HCM WEALTH ADVISORS | HENGEHOLD FINANCIAL GROUP | HG CPAs

What a Difference a Year Makes!

Unlike the circumstances that existed in the first quarter of 2020, U.S. stocks have posted healthy gains since the start of the year. This is obviously a big change from this time last year, when global stock markets were reeling from a historically rapid decline.

There is optimism that we will see increased economic activity from:

- a newly vaccinated population,
- government stimulus issued directly to individuals, and
- the infrastructure project now being debated in Congress.

Hopefully, these factors will keep the U.S. economy in high gear. Other countries are looking at America with envy as our economy seems to have turned the corner on its biggest challenge since 2008.

Generally speaking, international investors have seen more modest gains through the first quarter as many foreign governments have struggled with vaccine distribution and the reopening of their economies. HCM will continue to modestly underweight foreign markets in portfolios until these matters are resolved. At that time, we expect to see an extended rotation into both developed and emerging foreign markets.

In the bond world, interest rates on longer-term securities jumped from "historically low rates" to "low rates." Interest rates on 10-year Treasury bonds rose to a 1.67% yield, while 3-month, 6-month, and 12-month bonds are now sporting barely positive yields for the first time in a year. After inflation and taxes are considered, returns are negative and are expected to stay that way for a while. These negative returns are driving many investors into riskier assets, like stocks, because they believe there is no alternative if they want to have a chance at making money. Even though bonds provide very little return potential in today's market, they do provide an important buffer to help protect against investment risk in an overvalued market.

Today, most analysts believe that the market is overvalued, and many professional investors, including HCM, are concerned. And while this overvaluation does create risk of increased volatility, it is important to remember that those who exited the market, believing that overvaluation would not be supported by vaccines, low interest rates, multiple rounds of government payments, and now a multi-trillion dollar infrastructure project, have forfeited meaningful gains.

The good news is that analysts have increased their earnings estimates across the board, and specifically for S&P 500 companies, by a record 6.0%. Also, unemployment rates have been trending lower since the start of the year. Finally, the progress of vaccination against COVID appears to be picking up, with some estimating that all adult Americans who wish to receive a shot will be vaccinated in the next couple of months. A return to near normalcy is probably the best positive factor of all.

The only dark cloud on the horizon—and it is just gray, not black—is the potential for a rapid rise in longer-term interest rates. The U.S. Federal Reserve continues to hold down short-term rates to nearly zero, which means several things. First, we have a steepening yield curve, which is considered a positive indicator of economic health. Second, people who invest in longer-term bonds are finally getting paid something for their trouble. But higher long-term interest rates make bonds more competitive with stocks for investor dollars, which could trigger a shift in investment flows leading to potentially lower stock prices.

While it is impossible to predict whether the markets will continue their long bullish run or take a break, it is likely that, over the long term, stocks will eventually return to more normal valuations. This would mean that prices will be lower than where they are today. How we get there is the important factor. If interest rates rise slowly, the valuation adjustment could happen gradually, allowing prices to rise at a more measured pace as companies' earnings improve. This is the outcome the Fed is trying to engineer. If rates rise too quickly, the ride could be a little bumpier.

Invitation to contact your HCM Advisor

We want to hear from you. If you have experienced any changes in your life that may impact either your financial situation or family's financial goals, be sure to let us know. It's always best to schedule regular conversations so you can stay on top of any changes that may affect your planning, tax, and investment objectives. We would prefer to meet in person after the current situation normalizes, but until then we are happy to schedule conference calls, video conferences, or whatever works best for you.

If there is someone in your life that might benefit from the type of retirement planning, tax, and financial assistance we provide, please connect us. We will do everything in our power to help.

We appreciate the opportunity to work with you, and we thank you for your confidence.

Sincerely,

Michael T. Hengehold, CPA/PFS MST RICP®

P.S. Please look for announcements regarding HCM's Monthly Town Hall Live Webinars in your email inbox.

Annual Notice of our 2020 ADV Part 2 and 2B

As a Registered Investment Advisor, we provide certain important information to you on an annual basis, which is included in this Annual Notice.

Our most recent disclosure statements, Form ADV Part 2 and 2b are now available. There have been no material changes since the 02/27/2019 Form ADV Part 2 and 2b statements were published.

If you need a copy at any time, please call us at 513.598.5120 or send an email request to info@hcmwealthadvisors.com. A copy is also available on our website, hcmwealthadvisors.com. Additional information regarding our firm is available at adviserinfo.sec.gov.