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FINANCIAL GROUP

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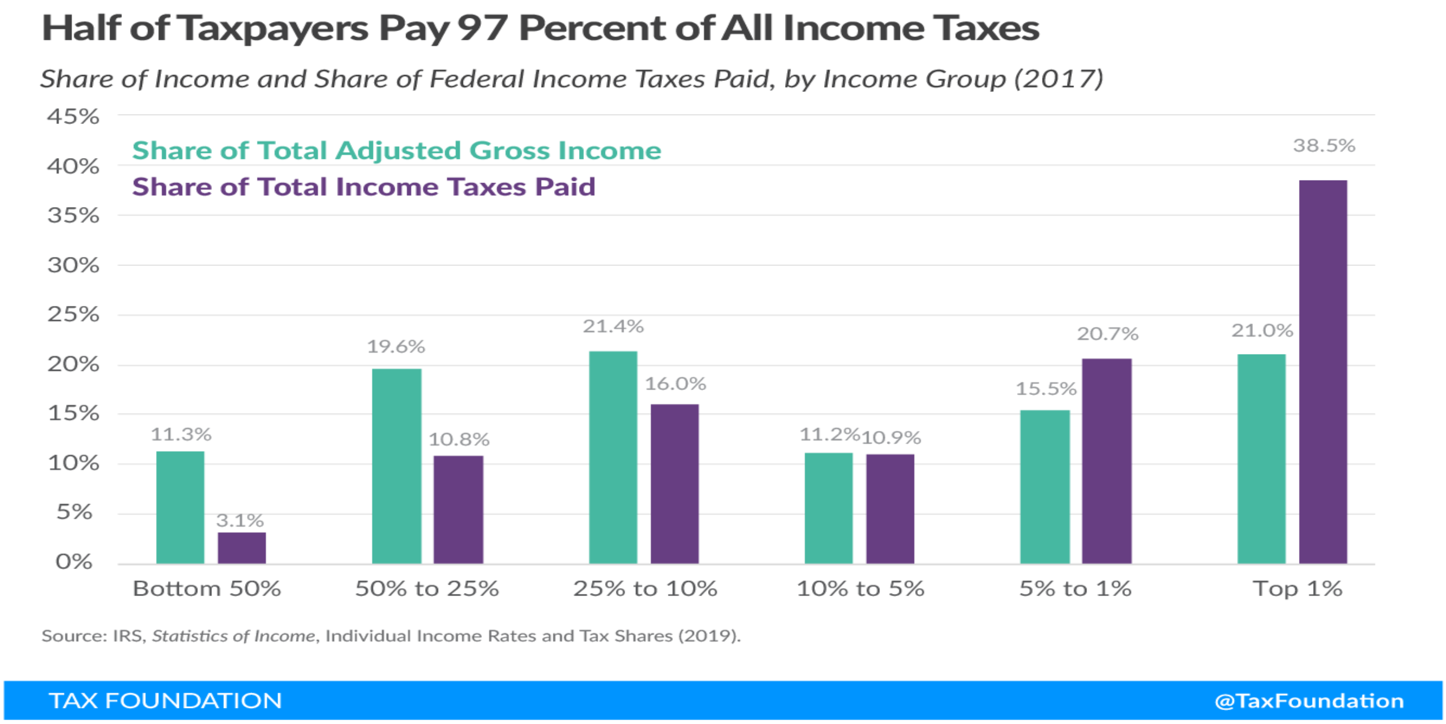
Portfolio Talk **Market Update 8/13/2021**

Superstitions aside (Friday the 13th), this week has been a mostly sideways week! While hitting record highs for both the Dow and S&P 500 on August 11th, the incremental move has been slight. The week yielded less than 0.3% for the S&P 500 and about 0.8% for the Dow. The NASDAQ was down approximately 1.7% for the week after setting a record high on August 5th. So, given what seems to be a routine of setting new highs, one would think the markets have had a major run that would yield impressive returns, right? On the contrary, since May 7th when the Dow and S&P hit record highs before slipping slightly, the returns have been approximately 1.77% and 4.80% respectively. The NASDAQ set a new record high on April 26th before slipping and has returned about 4%, not something I'd proclaim as a run-a-way train! So why is this a somewhat slow and methodical move given the economic data is strong and more importantly, seemingly getting stronger? Belief as to why in the economic circles we follow is twofold:

- First, the move we experienced last year during the pandemic was greater than most believed possible. Investors realized the stimulus offered by the government and the easy monetary policy of the Fed would support the economy, preventing a feared recession/depression. The surprise, multiple vaccines by year end that could end the pandemic. Now it's wait and see if in fact this is the expected outcome!
- Secondly, given all the debt created with the stimulus and dollars printed providing monetary easing, what could be the fall out. Will inflation become a byproduct of easy money? Will interest rates have to climb to attract investors to buy our US government bonds given the growth of our national debt? All things that could weaken our currency, possibly causing us to lose our status as the world's reserve currency.

