

Investment Watch

1st Quarter, 2021

Spring into 2021

Goodbye 2020, Hello 2021! After surviving one of the most dreadful years in our lives, could 2021 really turn out to be a great one? Spring fever is stoking Americans' optimism that COVID lockdowns will crumble as vaccine production and rollout accelerate. Over 96 million adults have received at least one dose and with every new day nearly 3 million more injections are dispensed. This spring offers the prospect that America will lurch out from the COVID nightmare toward normalcy. Life may never return to exactly as it was, but will feel more and more normal as spring's days and months pass.

American exuberance appears to be well founded-

- ⇒ New COVID cases have sharply declined while spring's warmer weather will ease pandemic workarounds.
- ⇒ Uncle Sam's stimulus packages mitigated the pandemic's economic damage and supercharged American businesses and American consumers.
- ⇒ Fed Chair Powell pledged to prolong easy money policies until the US fully recovers.
- ⇒ Stock markets extend their record breaking trajectory.

Our exuberance, even if justified, must be tempered. COVID variants might impede our reopening. Governmental stimulus swelled last year's deficit to \$3.1 trillion. Another \$1.9 trillion package this year emptied Uncle Sam's wallet. The Fed cannot peg short-term interest rates to zero forever and endlessly buy bonds with newly minted dollars. Finally, the stock market's record-breaking ascent cannot persist unabated due to the factual relationship of stock prices vs earnings. But all of these extreme measures have cushioned our financial burdens, padded our savings and ultimately set the stage for the stellar economic growth predicted for 2021.

COVID Winter Turns to Spring

We were forewarned of a bleak COVID winter. The cold weather drew us indoors and the holiday season urged family gatherings. New COVID cases skyrocketed topping out at a 250,000 daily average in mid-January. Our national health experts warned of a "surge superimposed upon a surge" which would have wrought the worst public-health disaster ever; but thankfully, daily new cases reversed course plunging to less than 65,000. Again today, our health experts fear the danger of more contagious coronavirus variants, which are wreaking havoc around the world, along with pandemic fatigue and restriction rollbacks could expose the US to yet another surge. With the vaccine's accelerated rollout and potential protection against the virulent variants, hopefully we can escape a fourth surge.

Uncle Sam's Stimulus, Stimulus, Stimulus

Uncle Sam immediately sprang into action on the onset of pandemic lockdowns, unleashing three rounds of unprecedented stimulus—

1. **Cares Act** 3/27/2020
2. **Consolidated Appropriations Act** 12/27/2020
3. **American Rescue Plan** 3/11/2021

Along with other smaller relief bills, nearly \$5 trillion has been spent in just one year, dwarfing the \$1.8 trillion spent on the Great Recession. American consumers and business alike say this stimulus has enabled them to dodge the pandemic's financial vengeance. Banks, expecting loan defaults that didn't occur, have billions in excess reserves which will add to future profits. Many businesses were pandemic winners and now have stockpiles of cash. As businesses reopen which were hit hard, restaurants, bars, clothing and department stores will finally rejoin the economic party.

Most importantly, the consumers who drives over 2/3rds of the US economy are now flush with cash. Americans were frugal with the first two government checks of \$1,200 and \$600, paying down debt, padding savings, and spending just a little. With well healed balance sheets and low interest mortgages, consumers are itching to get out and recirculate their third \$1,400 stimulus check.

Don't Fight the Fed

The Fed has been on the forefront of protecting us financially from the pandemic lockdowns. Their easy money policies cushioned us when the entire economy was shutdown, giving time to adjust our behaviors. Today, Fed Chair Jerome Powell promises that, "*monetary policy will continue to deliver powerful support to the economy until the recovery is complete.*"

Stock Market Mania

With stores of cash and the assurance that The Fed has their backs, investors are showing no fear, embracing risk, and driving the market higher. On the other hand, bond returns had a great 2020, but have turned negative due to rising interest rates. This quarter market rotation from the high-flying tech giants into banks, energy, and cyclical companies has shown that value stocks should not be forgotten. Blocking out the market mania and relying on a balanced, diversified portfolio even in this bubble-like market is the best strategy for long-term investors.

America's economic awakening is arriving sooner than foreseen. Stockpiles of cash may propel the economy to its fastest expansion since the '80s. If the pundits are right, our economic spring is fully compressed just waiting for that explosive liftoff.