July 2021

GENERAL ECONOMY

- As 1Q 2021 ended, the big news was massive fiscal stimulus, improved COVID numbers, eased restrictions and robust job growth. Barring major new virus troubles, expectations are for the U.S. economy to post the best economic growth in many years. However, proposed tax increases may present headwinds to sustained growth in future years.

- The combination of huge stimulus efforts (and forecast for more), rebounding economic growth and soaring budget deficits have recently raised some inflation fears, but any increases should be temporary and we do not see major spikes in the next couple of years. Rising housing and commodity prices should not offset long-term structural trends that have kept inflation low for more than a decade.

- Despite a slower pace of vaccinations in Europe and some emerging markets, global growth should rebound in 2021. However, much of the developed world still faces long-term problems such as aging populations, slow global growth, trade or geopolitical tensions, past extreme monetary policies and heavy debt loads on top of the continued virus battle.

STOCK MARKET

- Current equity valuations remain elevated and reflect a great deal of faith that earnings growth will not only rebound, but continue for some time. The ability of stocks to continue to deliver gains will be dependent on continued economic growth, interest rates staying low and any tax changes. Estimates show that proposed corporate tax increase might cut 2022 S&P 500 EPS by 8-10%

- We are heartened by recent gains in market breadth and the beginning of a rotation from pricey growth issues into value stocks, rather than the long time concentration of a few highly-valued, albeit highly-profitable and quickly-growing mega-cap tech companies.

- Although we expect U.S. stock returns to be modest over the next few years, those returns will likely still outpace cash and fixed income returns. We continue to focus on domestic companies with solid balance sheets, consistent cash flow, organic profit growth and a solid and growing dividend.

BOND MARKET

- The virus, the decision to shutter our economy, and our Federal Reserve’s response forced interest rates to near all-time lows in 2020. While interest rates have risen and may increase modestly from here, we expect them to remain historically low for an extended period.

- We continue to have concerns that low interest rates have diminished (but not eliminated) the two primary reasons to own fixed income in a portfolio, which are providing a stream of income and a buffer to the equity market price volatility. Bond holders should be aware that with low interest rates, duration risk has increased and should be closely monitored.

- The Federal Reserve will continue to use all tools possible to keep U.S. economic activity expanding and credit markets functioning, but high debt levels of corporate and government issuers, geopolitical flare-ups, uncertain trade policies, lingering foreign banking troubles and extreme monetary policies all demand caution in the global bond markets.