Thoughts from the Holy City – September 2021

"The metric by which God will assess my life isn't dollars, but the individual people whose lives I've touched."

~ Clayton Christensen
Professor, Harvard Business School

As we enter the month of September, we remain optimistic that things are returning to "normal," that is life before the pandemic. Children are returning to school, employees are returning to offices, and there is hope that life is returning to what once used to be. However, history tells us that as humans we always adapt to our situations, and move forward. Very rarely do things return to what they once were. We tend to learn from our experiences and make changes to adapt and improve the previous ways by which life, business, education, etc. are conducted. We have come a long way from the depths of the pandemic, with the economy improving, equity markets at record highs, and easy monetary policy fueling both.

August ended with a record setting earnings season as well as news that booster shots will soon be available. This helped propel the equity markets higher despite the resurgence of Covid cases from the new Delta variant and concerns over inflation. The S&P 500 has had seven consecutive months of positive performance and has set 53 record highs through the first eight months of the year. Year to date the S&P 500 is positive 20.41%, the DJIA +15.53% and the NASDAQ + 18.40 %. International markets are positive for the year with the MSCI EAFE positive 9.81%, but they lag the domestic equity markets. Meanwhile the bond market is negative .57% for the year as measured by the Bloomberg Aggregate Bond Index.

Some of the eminent areas of concern revolve around inflation, the current interest rate environment, tapering, and the risks that investors have taken because of the current environment. Fed Chair, Jerome Powell, made it clear in his recent speech that monetary policy will remain loose for the foreseeable future. The Fed will most likely start to taper, but do so slowly due to the view of inflationary pressures being temporary. We must recognize that tapering is not tightening monetary policy, but instead a shift to less accommodative policy. The Fed will most likely begin tapering in December of this year and do so over a period of several months, so there will be a further increase in liquidity in the banking and financial system. Inflation is certainly running high, but the Fed has taken a more conservative approach to combating rising inflation. If inflation does become an even greater issue, the Fed may take a more aggressive interest rate tightening cycle than is currently anticipated.

I do not believe this pivot to tapering will end the current economic expansion or bull market for stocks anytime in the near future. When the Fed does begin moving rates higher, they are doing so from a level of zero, unlike past interest rate hikes. Interest rates are currently negative if you adjust for inflation. Due to the current low interest rate environment, investors are forced to look at alternatives to bonds as a source of income. This low interest rate policy of the Federal Reserve and other central banks has made the markets seek less risky, and in turn, investors have taken on more risk than they may have previously. In some cases, investors have unknowingly taken on more risk by doing nothing. As the equity markets have reached new highs and the bond market is flat, many investors' portfolios have become misaligned with their portfolio allocation and risk. A portfolio that was previously a 50/50 blend of stock and bonds may now be more along the lines of 55/45 due to the stock market rising.

Although there are risks to the current bull market and economic expansion, the positives outweigh the potential negatives. Second quarter earnings season was outstanding with corporate profits up 15.8% from the pre covid peak. The $3.5 billion dollar budget reconciliation deal continues to be pushed and if it passes the spending will most likely be another boost for the American economy. The Fed is going on continue with very loose monetary policy for the foreseeable future and the move towards tapering will not have a dramatic negative effect on the markets and economy; this is of course assuming inflation can be kept under control. Lastly, oil prices have dropped 19% from a month ago easing inflationary pressures- at least for the moment.

As long-term investors we must keep in mind that corrections are normal, and we may very well be due for a correction. However, corrections since the Great Financial Crisis have come quickly and sharpy while jolting the equity markets. In contrast, the recoveries from those corrections have also been very quick and reiterate the importance of staying invested for the long term. Our job as an advisor and advocate to our clients is to help navigate these markets, and help our clients live richer and more fulfilling lives. It is ultimately helping you align your resources, time and money, with what you want to accomplish, your passion and your purpose.

Be Well,

Grier

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