



## Client Note

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**May 10, 2021**

The close of April brings us 1/3 of the way through 2021. After a very rapid start in January and subsequent pullback, April was a strong month across all asset classes. For the month, the S&P500 **gained 5.8%**, **gold gained 3.8%**, **corporate bonds gained 1%** and **long-term Treasuries gained 2.4%**. Stocks in Asia have weakened while European shares have been catching up to the US. Portfolios gained in April and the average Moderate portfolio is **up 6%** year to date.

We are still in a “value over growth” market, where traditional industries like materials, industrials, financials, utilities are outpacing the growth areas like technology and biotech. We had been in a market were large-cap growth” (aka technology, aka FAANG) and small-cap stocks had been dominating, but since mid-February markets have been driven by dividend paying stocks and other cyclical areas. This **will likely continue** until evidence that we are not going to grow as rapidly as investors currently believe. Friday’s massive **miss in unemployment** (1million new jobs expected; 266,000 actual) may be the first data point that could show a **much more moderate pace** of growth going forward.

The still high expectations of rapid growth see inflation data as evidence that the economy is about to run red-hot. If we read below the headlines, we can see that commodity prices like lumber are being **driven by more than US housing demand**. A years-ago beetle infestation in Canada has limited US lumber imports; sawmill shutdowns due to Covid, AND housing have been sources of supply disruption. The combination has pushed prices to extreme levels. China is the world’s largest consumer of raw materials. China’s early control of Covid-19 and truly massive **stimulus spending** (approximately 10% of GDP in 2020) has underpinned demand for such commodities and agricultural products. This makes much more sense than inflation driven by US aspirations to get back to pre-Covid levels, which saw sub-2% growth for several years. In addition, **supply chain disruption** due to a varied array of local shutdown conditions across the US has made year over year comparisons and identifying specific bottlenecks a challenge. Currently, China’s credit impulse is on the wane, while US stimulus takes the reins in 2021. US stimulus usually takes longer to impact the economy, however. In the longer run, the US needs to maintain our reserve currency status—by creating enough US dollars for the rest of the world to use—but that is a topic for another day.

I expect forward-looking estimates of growth in the US to decline to more normal levels and at the same time, interest rates and inflation expectations to decline moderately. **Interest rates have been sideways now for almost 10 weeks**. I will be looking for further confirmation of this in economic data into the end of the quarter.

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