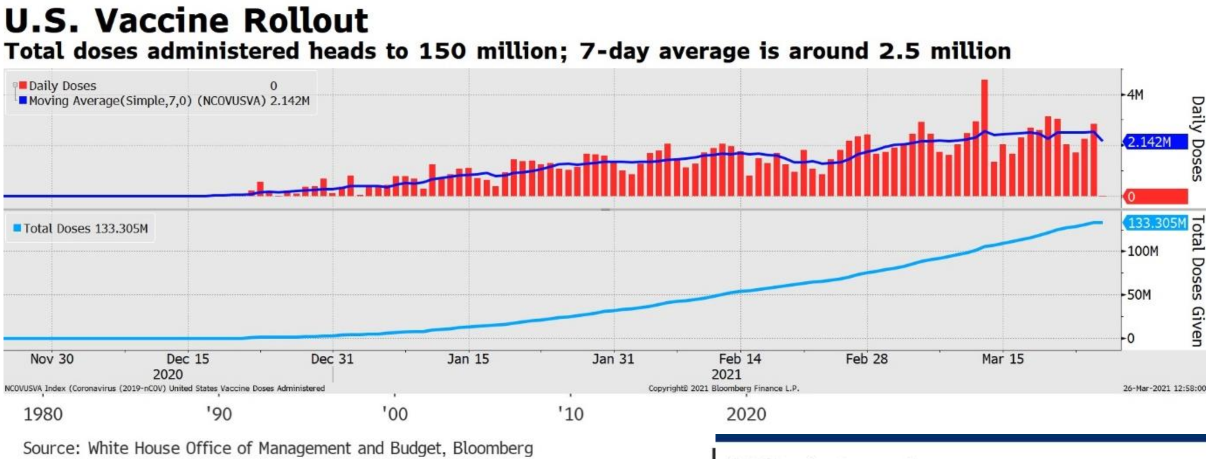
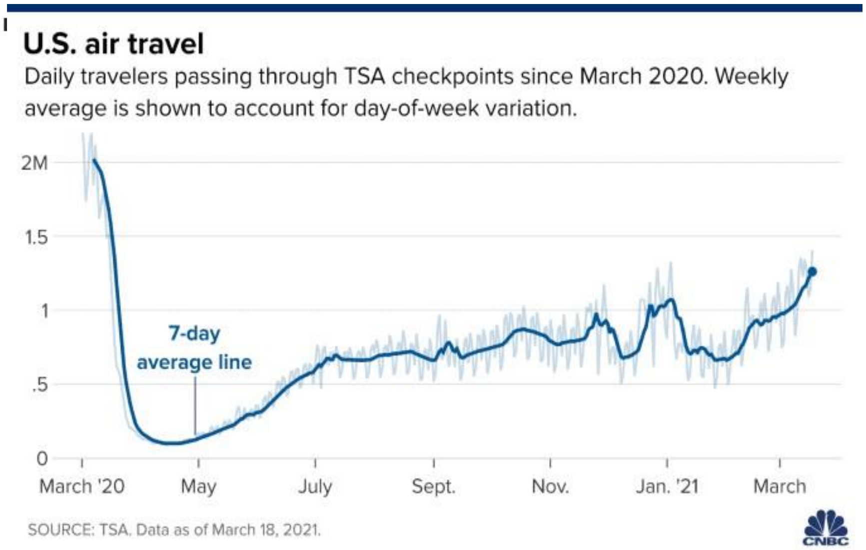
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

Economic and Market Update – SUGAR RUSH (03/31/2021)

