TINGEY ADVISORS

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Spring 2021 Newsletter www.tingeyadvisors.com 801-352-8166

Benchmarks

	31 Mar 2021	31 Dec 2020	31 Mar 2020
S&P 500	4,020	3,756	2,585
DJIA	33,167	30,606	21,917
NASDAQ	13,487	12,888	7,700
6-mo US Treasury Yield	0.05%	0.09%	0.15%
30-yr US Treasury Yield	2.41%	1.65%	1.35%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Target Rate	0.00%	0.00%	0.00%
30yr Mortgage	3.27%	2.88%	3.85%
Gold – per oz	$1,727	$1,924	$1,583
Oil - WTI / bbl	$61	$48	$20

Sources for Newsletter: WSJ, Barron's, Bloomberg, NBER, Blackrock, US Treasury

Short memories as investors put risk on....

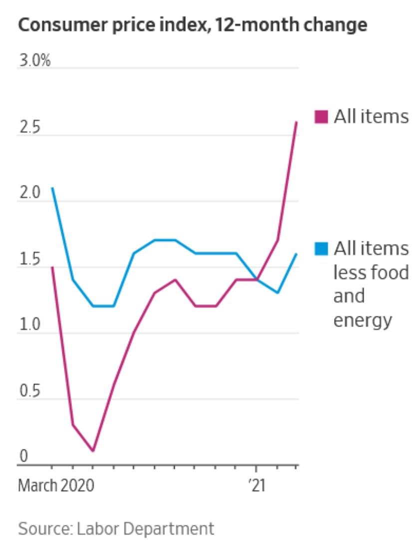
Twelve months ago, the country was staggering from the effects of the coronavirus pathogen. Lockdowns, rising infection rates, flattening the curve strategies, and basic fear rocked the economy. Job losses were mounting, profits were falling, and streets were eerily silent reflecting the economic "pause". The "great toilet paper shortage" broadened as Americans who got more than half their food from restaurants saw them close for public health reasons. The grocery store and the Amazon delivery person were keeping us going.

Public health officials and scientists were trying to understand this pathogen. Politicians did what they rarely do -- cooperated to pass the CARES bill. Federal Reserve was flooding the country with liquidity and dropping the interest rates to zero. The Treasury was desperately trying to keep employers alive and connected to their employees. <u>Investors were jettisoning risk in attempt to maintain flotation. In short, people were fearful</u>.

Today, consumers are spending, and investor's risk appetite has done a 180! During the quarter, investors, large and small, embraced risk. Meme stocks such as GameStop Corp, surged. Christie's auctioned off a nonfungible token (NFT) attached to a digital image for $69 million. Bitcoin doubled and SPACs were all the rage and the stock market surged. <u>Interesting how fear and greed works</u>.

The quarter began with investors digesting the impact of the Democrat sweep of Washington DC, with its attendant big spending plans.

Investors saw hope in the rollout of the vaccine and economist began to finally admit that we had experienced a V-shaped economic recovery and postulated that perhaps they underestimated the strength of the rebound. Successful vaccine development and distribution has put a safety net under the economy allowing the economy to continue to open with money flowing back into sectors of the economy left for dead in 2020. Retail sales ended the quarter with a surge as the government spending checks were distributed to the masses.



The improving trends in retail sales, consumer confidence, job creation, inflation, services, and manufacturing industry expansion are not in question. The trend and pace of recovery is a tribute to the strength and resilience of the U.S. economy. The large government spending has certainly bolstered retail sales in the short term, but the Biden Administration's additional spending plans were envisioned before the underlying economic rebound was fully considered raising concern that inflation may persist.

The unmatched resilience of the U.S. economy is not without help, however. The pandemic ushered in historic monetary and fiscal support by the U.S. government – and we are not done.

<u>Stocks:</u>
Investors focused on the prospects of a successful launch of a vaccine which would usher in the inevitable opening of the economy. The S&P 500, Dow Jones Industrial Average and the Nasdaq Composite set records in the first quarter, confounding

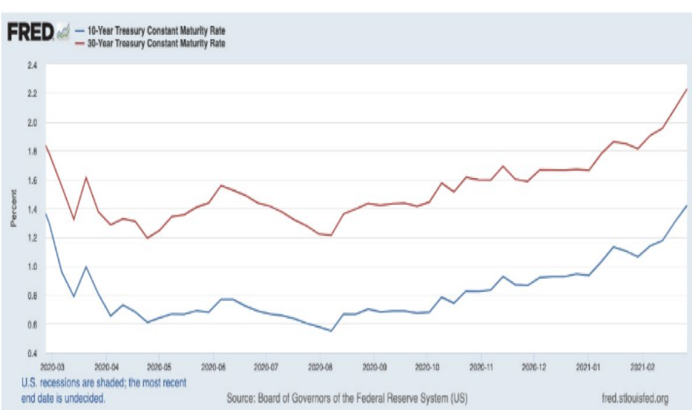
many investors with their sheer velocity and strength. The S&P 500 and Dow Jones Industrial Average indexes gained 7.0 percent and 8.3 percent, respectively. The NASDAQ Composite lagged other indexes gaining a very respectable 4.6 percent in the first quarter while the Russell 2000 small cap index rocketed up 14.1 percent continuing its momentum from the end of 2020.

