



*Timely Insights into Markets and the Economy*

# I nvestors Q uarterly

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## **Second Quarter, 2021**

### **Equities**

- At the halfway mark for 2021, investors have a lot to celebrate beyond the Glorious Fourth! It is encouraging that Covid-19 is beginning to *fade into a bad memory, although new strains are popping up*. We continue to see *improvement in the labor markets, especially in the service sector*. Still, there is a lively debate over the sustainability of the snap-back.
- Some analysts are concerned about resurgent inflation and the prospective impact on interest rates. Add to that the growing amount of Federal debt and fiscal policy and you end up with some interesting theories. *More on that in the Fixed Income section below*.
- The good news for equities is that earnings continue to improve. Even the year-over-year trailing earnings on the Dow Jones Industrial Average and other major indexes are now positive. This is something I have paid close attention to, and it chases a few clouds away in my world.
- After a smoking hot six-month run, it is fair to say that stocks might be a little ahead of themselves going into the summer doldrums. Look at our [Relative Value](#) (click link to view) chart. It shows the market at full or slightly above where it should be for 2021.
- *We will see what second quarter earnings look like in the coming weeks*. Conventional wisdom has it that earnings should continue to be strong moving forward and this may translate into impressive GDP numbers. However, we have to remember that the comparisons are somewhat distorted due to the economic disruptions caused by the virus.

## Fixed Income

- Speaking of distortions, last year's pandemic may be *causing something similar in the conundrum* facing the Fed policy makers.
- *At the center of the debate is inflation.* Is it running hot because of run-away debt or it due to renewed strength since last year? It is kind of a chicken and egg thing, which came first? *Those who argue the current spike in the inflation rate is transitory have a point.* Their argument is that pent-up demand and supply-chain bottlenecks are driving prices higher and that those forces affecting prices will dissipate. Will the Fed stick to this narrative?
- *The other side of the argument holds that irresponsible fiscal and monetary policy pose a long-term threat of hyperinflation.* While a distinct possibility 5-10 years down the road, I am still playing the wait-and see on the transitory argument.
- Some analysis suggests that *we have seen the debt explode over the past 20 years and yet inflation interest rates remained low.* Still, at some point, flooding the economy with cash without GDP outpacing the growth in debt is not going to end well.
- One thing that is for sure is Washington will not cut spending, leaving higher taxes as the logical route for paying interest on the debt and everything else they want to fund. While interest rates are relatively low now, what happens if rates go considerable higher? Now that is something to keep you up at night!
- In the near term, whether or not the 10-year Treasury Note yields 1 or 2% is not an immediate concern. *Historically, those are ridiculously low rates.* I suppose it gives "experts" something to hob-nob and argue about.
- My father had a good line about folks who are overly positive in their own thinking. They were *"often wrong, but seldom in doubt."* Come to think about it he might have been referring to me when I was in college!

## Conclusions

- Judging from what I hear from clients, our investors are happy to be out of lock-down and making money again. In spite of what occurred in 2020, investors actually made good returns for the year - just like in 1987!
- *Earnings and growth remain the keys to equity prices moving forward.* Although things can and will change at any time, for now we continue to be optimistic. I wanted to mention a new indicator we just added to our website labeled "1% Days." So far, it has been able to spot every market bottom over the past 10 years! More next month. Stay tuned!

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