NEWSLETTER – APRIL 2021

MARKET TRENDS 3.31.21

Asset Class	YTD	1 Year
Global Stocks		
MSCI World	5.41%	54.69%
US Stocks		
S&P 500	6.33%	56.52%
Large Cap Value	11.29%	56.02%
Large Cap Growth	0.94%	62.48%
Mid Cap	13.54%	83.45%
Small Cap	12.90%	95.39%
International Stocks		
Developed Markets	3.99%	45.32%
Emerging Markets	3.23%	58.83%
Fixed Income		
Taxable Bonds	-3.37%	0.73%
International Bonds	-2.29%	2.68%
Municipal Bonds	-0.66%	4.86%
Alternatives		
Emerging Markets Bonds	-5.47%	17.24%
Floating Rate	0.20%	5.22%
Preferred	0.51%	26.94%
Gold	-10.32%	8.04%
Real Estate	7.87%	35.48%

Source: Factset

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NEW YEAR, NEW QUARTER, NEW HIGHS

The first quarter of 2021 witnessed equity markets pushing to record highs in the S&P 500 and the Dow Jones Index. The NASDAQ, after a strong start to the year, found itself in a mini correction, falling from its all-time high in mid-February.

Momentum remained strong in areas that had lagged in prior years such as cyclical stocks, international, and emerging market equities as well as small and mid-cap stocks. The one area that experienced weakness was the bond market, a rarity in the past several decades, as interest rates moved up from record low levels in the quarter. Investors favored risk assets in the expectation of a strong post-Covid economic recovery. If the U.S. has a problem at present, it could be too much of a good thing. The economy is rebounding from the pandemic lows with remarkable speed, and financial markets are cheerfully pricing in that the strong bounce back will continue. Goldman Sachs forecasted 2021 U.S. GDP growth in the first, second and third quarters of 7.5%, 10.5%, and 7.5%, respectively.

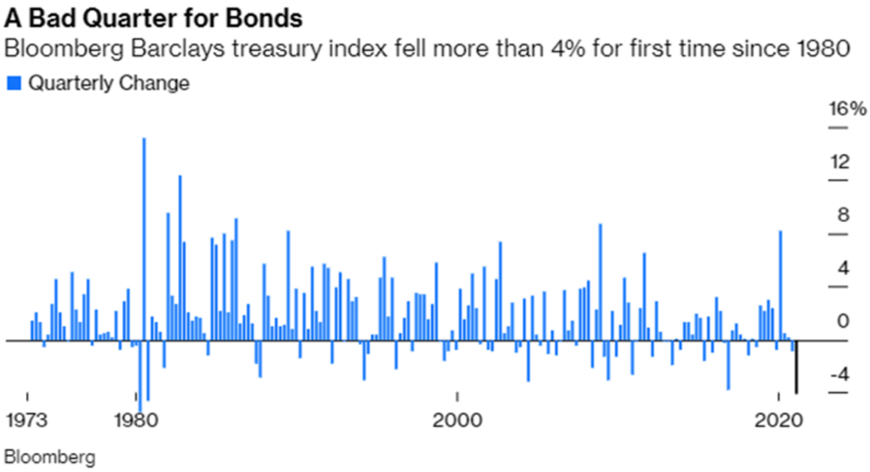
A WHOLE LOT OF RELIEF

$1.9 trillion to be exact! The Democrats and President Biden got their COVID Relief bill passed, albeit without a single vote from Republicans. Using a procedural process known as reconciliation, Democrats continued the long-term trend of Congress passing legislation without any compromise between the two major political parties. The bill was popular with citizens and the market obviously cheered the move, as the markets regained their charge to new highs in the aftermath of its passing.

THE GROWING DEBT

Of course, the potential long-term risk to financial markets of this spending is significant. The U.S. has experienced a persistent increase in national debt over the last three Presidential administrations; taking on more risk than the market will bear over the long-term is a dangerous flirtation. U.S. government bonds are attractive to investors, especially in comparison to the government bonds from other developed countries which are generally riskier and have lower yields with some trading at negative interest rates!

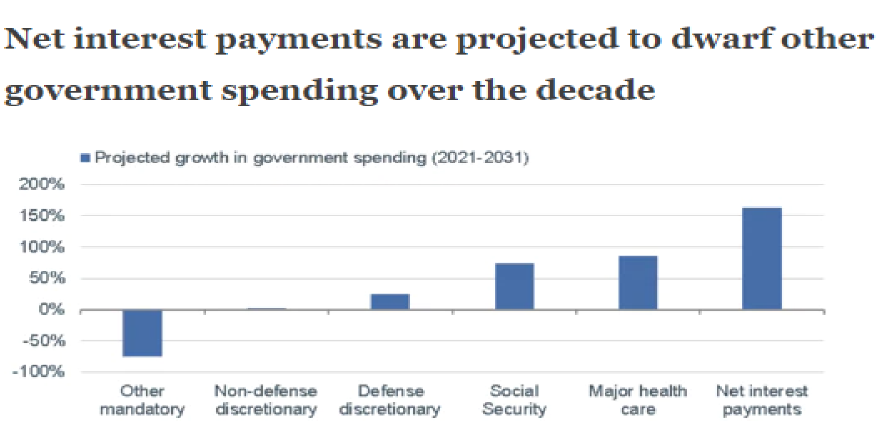
For now, U.S. debt, even with its paltry yields, is still relatively attractive to investors. But we need to watch that carefully. The first quarter was the worst for bonds in four decades.