These are concerns that will be with us for a while as we get to the other side of the pandemic. But we can offer you this tidbit of advice given our years of experience; America is the strongest economy in the world by far! Our GDP is almost double that of our closest competitor ($21-22trillion vs. China $12trillion) and 4 to 5 times that of those that follow (Germany, Japan, Great Britain, and France). We know we're not perfect, however we are light years ahead of the rest of the world. We need to focus on the positives and realize we have some heavy lifting to do in addressing our national debt and social and economic disparities (opportunities for advancement, not giveaways), but these are issues that can, and we believe will, be handled in a prudent way even if politicians are forced to act in the end.

The new infrastructure bill that was passed in the Senate and forwarded to the House for their amending and passage is preliminary and not law yet. The price tag of the combined bills, between $4.6-5 trillion, is a little scary and the way it's paid for may be even scarier. Taxes are going up! The politicians tout that the wealthy and corporations will bear the increase, but don't be fooled, corporations will pass the increase on to the consumer through price increases. The wealthy should pay their fair share, but what's fair? Most high-income individuals already pay their fair share as illustrated by the chart below. Realizing that 97% of all income taxes are being paid by the top 50% of taxpayers tells us that the problem is in the tax code, not the tax brackets. Also, while the top 10%'s total share of all income reported to the IRS was 48.1%, their share of total taxes paid was 70.1%. Some think the solution is getting rid of the special interest give backs enjoyed by the donors and lobbyists that help keep our politicians in office. Making these types of changes could garner the revenue increases needed while keeping us competitive in the world markets. Increasing corporate taxes across the board seems punitive to those companies already paying their fair share. If you feel that some companies use certain provisions in the tax code that are not fair, change the code. Don't penalize all for the few that may not pay enough.



We'll get a clearer picture in the weeks to come on just how our politicians decide to move forward with the infrastructure plan. We do believe parts of the plan are desperately needed, we just hope a lot of the pork is eliminated and prudency prevails! Now, is that being Pollyannaish….

Economic News

- Monday:
  - Job openings for June, 10.1 Million vs. 9.1 million expected and 9.5 million previously…good for long term employment.
- Tuesday:
  - NFIB small-business index for Q2, 2.3% vs. 3.2% expected and 4.3% previously…still good.
  - Unit labor costs (preliminary) for Q2, 1.0% vs. 0.8% expected and -2.8% previously…not that inflationary!
- Wednesday:
  - Consumer price index for July, 0.5% vs. 0.5% expected and 0.9% previously…settling down.
  - Core CPI for July, 0.3% vs. 0.4% expected and 0.9% previously…very good showing inflation experienced as or late may be more transitory.
  - Federal budget balance for July, -$302 billion vs. -$314 billion expected and -$63 billion previously…still paying out Secure Act funds.

- Thursday:
  - Initial jobless claims (regular state program) for August 7th, 375,000 vs. 375,000 expected and 387,000 previously…inline.
  - Continuing jobless claims (regular state program) for July 31st, 2.87 million vs. 2.98 million previously…good, going down!
  - Producer price index for July, 1.0% vs. 0.6% expected and 1.0% previously…the trend is still lower.
- Friday:
  - Import price index for July, 0.3% vs. 0.6% expected and 1.0% previously…Continue to show slowing inflation!
  - UMich consumer sentiment index (early) for August, 70.2% vs. 81.3% expected and 81.2% previously…speculation is the Delta Variant has weakened consumer confidence.

The economy continues to show sign of strength. The real thrill this week was the lower inflation numbers. While we're not ready to announce the death of inflation, we do see signs of moderation. Disney reported earnings last night and suffice to say, it may be a small world after all, but not their results! They beat on top and bottom line and forecasted high projections than the street was expecting. Disney surge almost 5% with the release.

The Delta variant seems to have flat lined, albeit at a very high level of infections. Some communities are experiencing outbreaks at the level seen late spring of last year, during the height of the pandemic! However, deaths are nowhere near where they were then, and hospitalizations are less as well. I guess one can surmise that the vaccines are working in protecting those vaccinated from becoming deathly ill. Dr. Scott Gottlieb, former commissioner of the FDA, seems to think that the surge we're experience at present is the last hoorah before the end of the pandemic. Knowing that we will now and forever live with the new coronavirus and its variants, we have at least identified the "beast" and have taken measures to protect the population. Hopefully we've learned a lesson on how to react to the next virus because we know this is not the last.

The Fed will be meeting in Jackson Hole in the next week or so, hopefully we'll get an insight as to when tapering of the bond buying program will begin and even some language on when they'll lift interest rates. Don't hold your breath though, they do like to hedge their comments. Frankly, we'd do the same if we were in their shoes.

Stay Safe and until next week…….

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