

PERSPECTIVES & OUTLOOK

July 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 has shined (again) in June and July. Rather than trying to predict the ebb-and-flow between Growth and Value, we prefer owning complementary strategies with exposure to both styles.



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 Policy Remains Stubbornly Dovish

While Jerome Powell has paid lip service to rising inflation, the Federal Reserve is unlikely to adjust its dovish policy anytime soon. Consensus estimates suggest no rate hikes until 2023, and any tapering of its asset purchasing will likely occur in baby steps.



Bond Yields Defy Expectations

The trend of rising bond yields lost momentum in mid-March. Many prognosticators called for the 10-year US Treasury to reach 2%. Instead, yields have fallen significantly this summer, a sign the bond market has its 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 are expected to grow 64% from a year earlier. 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 roughly 10% from their March lows, but remain well below their August 2020 highs.