: URNM)**. It's losing traction despite the bigger long-term bullish picture for uranium. You'll exit with a nice gain of around 15% as of writing.

I also think you should cut ties with your **Global X Copper Miners ETF (NYSE: COPX)** position. This exchangeg-traded fund (ETF) is underperforming some individual names I like. If you agree, you'll exit with a gain, but keep an eye out, because I'll probably be recommending this pick again soon.

Lastly, I would exit **First Trust Global Wind Energy ETF (NYSE: FAN)** with a small loss. The market doesn't like wind names and hasn't for months. Again, I will be looking for a possible reentry point.

Here are my recommendations:

Sell ALL your shares of North Shore Global Uranium Mining ETF (NYSE: URNM) at the market.

Sell ALL your shares of Global X Copper Miners ETF (NYSE: COPX) at the market.

Sell ALL your shares of First Trust Global Wind Energy ETF (NYSE: FAN) at the market.

Now, let's look at the rest of your recommended portfolio …

Precious/Industrial/Battery Metals

Precious metals slumped over the past month despite expectations that inflation will run hot for an extended period. That slump shouldn't last, as gold is historically one of the best hedges against rising consumer prices. **Newmont (NYSE: NEM)** and **EMX Royalty (NYSEAMERICAN: EMX)** are trading slightly below your recommended tracked entries, while **Wheaton Precious Metals (NYSE: WPM)** is up modestly.

Industrial metals should benefit from inflation, and the Biden administration's infrastructure package with $550 billion earmarked for public spending should turbocharge demand for industrials. **Alcoa (NYSE: AA)** is also trading slightly above your entry point.

Battery metals will benefit from rising commodity prices, and they should be winners from the electric vehicle (EV) megatrend. Your **Global X Lithium & Battery Tech ETF (NYSEARCA: LIT)** position should be a major beneficiary. It's trading close to where I recommended you get it, but it should climb as surging adoption sustainably drives demand.

Infrastructure/Industrials/Telecommunications

Industrial stocks have gained momentum since the passage of the bipartisan infrastructure package. The $550 billion in industrial spending should give your positions a boost as production increases. **Kronos Worldwide (NYSE: KRO)** has come back to about even, while **Capital Southwest (Nasdaq: CSWC)** is up about 6%.

Comcast (Nasdaq: CMCSA) and **ABM Industries (NYSE: ABM)** lagged over the past month. Both are below your recommended tracked entries.

Comcast should capitalize on the $65 billion in spending for expanded broadband coverage by increasing their customer base. They're also going to get a windfall from campaign ad spending in the runup to the 2022 midterm elections.

Since we'll likely continue seeing new COVID-19 variants as the pandemic drags on, ABM should take advantage of sustainably heightened corporate cleaning standards with its janitorial services.

Oil/Natural Gas

Oil prices pulled back after President Biden announced the release of 50 million barrels of oil from the U.S. Strategic Petroleum Reserve. While the action is providing temporary relief, rising demand, supply chain disruptions and inflationary economic policies will continue pressuring prices.

ConocoPhillips (NYS: COP) is leading your recommended portfolio higher, and it hasn't been materially impacted by the recent oil price slip. On Dec. 1, the company announced it completed the purchase of Shell Enterprise LLC's Permian assets for $9.5 billion in cash. The transaction will add 225,000 net acres and over 600 miles of pipelines to its portfolio. **Marathon Petroleum (NYSE: MPC)** dipped slightly below my recommended entry point, while **Kinder Morgan (NYSE: KMI)** is marginally below.

Technology

Technology stocks got crushed after Fed Chair Powell admitted inflation will be stickier than expected, but the sector rebounded over the past week. Persistent inflation will likely force the Fed to raise rates sooner than it hoped, which would negatively impact the tech sector. The 10-year Treasury yield is back below 1.5%, but it will be important to see how inflation runs over the next several months. **Liberty All-Star Equity Fund's (NYSE: USA)** fell during the recent pullback because its top holdings are in tech.

Financials

Financials are primed to benefit during inflation when interest rates rise. The Fed recognizes that it will be forced to raise rates sooner than expected given that inflation is already running at multidecade highs and predicted to get worse. **Morgan Stanley (NYSE: MS)** is up 11% since my recommendation, while **KeyCorp (NYSE: KEY)** is about even. These stocks should perform well as economists continue pricing in runaway inflation.

Automotive

The automotive industry is a key contributor to the rapid increase in consumer prices. November's Bureau of Labor Statistics (BLS) data showed used car prices rose 26.4%, four times faster than overall inflation of 6.2%. Even new vehicle prices were up nearly double digits as supply chain disruptions continue limiting inventories. Regardless, your **General Motors (NYSE: GM)** position is shifting into higher gear.

Don't forget to get those recommendations in. I hope your holidays are merry and bright! I'll have more for you in the new year.

Wealth Megatrends Portfolio Table

Recommendation	Symbol	Reco Date	$ Cost	Current Quote ($) as of 12/13/21	Dividends per Share	Total % Gain
Newmont	NEM	7/17/2020	$62.61	$56.25	$0.55	-9.28%
Kronos Worldwide	KRO	12/18/20	$15.70	$14.45	$0.18	-6.82%
General Motors	GM	2/19/21	$52.54	$59.92	$0.38	14.77%
Comcast	CMCSA	4/16/21	$55.03	$47.82	$0.25	-12.65%
First Trust Global Wind Energy ETF	FAN	4/16/21	$22.45	**Sell @ Market**		
SPDR Portfolio TIPS ETF	SPIP	5/21/21	$30.97	$31.41	$0.14	4.56%
North Shore Global Uranium Mining ETF	URNM	5/21/21	$65.14	**Sell @ Market**		
Kinder Morgan	KMI	6/18/21	$17.92	$15.92	$0.37	-8.04%
Global X Copper Miners ETF	COPX	6/18/21	$34.19	**Sell @ Market**		
ConocoPhillips	COP	7/16/21	$56.25	$71.41	$0.43	27.72%
Morgan Stanley	MS	7/16/21	$92.72	$97.37	$0.35	5.39%
ABM Industries	ABM	8/19/21	$48.56	$45.46	$0.19	-5.99%
Capital Southwest	CSWC	8/19/21	$25.91	$26.61	$0.44	4.40%
Wheaton Precious Metals	WPM	9/17/21	$41.17	$41.08	$0.15	0.15%
Liberty Equity All-Star Equity Fund	USA	9/17/21	$8.88	$8.12	$0.14	-6.98%
Marathon Petroleum	MPC	10/15/21	$67.09	$62.24	$0.58	-6.36%
KeyCorp	KEY	10/15/21	$23.09	$22.53	$0.19	-1.60%
EMX Royalty	EMX	10/29/21	$2.81	$2.42	$0.00	-13.88%
Global X Lithium & Battery Tech ETF	LIT	11/19/21	$93.58	$87.95	$0.16	-5.85%
Alcoa	AA	11/19/21	$47.95	$47.44	$0.40	-0.23%
Western Union	**WU**	**12/16/21**	**-**	**$18.32**	**$0.24**	**-**
Archer-Daniels-Midland	**ADM**	**12/16/21**	**-**	**$64.52**	**$0.37**	**-**