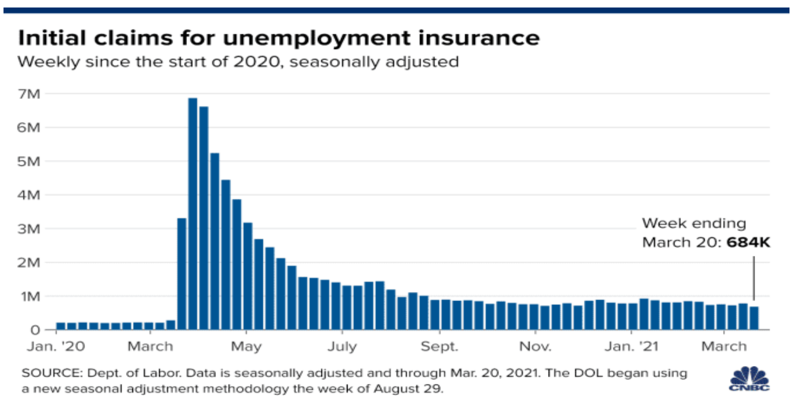
Latest Developments and Economics

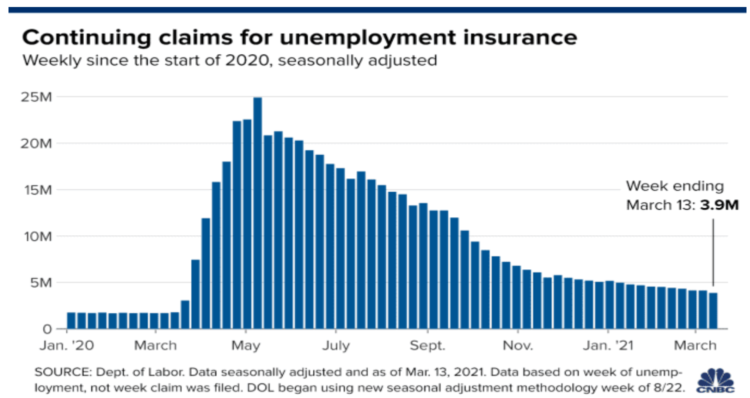


The vaccine rollout in the U.S. continues to progress well and is leading to more economic activity in the country. The addition of the Johnson and Johnson single dose vaccine has allowed a ramp up to a total of 2.5 million injections per day and states are decreasing their age requirements for vaccine eligibility. The total administered doses are around 150 million (with Pfizer and Moderna requiring 2 doses) and has prompted President Biden, in his first press conference, to increase his goal to 200 million injections in his first 100 days in office. In a signal of movement towards normality airline bookings are up 52% with travelers through TSA checkpoint increasing (March recorded the largest day of travelers since the virus began), though far below last year and despite some rising virus cases in parts of the U.S. This contrasts with the rollout of the AstraZeneca vaccine, which was predominant in mainland Europe. Distribution was halted temporarily while a reported connection with blood clots was investigated. This put Europe, which was already behind the U.S. in percentage of population vaccinated, even further behind.

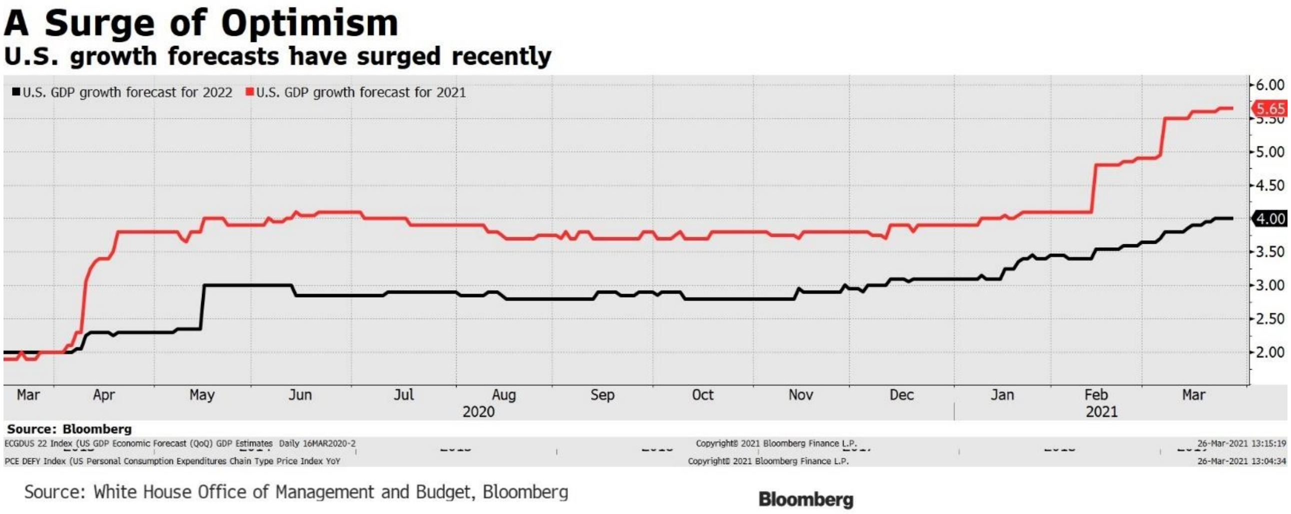


March also saw the passing of the full $1.9 trillion-dollar package originally proposed by the Biden Administration. This was passed along party lines through Budget Reconciliation discussed in last month's letter and the direct payments of $1,400 to individuals and families has already begun. This comes despite evidence that the economic expansion in the U.S. is already underway. GDP for 2020 Q4 was revised up to an annual rate of 4.3% and initial unemployment claims in March

