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Economic & Market Summary
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The COVID-19 pandemic seems to be receding. New daily cases, deaths, and hospitalizations have fallen meaningfully from their January peaks. Widespread vaccinations should help contain any flare-ups until herd immunity is reached, hopefully later this year. Economic growth should accelerate from its current level as confidence returns and consumer spending rises, particularly in areas outside the home. While new COVID variants and problems with the vaccines are risks, the healthcare and economic data should continue to improve.

Long-term bond yields have risen from their extremely low levels. The US 10 Year Treasury bottomed around 0.5% in August but is now 1.6%. In our view, this increase reflects a healing economy. Bond yields will likely move higher as inflation expectations rise and demand for risk-free assets declines. Consequently, we remain cautious on bonds, emphasizing quality and liquidity.

Inflationary risks appear to be rising. Constrained supply chains are driving input prices up in numerous industries. Many employers are struggling to attract and retain workers due to COVID-related issues and generous unemployment benefits. While supply is becoming restricted, demand seems primed to accelerate in the wake of vaccinations and massive government stimulus. When the pandemic struck, certain areas of the economy and populace needed relief as economic activity froze and unemployment surged. However, the recently signed $1.9T American Rescue Plan seems excessive given how quickly the economy has recovered and given the $3.1T of stimulus authorized in 2020. With Washington now working on a $2.3T infrastructure plan, government spending is becoming a concern. On top of all this, monetary policy is extremely accommodative. The Federal Reserve has committed to 0% interest rates and large monthly asset purchases until full employment is reached, even if inflation temporarily overshoots its 2% target. Whether or not these inflationary factors produce a mild, temporary uptick or a harmful, long-term disruption depends on the persistence of structural deflationary offsets. Over the last 25 years, an aging population, global trade, technological innovation, and a vigilant Fed helped contain inflation. With the Fed now tolerant of higher inflation, the durability of the remaining factors will be tested.

Last year's strong stock performers were technology companies that experienced greater demand for their products as life moved online. These companies' valuations were further buoyed by ultra-low interest rates causing their comparatively faster growth to be valued even more highly. Now, sectors that underperformed are leading the S&P 500 while some of the strong performers are lagging. Given how leveraged the S&P 500 is to a handful of large tech firms, the total stock market could perform modestly while the economy booms. Even though a few hot areas have cooled, we're still seeing worrisome speculative activity. Day traders have driven wild price swings for certain stocks, and early stage companies can attract public capital without the usual scrutiny and disclosures. While much uncertainty surrounding the pandemic and the economy remains, the trends appear to be pointing in a positive direction.

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To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.