The stock market's action the past two quarters is more in line with a new economic cycle as small caps have taken the lead. However, there will be an ongoing debate as to whether the pandemic lead recession last year was just a brief interruption of the long-standing economic expansion and attendant bull market or the advent of a new cycle. In short, are we in the early stages or late stages of the current cycle.

Commodities:
Gold dropped 10 percent as investors who bought gold for safety sold in favor of growth assets such as stocks and real estate. The opposite was true for oil as crude surged 27 percent as the Biden Administration's restrictions on drilling limited supply at the same time demand was surging.

Bonds / Interest Rates:
The Federal Reserve's "do whatever it takes" attitude continued unchanged throughout first quarter. Federal Reserve Chairman Jay Powell has said repeatedly that he will keep interest rates lower for longer. During the first quarter, the Fed Chair reiterated his more emphatic strategy of allowing higher levels of inflation before taking preventative measures. The Fed is betting that long term secular trends that have kept inflation at bay will continue into the foreseeable future.

The Treasury market yields curve steepened dramatically during the quarter with short term yields remaining anchored at historic lows while the longer-term yields began to rise. The 6-month T-Bill yield finished the quarter at 0.05%, essentially where began. However, the 30-year Treasury bond rose 0.76% to finish the quarter at 2.41% -- a dramatic increase in three months. This steeper yield curve is in part the bond markets vote of confidence in the vaccine and the resultant improving economic conditions but also may be a bit of angst that inflation may be rising.



Source: Federal Reserve Bank of St. Louis[3]

Also making a strong vote for more stability or normal economic conditions is improvement in mortgage delinquencies and the improvement of the spread between guaranteed U.S. Treasury 10-year notes and non-guaranteed Baa-rated corporate 10-year notes.

Forecast

Pandemic remediation, tax reform, corporate earnings, interest rate strategy, and inflation are at center stage.

1. ***U.S. Economic growth surge.*** Economic growth will continue at a robust rate through 2021 with a successful vaccine rollout and the economy fully opening.
2. ***Fiscal Spending and Tax reform.*** Treasury Secretary Yellen's "Go Big" encouragement for the government spending packages is being followed up with "Gotta pay for it" messaging which signals significant tax increases.
3. ***Federal Reserve to stay accommodative.*** Chairman Powell resolute at keeping rates lower for longer.
4. ***Corporate earnings to accelerate following the pandemic plunge.*** Corporate earnings could exceed 20 percent growth due to a poor quarter a year ago.
5. ***Long bond returns struggle.*** We anticipate long term interest rates to rise. We will remain "short" with our fixed income strategy to avoid negative returns.
6. ***Inflation moves higher temporarily.*** We are nudging our longer-term inflation expectation higher and expect a transitory significant increase compared to the spring of 2020 then settling into a rate that should exceed the Federal Reserve Chairman's 2.0 percent objective.
7. ***Employment will lag.*** Robust economic growth will not necessarily mean robust jobs growth.
8. ***Geopolitical risks rise.*** Russian military buildup along Ukraine boarder; China warning U.S. to keep out of the Taiwan situation; mean risks are rising.
9. ***Stock market will generate positive returns for 2021.*** While expecting a typical correction, we still believe the market will be positive for 2021.

In Summary

We reiterate that America is winning the economic and healthcare war. Nowhere is there a place that can combine financial and human capital with an innovative culture and spirit to fight such a cause. America is winning because Americans are winners. America is defined by the ingenuity and grit of its citizenry. This is the place where investments succeed. This is the place where freedom begets innovation which begets better standard of living and lifts people. There are forces that try to divide us for their own political gain. Politicians talk, we wish they would listen. Certainly, we are a more polarized nation, but if Americans want to continue to win, they will reinforce the principles of the country and reinforce the institutions. Perhaps this is the time for Americans to listen to each other. We as Americans would do well to watch the not-so-silent vote of confidence the stock market is making in the institutions and principles of this country.

Our investment strategies change with market conditions, but our principles do not. Our long-term optimism remains intact. The 2020 pandemic experience has only reinforced our confidence in and trust in the greatest asset in the world -- the American economy. We recognize that during complex market times, communication is important. It is a privilege working for you. We appreciate your confidence in us.

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