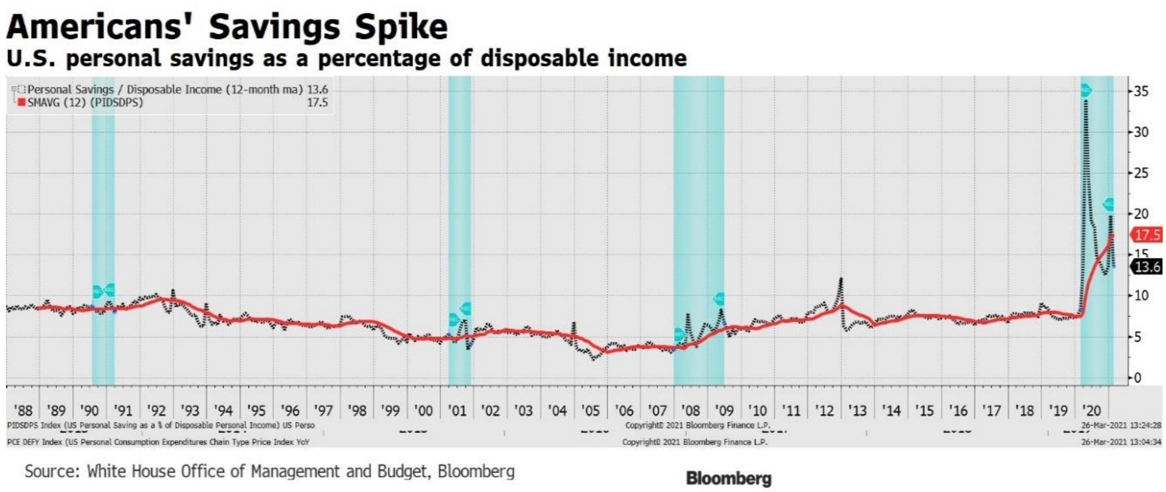




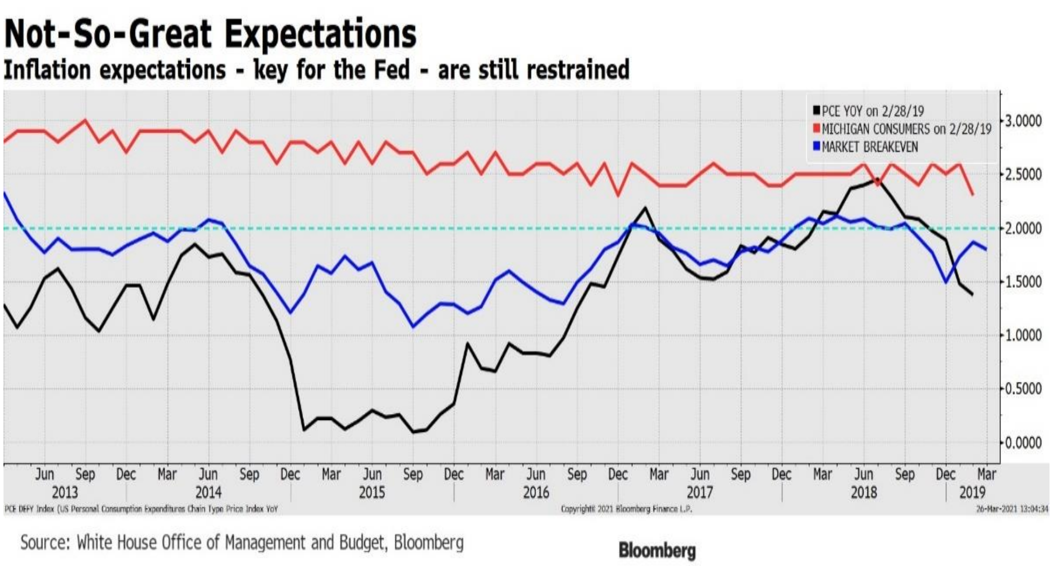
came in at a 12-month low of 684,000 (vs. a 730,000 expectation). Those still collecting unemployment dropped to 3.9 million – still high but continuing to improve. The Federal Reserve has prioritized full employment over inflation considerations and projects the unemployment rate to drop to 4.5% by the end of 2021 and 3.5% by the end of 2023. This has created the surge in optimism that you see in the chart to the left which has GDP growth forecasts in 2021 of almost 5.65% and 2022 of 4.00%. The Federal Reserve has increased its forecast to 6.5% in 2021 (from 4.2% in December) on the heels of the stimulus package.



