MARCH 2021 – INVESTOR UPDATE

The following is a brief overview of prominent investor questions and issues, and our respective views.

COVID Herd Immunity – When will the combined number of people that have tested positive for the COVID virus (asymptomatic or survived the experience) and those that have been vaccinated reach a level of herd immunity?

According to recent statements by President Biden, the U.S. will have enough vaccine supply for the entire population by the end of May. While there is no way to accurately gauge the number of people vaccinated or immune to the virus needed to reach herd immunity, experts state that a level of 70% to 90% of the population will be sufficient. The market has priced in the achievement of herd immunity sometime in the summer or fall. As long as this milestone is reached, we expect the market to continue on its path to positive returns for 2021.

Fiscal Stimulus Package and the Fed – What is the expected impact on the economy from the pending fiscal stimulus legislation and will the Fed remain supportive if inflation rears its disruptive head?

The $1.9 trillion legislation, known as the American Rescue Plan Act (ARPA), is expected to become law in the next day or so. It will be the largest aid package since the pandemic began one year ago. ARPA provides individual stimulus checks, enhanced unemployment, child-care credits, vaccine funds, healthcare subsidies, and restaurant aid. ARPA, combined with prior aid packages and the easy money policies of the Fed, will fuel a significant increase in economic activity in the next couple of years. The sheer size of these funds being injected may result in the economy overheating. We can well envision the demand for products and services exceeding supply capabilities, producing price pressures and inevitable price increases. Though this may be more of a 2022-2024 concern than the present year, the Fed would be forced to change course if the rate of inflation exceeds their 2% target level and appears to be gaining upward traction.

Stock Valuations – Are stocks over-valued and primed for a repricing to lower valuations? -

The media has been increasingly concerned about bubbles and equity valuations in general. Historically, “true” bubbles, such as the Dutch Tulip Mania, the South Sea company, and tech stocks that peaked in March of 2000, have resulted in price declines in excess of 80%. The broad U.S. stock market and investor sentiment are nowhere near bubble levels, though there are pockets of the investment universe that are highly speculative and lack sound underlying fundamentals. While stocks may appear expensive on certain metrics, they look more reasonable when compared to investment alternatives and low interest rates. Time will tell whether current valuations are warranted as we are likely to see one of the strongest economies in decades in 2021, driving extraordinary earnings growth.

A healthy development that may have legs and last for a while is the current transition to a “market of individual stocks” from “a broad stock market” which did not distinguish companies with sound fundamentals from those trading on sheer speculations.

We continue to manage accounts with a neutral asset allocation as we expect returns on risky assets (stocks) to exceed returns from bonds and cash with stomach-churning moments throughout the year.

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