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Dear Valued Investor,

As we move into June, we see a path to normalcy coming quickly with stadiums allowing full capacity, restaurants filling up, and summer vacations in full swing. Meanwhile, the U.S. economy continues to recover remarkably quickly and the stock market is near all-time highs. Although there are many positives, a lot of this good news could very well be priced into stocks. Companies are having trouble finding workers, while higher inflation has many wondering whether this means the Federal Reserve is behind the curve and will need to quickly tighten monetary policy to stave off inflation. Add to that higher taxes and more deficit spending are likely on the way, causing a lot of things for investors to worry about.

The U.S. economy continues to open up faster than even the most optimistic economists expected at the start of the year. Much of this is due to COVID-19 cases hitting new lows and restrictions being lifted across our country. The U.S. economy has likely already recovered all of its lost output from 2020, with U.S. gross domestic product (GDP) expected to grow close to 10% in the second quarter of 2021 (source: Bloomberg). As of now, this year is on pace to be the best year for GDP growth since the early 1980s, bolstered by fiscal and monetary stimulus.

First-quarter earnings season is over, and it was simply amazing. The percentage of S&P 500 companies beating earnings per share targets (87%) and upside to revenue growth (over 4 percentage points) were both the highest that earnings data aggregator FactSet has ever recorded. The 52% year-over-year increase in S&P 500 Index earnings per share came in more than double the 24% estimate as of April 1. Lastly, overall earnings estimates for 2021 have increased 12% this year, right in line with the return from equities.

Strong economic growth and massive stimulus has brought with it major worries over the economy potentially overheating. The Consumer Price Index (CPI) for April sparked much of the worries, with the core reading (excluding volatile food and energy prices) rising 0.8% month over month, the hottest since the early 1980s (U.S. Bureau of Labor Statistics). You are likely seeing higher prices when you go to the grocery store or fill up your car, making this a real concern. Problems filling jobs and supply chain issues are adding to the inflation pressures on top of the pent-up demand coming through as the economy fully reopens.

Although these concerns are real, longer-term inflation should come back to trend. Technology, globalization, the Amazon effect, increased productivity and efficiency, automation, and high debt (which puts downward pressure on inflation) are among the major structural forces that have put a lid on inflation the past decade plus—and will likely continue to do so.

The next several months are historically the most volatile of the year for investors and we wouldn't be surprised to see that happen once again. In general, we think investors should continue to favor stocks over bonds in their portfolios, as appropriate. And should we see any downside volatility, you may want to consider using the weakness to buy stocks at cheaper prices given the still favorable economic backdrop and strong company fundamentals.

Most importantly, go out there and plan a fun vacation this summer!

Please contact your financial professional with any questions.

Sincerely,

Ryan Detrick

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