**TINGEY ADVISORS**
REGISTERED INVESTMENT ADVISORS

**Summer 2021 Newsletter** **www.tingeyadvisors.com** **801-352-8166**

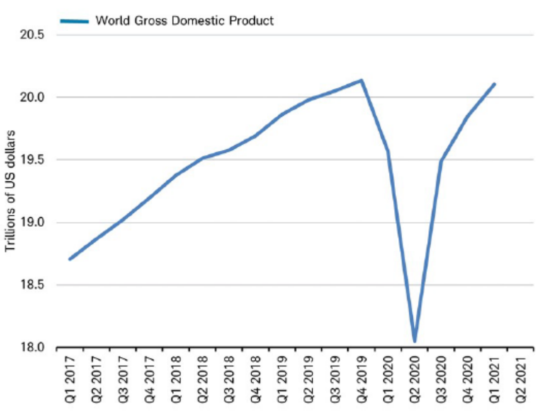
## Benchmarks

| | 30 June 2021 | 31 Mar 2021 | 30 June 2020 |
|---|---|---|---|
| **S&P 500** | 4,298 | 4,020 | 3,100 |
| **DJIA** | 34,503 | 33,167 | 25,813 |
| **NASDAQ** | 14,504 | 13,487 | 10,059 |
| **6-mo US Treasury Yield** | 0.05% | 0.05% | 0.18% |
| **30-yr US Treasury Yield** | 2.06% | 2.41% | 1.41% |
| **Prime Rate** | 3.25% | 3.25% | 3.25% |
| **Federal Funds Target Rate** | 0.00% | 0.00% | 0.00% |
| **30yr Mortgage** | 3.15% | 3.27% | 3.30% |
| **Gold – per oz** | $1,770 | $1,727 | $1,793 |
| **Oil - WTI / bbl** | $73 | $61 | $39 |

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

## Pandemic gives way to economic reflation…

It appears that investors' confidence in the worldwide rollout of the Covid-19 vaccine is greater than their fear of the disease. With the coronavirus delta variant threatening a surge of new infections throughout the globe and public health officials trying to maintain remediation efforts, they economy shrugged off the threat and continued its reopening path. The remarkable bounce back of the GDP continued in the second quarter with the latest estimate of second quarter growth of a red-hot 7.9 percent. That follows on a blistering GDP growth of 6.4 percent for Q1.



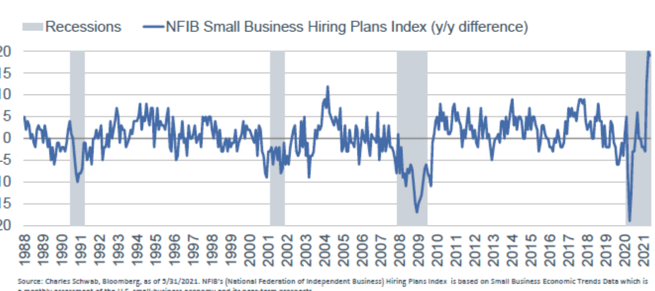

Evidence of robust economic growth abounds with a hot housing market and continued job growth. Consumers are flush with cash as excess savings eclipsed $2.0 Trillion. Economic growth is resulting in evidence of dislocations as supply chains try to catch up to demand resulting in spiking prices (lumber) or shortages (computer chips).

The Biden administration continues to push for more Keynesian fiscal spending, and the Federal Reserve is committed to keeping rates lower for longer. Our sense is that the economic trouble was caused by the pandemic and the resultant remediation efforts. Industries were shut, supply chains were broken, inventory was liquidated. As the economy revives the problem is not the demand side of the equation; rather, it is the supply side. Logistic chains are being weaved back together leaving gaps in the supply side of the economy. The Biden administration dropping new demand on the economy only exacerbates the supply issues.

The strong global economic demand is showing up in surging freight rates. Daily container rates from China to the U.S. west coast are up 66% since January and more than 400% since the beginning of 2020 according to the Freightos Baltic Index. Demand for space on container ships is mainly driven by retailers like Walmart and Amazon rushing to restock after a year of supply disruptions related to the pandemic. The high demand is leading to bottlenecks at ports around the world.

