LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

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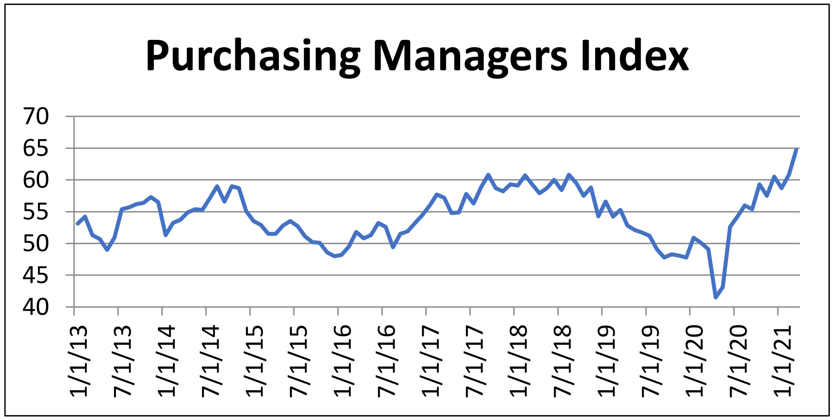
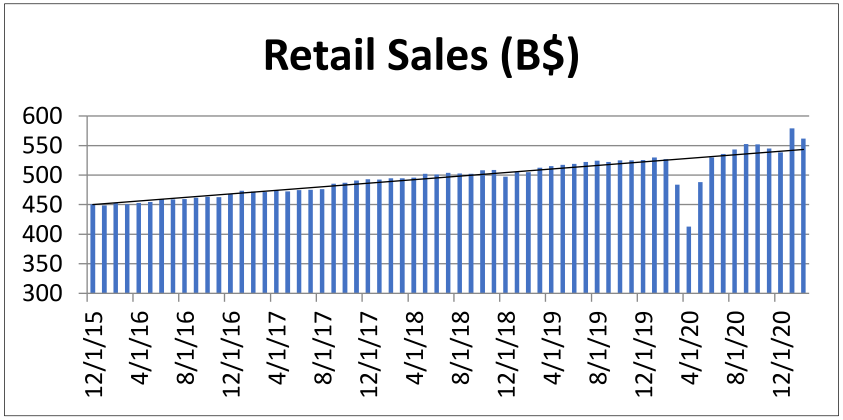
Our "Foot-On-The-Gas" Economy

Economic Perspective: It has been just over one year since our economy shut down due to the COVID pandemic. What a whirlwind year to say the least! Who would have thought in March 2020 that trillions of dollars of government support (both monetary and fiscal) would be needed to help our economy recover? Probably even more impressive is that Washington DC was actually able to provide the necessary support! As a result, the U.S. economy experienced arguably its greatest recovery of all time.

Our current V-shaped economic recovery is gaining momentum because of the many different stimulus programs. Direct money to consumers has enabled many to spend, save and pay down debt. Support to state and local governments will allow for continued employment and level of services. Enhanced unemployment benefits from the federal government will continue to replace income for those in industries most affected by the pandemic. Finally, we believe another round of PPP loans could give businesses time to recover, keep employees and emerge even stronger than before. As a result of these stimulus measures, the U.S. economy is transitioning from glass-half-empty to glass-half-full. Our economic outlook is quite optimistic looking out the next 12-18 months.

We do realize that stimulative measures can be imperfect. There will most certainly be unintended consequences down the road. We feel the most vulnerable of our population are, in many cases, still unemployed and hurting. Unfortunately, many people that received stimulus checks did not need the money. Those funds, along with some of the excess 'pork' in the bills, could have been better allocated elsewhere. Lastly, and probably most importantly, the massive stimulus that has been pumped into the U.S. economy has the potential to really drive inflation higher. Many textbooks have been written about too much money chasing too few goods. They typically do not have happy endings. As such, we continue to monitor the inflation situation very closely.





Market Perspective:

The ‘COVID bottom’ in the stock market was March 23, 2020. Since then, the S&P 500 Index has recovered over 75% to reach all-time highs. Fed Chair Jerome Powell and Treasury Secretary’s Steve Mnuchin and Janet Yellen deserve all the credit. As a result of significant monetary accommodation, many corporations are growing again – many even accelerating! Corporate earnings are growing at greater than a 25% clip this year and next year could surpass 15%. We feel this “catch-up” in corporate fundamentals is necessary for the markets to have sustained new highs. A big factor in this is the money that has been put in consumer’s hands by the government three times now in the last year. Their spending is driving the surge in corporate earnings.

Potential headwinds for equities may be on the horizon if current tax proposals from the Biden administration become actual law. Increasing corporate tax rates from 21% to 28%, as well as taxing corporate earnings on a country-by-country basis will cut corporate earnings in the future as well as potentially raise prices and inflation as they pass these increased costs on to consumers. This will act like a fiscal drag on the economy. Strategas, the economic research firm to whom we subscribe, has shown that over history the “sweet spot” for inflation that produces the highest market multiple is between 0-2%. That is where inflation has been for quite some time. If it begins running higher that will cause problems for the market.

We realize that government must “switch gears” from all the massive unpaid for stimulus to more balanced budget policies. If we do not there will come a time when all this debt and deficit will begin to really matter to investors, and they will vote with their money. We saw the first “shot over the bow” related to this last year when gold outperform all stock indexes except the NASDAQ.

Looking Ahead:

There are several things we will be monitoring over the next quarter. We already mentioned inflation. The other is interest rates, particularly the 10-year maturity Treasury bond. The yield has moved from a low 0.50% last summer to around 1.75% currently. It is completely normal for interest rates to rise in an improving economy. We also realize that even this higher rate is very low when we look at history. As recently as November 2018 the 10 year was yielding 3.25%. However, we feel that with the situation of our debt level, it is best if the yield does not rise much above 2%.

While the markets performed well during the first quarter, a noticeable rotation in market leadership has occurred. The sector leaders in 2020, particularly Technology, have underperformed this year in favor of the laggards last year, namely Energy and Financials. As an example, Apple, a leader in 2020, was down close in 8% in the first quarter and Chevron and JP Morgan Chase, that were down 25% and 6%, respectively are up 25% and 20%, respectively in 2021. We think the rotation to Value names may have run its course and has created some opportunities in some high-quality Growth stocks, some of which are down 20-40%.

As always, market volatility creates opportunities. We will continue to look to capture those opportunities by adding to some of our existing investments as well possibly broaden the number of investments in select portfolios.

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“When you’re at a loss for words, the trick is to stop talking.”

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“I miss the old days — when we worried about the deficit.”

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