



Market Commentary

Greetings!

We hope all is well with you and your loved ones as we all begin to see the light at the end of the pandemic tunnel.

MARKET COMMENTARY

The month of April saw a continuation, and in some cases, an acceleration in many of the first quarter trends, such as: stronger growth, inflation, and expansive monetary and fiscal policy. Relative to March, many of the dynamics we have been writing about concerning Reflation (higher growth, higher inflation) continued to solidify, yet market prices (at times) started to wobble as participant's price in the next economic regime... continued Reflation, Stagflation, or Deflation.

POLICY

The largest piece of incremental data came from the fiscal policy side with President Biden announcing the \$1.8T "American Families Plan," which comes hot on the heels of the \$2.3T "American Jobs Plan" (U.S. infrastructure bill still being written) and the \$1.9T "American Rescue Plan" announced last month (\$1,400 stimulus check). [\[1\]](#) Higher government expenditures coupled with expansionary monetary policy (below) will contribute significantly to GDP growth, theoretically supporting equity market prices in the near term. More money in the consumer's pocket increases spending and savings; however, there are some concerns the resulting inflation could drag on company fundamentals and market sentiment in the next several quarters. That said, as we've previously written, these are all just proposals at this point and the Democrats will need to get members of both parties on board to avoid budget reconciliation where the chamber is split 50/50.

Regarding monetary policy, Federal Reserve Chair Jay Powell spoke recently and reconfirmed the current policy stance of short-term interest rates near zero and conducting \$120B/mo of asset purchases. Despite the hot inflation data, the Fed continues its stance that rising prices are "transitory" and U.S. economic fundamentals are still too weak for it to consider tightening policy. Furthermore, two days after the speech, Dallas Fed President Robert Kaplan indicated concerning excesses in the housing market and believes rates should rise in 2022 (vs. Fed Reserve consensus at 2023). [\[2\]](#) To tame inflation, the Fed's primary tool would be to slow asset purchases and to increase short-term interest rates.

It is our view that the current equity valuations are being supported by historically low interest rates. Thus, as we saw in late-2018, a Fed tightening monetary policy could be the catalyst for the market to see some pricing pressure and why we believe policy makers and bureaucrats shrug off any mention of inflation data.

FUNDAMENTALS

Economic growth continues to improve relative to one year ago and in terms of history. In fact, the Chicago Purchasing Manager's Index (PMI) reading of 72.1 is the highest data point going back to the 1980's. [\[3\]](#) Keep in mind, this is survey data reflecting purchasing manager's outlook and expectations on business activity, not hard sales and earning numbers; thus with the potential to disappoint. Nevertheless, demand is improving across the economy faster than the rate of supply growth due to several issues we've previously written on.

Corporate earnings have generally been ahead of consensus Wall Street estimates; however, the reported growth rates are generally meaningless for non-Tech companies that were impacted by COVID-19 in the year ago period. While prices of Technology stocks over the last few months have not performed as well as most investors have become accustomed, earning reports from the giants show how resilient and competitively advantaged these companies are. Revenue growth for the major, such as: Apple, Facebook, Amazon, Google, Netflix, and Microsoft were all above +20% vs. 5% for the S&P 500[4]. Despite comparisons to the “Tech Bubble” and “Nifty Fifty,” these companies are the primary beneficiaries of a once in a century digital transformation throughout the global economy. These companies are also extremely profitable, whereas Tech Bubble darlings like Pets.com spent \$12.0M in advertising and only earning \$619,000 in revenue in FY99. [5] Additionally, these Tech giants benefit from extremely high switching costs making their franchises that much more valuable.

A PREVIEW AHEAD

As of April 29th, 43% of the U.S. population, or 144M people, has received at least one vaccine dose, which compares to 29.8% on April 1st. ~100M people are fully vaccinated and the U.S. is administering ~2.7M single doses per day. Given the existing base of vaccinated people, current dosage run-rate, and those naturally immune to COVID-19, the U.S. should reach herd immunity by mid-summer.

While the current data is robust, there are questions around:

- 1.) the longevity of the current upcycle given permanent unemployment trends
- 2.) the market’s reaction to data releases in the summer and fall likely showing growth and inflation slowing concurrently
- 3.) inflation going back to its sub-2% trend as manufacturing capacity is right-sized after pandemic shutdowns and temporary supply-chain disruptions are cleared

Despite these concerns, many investors remain highly complacent as severe market corrections have been met with extraordinary monetary and fiscal policy responses over the last 13 years. Easy monetary policy and low interest rates continue to drive investors away from fixed income securities in a search for higher-yielding assets. This has given rise to “hobby” investing and price mania across the crypto space. Case in point, cryptocurrency Mooncoin (MOON) limits its total coin supply based on the average distance from the Earth to the Moon as a gimmick. We wouldn’t want to forget mentioning PutinCoin and TrumpCoin which further reveals investor’s appetite for the most speculative investments, exacerbated by the U.S. government’s stimulus program. [6]

While the markets ebb and flow over the short term, we continue to believe investing is best suited for long-term objectives. And for the majority of investors, diversification and a "core and satellite" approach is a prudent strategy to achieving one’s goals.

As always, if you have any questions or would like to discuss your accounts or financial situation further, please call your advisor directly or email us at clientservices@benchmarkfinancial.info. Please visit our website at www.benchmarkfinancial.info for more information on our planning services.

Sincerely,
Benchmark Financial

[1] <https://nypost.com/2021/04/28/joe-manchin-is-very-uncomfortable-with-bidens-proposed-6t-spending-spree/>

[2] <https://www.marketwatch.com/story/fed-should-start-talking-about-tapering-kaplan-says-11619793899>

[3] <https://www.ism-chicago.org/insidepages/reportsonbusiness/>

[4] Company Reports

[5] <https://en.wikipedia.org/wiki/Pets.com#:~:text=No%20independent%20market%20research%20preceded,spent%20%2411.8%20million%20on%20advertising.>

[6] <https://www.fxempire.com/education/article/the-crypto-menagerie-a-collection-of-the-worlds-weirdest-altcoins-476890>

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