

PERSPECTIVES & OUTLOOK

September 2021



Inflation Pressures are Rising

Inflation has accelerated in recent months with the latest CPI number (+5.4%) showing the biggest increase since 2008. Thus far, markets have focused on the positives, meaning financially healthy consumers willing and able to spend more as the economy recovers.



Growth Stocks Take Back the Baton

Value stocks outperformed for the first five months of the year, but Growth shined (again) this summer. Rather than trying to predict the ebb-and-flow between Growth and Value, we prefer owning complementary strategies with exposure to both.



Supply Chains Will Take Time to Recover

While consumer demand picks up in the US, global supply chains remain far below their pre-pandemic efficiency. With COVID-19 a persistent threat in much of the developing world, supply/demand imbalances will constrain the economic recovery.



Fed Expected to Taper Before Year-End

Jerome Powell's late-August comments indicate the Fed will begin reducing its bond buying late this year. Any tapering will likely occur in baby steps, and no interest rate hikes are expected until 2023.



Bond Yields Defy Expectations

Many prognosticators called for the 10-year US Treasury to reach 2% by year-end. Instead, yields have fallen significantly since March, suggesting the bond market has major doubts about long-term inflation.



Stock Returns Uncorrelated to Tax Hikes

Higher corporate taxes and capital gains rates, if implemented, are not a death knell for stocks. Equity returns historically show little correlation to tax policy, and trillions in infrastructure spending, if passed, would certainly benefit a wide array of public companies.



Corporate Earnings Growth Nearing Peak

Second-quarter earnings for S&P 500 companies grew nearly 90% from last year's pandemic lows. Earnings growth will slow later this year, but favorable economic conditions and cheap access to capital should promote strong earnings into 2022.



Gold Still 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 inflation. Gold prices have risen from their March lows, but remain well below their August 2020 highs.