The Federal Reserve's has insisted on keeping financial conditions as lenient as possible. However, that has not been enough to keep longer-dated bond yields down. The 10-year U.S. Treasury yield ended the quarter around 1.7%, compared to 0.9% at the start of the year. We are ever watchful to see if rates rise further, which would put a damper on growth stocks. We have already witnessed a short-term pullback in growth stocks over the last 6 weeks. The very way in which we value stocks depends on assumed interest rates; if rates rise rapidly, it is negative to equity prices, especially growth stocks and companies with debt loads. Of course, there may be winners too, such as financial companies whose margins may be improved by what they can charge customers on loans.

AND TALK OF MORE RELIEF - INFRASTRUCTURE

Since politicians tend not to be financial planners, there is talk of adding more debt onto the pile. In addition to the relief just extended, Democrats wish to pursue an infrastructure spending bill, a concept that might be popular with some Republicans. Count us as skeptical that the parties will agree either on the size or the priorities of such a bill. Democrats are said to be looking to inject $2.3 trillion more into rebuilding this country. Four trillion more on top of a $25-$28 trillion already owed seems like a lot in a short period of time.



Source: Charles Schwab, CBO (Congressional Budget Office): An Update to the Budget Outlook: 2021 to 2031 (2/11/2021).

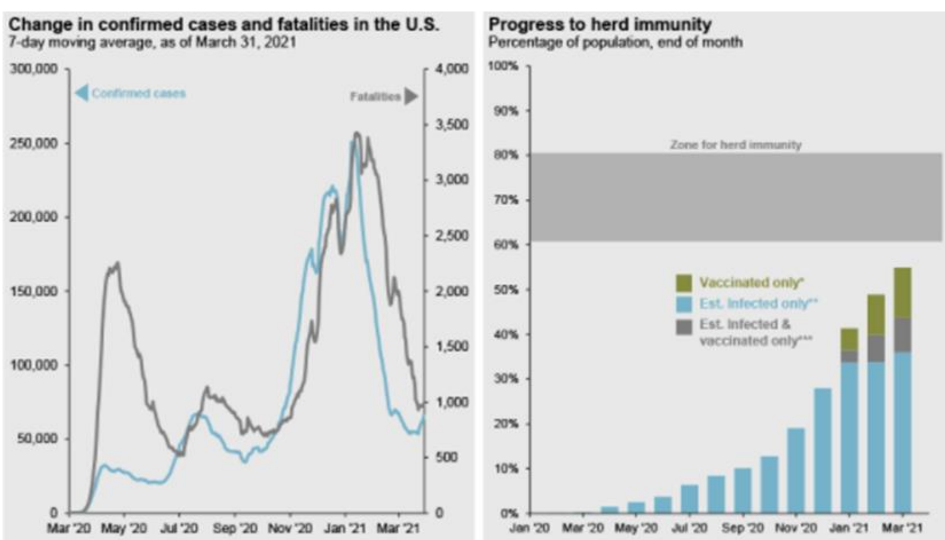
While we can argue the merits of the return on investment from infrastructure spending, the elevated federal debt load can have unintended consequences such as higher interest rates, runaway inflation and/or slower economic growth. Also, higher taxes seem inevitable if we are to maintain any balance between our spending and our debt.

CONTINUED SIGNS OF FRENZY

We see signs of excess liquidity driven by this spending. Speculative assets like cryptocurrencies, meme stocks (GameStop Corp) and the wave of excitement around digital art and collectibles in the form of non-fungible tokens, or NFTs. We referenced the SPAC craze last quarter and the issuance continued through the first quarter.

COVID-19

There is great news on the vaccination front. After a lowball goal of 1mm daily dosing by the current administration, 3-4mm daily dosages were becoming possible by the end of Q1. Unfortunately, the number of new Coronavirus cases rose at the end of March and were remaining stubbornly high.



Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management.

Medical experts attribute the persistency of the virus in the US to virus variants that are highly contagious. Despite the new case count, fatalities have dropped. The older portion of our population has had a chance to be vaccinated and is largely better protected. The markets remain optimistic that half the country may be vaccinated sometime in May.

We are watchful that folks are protected against these new variants with the existing vaccines approved for usage. It would be a negative surprise health-wise and financially if our current vaccines don't prevent the illness from spreading due to these new strains of the virus. Alternatively, if the vaccinations continue to accelerate and provide protection on excess of expectations, we will likely see even greater ebullience in the financial markets.

INFLATION RISK

A common question is will inflation rise because of the extraordinary monetary stimulus over the last year aimed at Covid-19 relief? Both Federal Reserve's chairman Jerome Powell and Treasury Secretary Janet Yellen appear undaunted by the inflation risk. The Fed is currently focused on job growth and reducing the unemployment rate and feels they have the tools to deal with inflation if it materializes. Only time will tell if increased productivity and slack in the economy can keep future inflation in check.

Source: Bureau of Economic Analysis, Federal Reserve, Federal Reserve Bank of St. Louis, J.P. Morgan Asset Management. The 5-year, 5-year

CONCLUSION

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long-term. There are always reasons not to invest, but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility.

We prefer dividend-paying stocks to bonds but continue to have an appropriate allocation to bonds for diversification and to reduce overall volatility. ***We have also added to dividend paying stocks, international and small cap equities to our portfolios***. We think economic and profit growth could come in considerably higher than current expectations, leading equity sectors that have lagged the market for years, to continue to outperform. The uneven recovery to date across economic sectors is actually good news for the 2021 growth outlook as it increases the scope for outsized gains in underperforming sectors.

Team Shorepoint