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Market Comments

Despite several, and sometimes substantial, down days so far this year, the stock market continues its roar to newer highs. The market close on June 30 was quite impressive with essentially all sectors and index averages posting much higher levels from the beginning of 2021. The S&P 500 ended June 30 with a 15.25% gain for the six-month period. This represented over 30 new all-time highs for the index for the year. At the same time, the yield on the 10-year U.S. Treasury, surprising many, has moved from 0.92% at the beginning of the year, to a recent high of 1.75%, and is now trading around 1.20%. The current yield on the 10-year is again below the dividend yield of the S&P 500, which stands around 1.35%, a bullish sign. This seems to indicate that both the stock and bond markets believe that recent higher inflation indicators are, indeed, "transitory." More on that later.

Corporate earnings have begun the quarter-end reporting cycle, and the news so far has been quite good. Expectations are high, but we feel that investors should be happy. In fact, the 2nd quarter estimates for earnings growth are quite breathtaking, even accounting for the depressed base levels from last year. All sectors of the S&P 500 are now expected to have earnings growth for the full year. Stock valuations remain high, and continue to move higher still, so more volatility should be expected.

The U.S. economy is continuing to strengthen. In fact, the Fed recently changed its language slightly saying that growth is now "moderate to robust." This subtle difference indicates the growing concern about inflation. Consumer demand is, indeed, powerful due primarily to all of the recent fiscal stimulus. The recent Personal Consumption Expenditure (PCE) index reported the fastest growth in over 30 years. The challenges remain on the supply side of the equation. Shortages of materials and labor, delivery delays, and lack of inventory all warrant continued monitoring.

	Close	Month	YTD	1 Year
Dow	34,584.99	0.02%	13.78%	36.34%
S & P 500	4,309.55	2.33%	15.25%	40.79%
NASDAQ Comp.	14,463.49	5.49%	12.54%	44.19%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	1.44%	0.92%	0.65%

Looking Ahead

The focus continues to be on the rate of vaccination and on inflation. As this is being written, there are new threats from public officials on bringing back mask requirements and other restrictions. This is, indeed, disheartening. The new COVID variant(s) will take an economic toll on under vaccinated countries, including the U.S. Vaccination is currently the best solution for returning to a more normal way of life for all. Hopefully, these threats will improve the vaccination rate, otherwise there will be more trouble ahead, especially for small businesses. Until unvaccinated people are protected, shortages of raw materials, parts, etc. will persist. In fact, the U.S. and other leading nations need to focus on getting more of their populations vaccinated but also on helping vaccinate the rest of the less developed world.

As previously mentioned, the key risk, at this moment, is any sign of sustained inflation. Fed Chairman Powell has recently expressed anxiety over this. Higher levels of inflation are currently thought to be transitory, but the central bank is watching closely to see if higher prices are temporary due to supply constraints or something more threatening. The Fed has reiterated its patience but has also stated that it is ready to react quickly, if deemed necessary.

Job openings are at record highs. The thought is that this is partially due to extended unemployment benefits, but some businesses are predicting that they will need fewer employees going forward. In fact, investments in technology and automation may mean that many jobs may go permanently unfilled. Regardless, most businesses are having a hard time filling openings. Most service businesses are having issues keeping up with renewed demand. Reports of waiting times and delays across the board are widespread. All of this can lead to higher prices. Wage pressures from tight labor markets are a key threat to the recovering economy. The Fed's focus is on stable prices and high employment, but the Fed is not solely responsible for the threat of inflation. More restrained fiscal policy in the U.S. is warranted.

Overall, we remain optimistic about our economy and the path of the financial markets. The path of least resistance remains higher. We do expect more volatility in stock prices, but with good corporate earnings growth, low interest rates and improving conditions, investors should stay appropriately allocated and diversified.

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