

# PERSPECTIVES & OUTLOOK

April 2021



## Inflation Concerns are Affecting Markets

Bonds yields have increased significantly YTD as the reality of inflation becomes clear. Higher yields make bonds a more attractive alternative to stocks, but we agree with the Fed that inflation pressures will be transitory and eventually subside.



## Cyclical Stocks are Back in Demand

After lagging for most of 2020, Value stocks and small-caps have outperformed large-cap Growth in recent months. We still prefer to target stocks offering "above-average growth at a reasonable price," regardless of which style box they fall into.



## Infrastructure Up Next for Govt Spending

With a third round of economic relief already passed, the focus in Washington turns to a \$2 trillion Infrastructure Bill. The plan will likely raise corporate tax rates to at least 25%, but the scale of overall spending should be another net positive for equities.



## Fed Support Has Never Been Stronger

The Federal Reserve's commitment to flood the financial system with liquidity has been a game-changer for investor sentiment and equity valuations. If signs of market weakness re-emerge, the Fed will surely do even more to support asset prices.



## Excessive Risk-Taking is Evident

The battle of Gamestop involving Reddit users and the implosion of highly-leveraged Archegos Capital are examples of excessive risk-taking in the market. Financial conditions remain favorable, but pockets of excess remain vulnerable to sizable corrections.



## Dollar Weakness Likely to Persist

Exceptionally loose monetary policy from the Fed and government deficit spending represent new normals for the US economy. We expect these trends to persist. That could mean a weaker dollar for the foreseeable future, a big benefit for International equities.



## Stock Inflows Add Fuel to this Rally

Nearly \$570 billion has flowed into global equities in the last five months, more than in the previous 12 years combined, according to Bank of America. It's more evidence investor sentiment is exceptionally positive regarding the US economic recovery.



## Gold Remains an Attractive Diversifier

Investors need not be bearish on equities to have a positive outlook on gold, which serves as an appropriate diversifier and a hedge against eventual inflation. With prices down 15% from their August 2020 highs, we still consider gold attractive.