Quarterly Newsletter

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## Market Comments

Last year's stock market recovery rally continued full steam ahead for the first quarter of 2021. The S&P 500 closed 6.17% higher for the three-month period and over 56% higher from prior year levels. Stocks did have a few pullbacks during the quarter, as the 10-year U.S. Treasury yield increased from a low of .54% last year, and a year-end level of .92%, to 1.75% as of 3/31/21. At the current level, the 10-year yield now exceeds the dividend yield of the overall stock market, one sign of inflated stock prices. This quick rise in interest rates started both the competition for stocks and fear of inflation conversations once again. Most of the action, though, has come from a rotation from last year's winning sectors to the period's losers, as investors are trying to stay invested while also taking some profits. This is apparent as economically sensitive sectors have recently been outperforming "growth" sectors.

The stock market is dealing with mixed economic messages. The massive amounts of government spending, for which many are questioning the need, and the quickly recovering economy are starting new fears of inflation. Also, the U.S. has been successful rolling out several highly efficacious vaccines, but the rest of the world is not doing as well getting shots into arms. Couple that with the threat of higher taxes in the U.S., mainly corporate for the moment, to pay for the very aggressive fiscal spending, and markets get jittery.

The economy is booming. The valuations for stocks are historically at high levels, but for the moment anyway, continue to move higher. Sector rotation continues as the economy continues its recovery, but index numbers continue to make new highs. Fundamentally, stocks still look favorable, assuming inflation fears settle down and interest rates do not continue to move much higher.


| | Close | Month | YTD | 1 Year |
|---|---|---|---|---|
| Dow | 32,981.55 | 6.78% | 8.29% | 53.78% |
| S & P 500 | 3,972.89 | 4.38% | 6.17% | 56.35% |
| NASDAQ Comp. | 13,246.87 | 0.41% | 2.78% | 72.03% |

| | Quarter end yield | Prior Year end yield | Yield 1 year ago |
|---|---|---|---|
| 10 yr. U.S. Treasury | 1.75% | 0.92% | 0.70% |

## Looking Ahead

For now, the stock market's moves will continue to be steered by changes in treasury yields, the successful distribution of vaccines, both domestically and internationally, and any new signs of inflation. Fed Chair Powell does influence inflation fear levels through discussions of possible future disinflation while also forecasting higher consumer prices due to new jobs opening with the economy. The current GDP growth numbers have been high but are believed to be short-term and should revert to lower levels longer-term. Additionally, recent higher oil prices and manufacturing shortages are worth watching. The Fed has been very clear that its policies will remain patiently accommodative, and it does not forecast raising rates until 2023. The Fed has also stated that any changes in current views will be well communicated in advance. Of note, Chair Powell recently stated that "the best policy is vaccine policy" as compared to either monetary or fiscal policies.

Many are concerned about the massive levels of government spending and threats of higher taxes to pay for it. The current move is to raise corporate tax levels back to some of the world's highest. Treasury Secretary Yellen is even asking for global minimum corporate tax rates in fear of once again losing corporate headquarters to more favorable tax environments elsewhere in the world. This is highly unlikely and is considered arrogant to many. Also being discussed by politicians in control are a higher minimum wage, which will actually lead to overall job losses, overturning the filibuster and packing the Supreme Court, all of which make markets nervous.

It appears to us that we are not in the middle of a crisis but are on the way out of one. We feel that better times are ahead as more vaccinations are distributed around the world, businesses re-open, people are hired and consumers start to spend. We are closely looking at corporate earnings as they are released and expect the reports to be strong coming off of a horrible last year. Much of this may already be factored into stock prices.


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