Inflation picked up with core CPI rising 5.4% over the past year according to the Bureau of Labor Statistics. Anecdotal evidence suggest inflation is taking hold as General Mills announced it is increasing prices across nearly all its grocery categories around the world. More expensive ingredients, packaging, trucking, and labor are pushing costs about 7% higher for the food giant.


The jobs market continues to rebound from the historic job losses we experienced in the first half of 2020. Jobs are being created but they are not being filled. The number of job openings was 9.2 million toward the end of the quarter – a record level according to the US Bureau of Labor Statistics. Employers are having a hard time finding workers to fill the jobs created. Fast food chains are turning to technology to take the place of labor.




The improving trends in retail sales, consumer confidence, job creation, 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.

**<u>Stocks:</u>**

Investor's enthusiasm and confidence in the coronavirus vaccine rollout was evident in the first half of 2021. Stocks ended the first half of the year with double digit gains. Investors focused on the successful rollout of the vaccine which ushered in the inevitable reopening of the economy and the powerful corporate earnings rebound. The S&P 500, Dow Jones Industrial Average and the Nasdaq Composite set records in the second quarter, confounding many investors with their sheer velocity and strength. The S&P 500 and Dow Jones Industrial Average indexes gained 14.4 percent and 12.7 percent, respectively. The NASDAQ Composite gained 12.5 percent in the second quarter making up some ground from its lagging performance in the first quarter. The Russell 2000 small cap index beat all indexes as it rose 17 percent, continuing its momentum from the end of 2020.

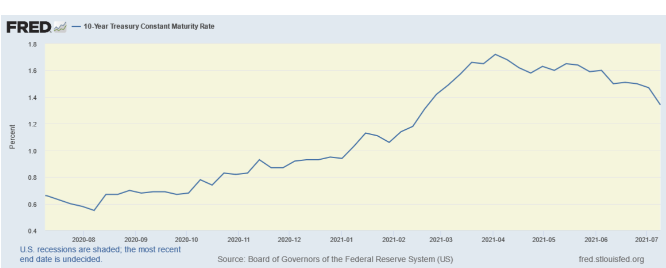
Stock market investors are focused on corporate earnings which will undoubtedly show strong growth for Q2 given an easy comparison from 2020. However, stock investors are also weighing whether a recent jump in inflation will prove transitory or will be persistent. The rotation of money from growth to value stocks that was evident in the first quarter paused in Q2. Strong corporate earnings have resulted in equity valuations multiples dropping to a more realistic level from their lofty perch.

**<u>Commodities</u>**:

Gold rebounded modestly in the quarter as "highest in a decade" inflation statistics encouraged investors to seek inflation havens. Oil rocketed up 19.6 percent in the quarter as the confluence of surging economic activity hit head long into the Biden Administration's restrictions on drilling which limited supply.

**<u>Bonds / Interest Rates:</u>**

The Federal Reserve's "do whatever it takes" attitude continued unchanged now throughout second quarter. Federal Reserve Chairman Jay Powell has said repeatedly that he will keep interest rates lower for longer. During the second quarter, the Fed Chair maintained his more emphatic strategy of allowing higher levels of inflation before taking preventative measures. While the stock market was signaling "all clear" signs, the bond market flashed some waning enthusiasm. Yields on the 10-year Treasury bond fell 0.29 percent during the quarter indicating that some investors were betting that a slowing economy was a bigger risk than rising inflation. While the yields on the longer dated Treasury bonds dropped, yields on short durations were flat.

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## 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 60 percent growth in Q2 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.*** We are moving our longer-term inflation expectation higher. We expect a significant increase in 2021 compared to 2020 then settling into a rate that should markedly exceed the Federal Reserve Chairman's 2.0 percent objective.
7. ***Employment will lag.*** Robust economic growth will continue job gains.
8. ***Geopolitical risks rise.*** Chinese Premier Xi's recent speech to commemorate Communist anniversary; Russian ransomware attacks; and increased dissention in the middle east mean risks are rising.
9. ***Stock market will generate positive returns for 2021.*** While we expect a typical correction, we still believe the market will be positive for 2021.

## In Summary

We believe that the capital markets are anchored in the greatest asset in the world – the U.S. economy. 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. 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. We still feel that this is the time for Americans to listen to each other. We 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.

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

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