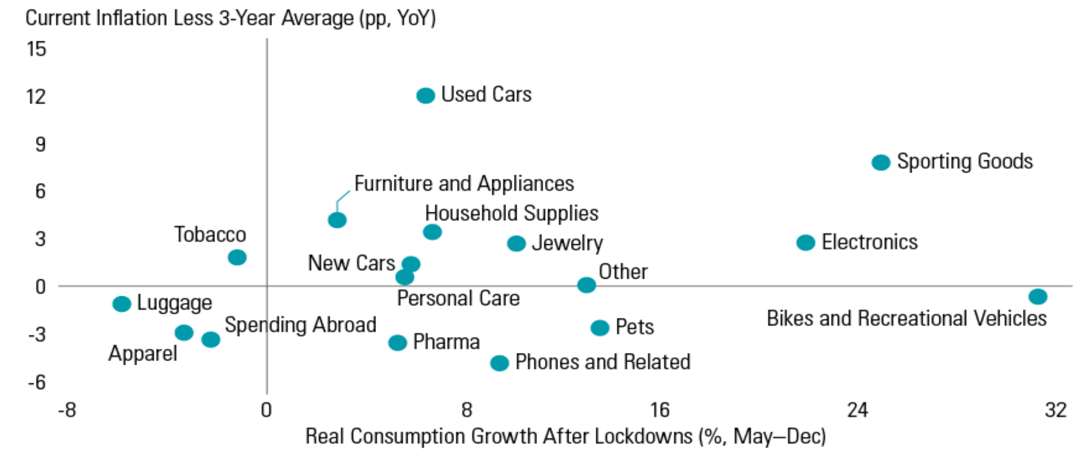
So, one question being debated is whether that level of stimulus was necessary for people not in need (through job loss). It may create the equivalent of a "sugar rush" in the economy as people have available resources to spend and are eager to do so after a year of lockdowns. The normal increase in the consumer savings rate during recessions was magnified with the relief payments last Spring when savings were 33% of income. The same could happen with the recent $1,400 payments.



Another concern about the additional stimulus package is whether it contributes to conditions for significant inflation. The Federal Reserve stated recently that they are willing to tolerate additional price level increases and will maintain a low interest rate environment until unemployment hits their target as inflation should be transitory. Former Treasury Secretary Larry Summers reiterated his position against the package calling it the least responsible macroeconomic policy in 40 years. He sees a 1/3 chance of significant inflation in the next several years, a 1/3 chance of no inflation due to a monetary-fiscal collision that results in recession and a 1/3 chance that this results in growth with benign inflation.

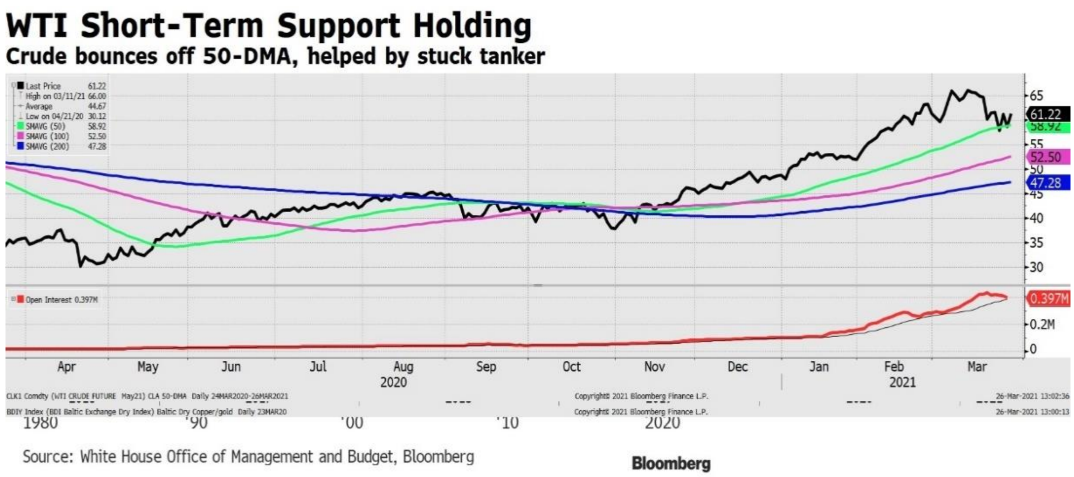


Though no evidence of significant inflation exists just yet, recent conditions have supported an overall increase in prices due to a strained supply chain globally.



1Source: Goldman Sachs GIR, Commerce Dept., Labor Dept

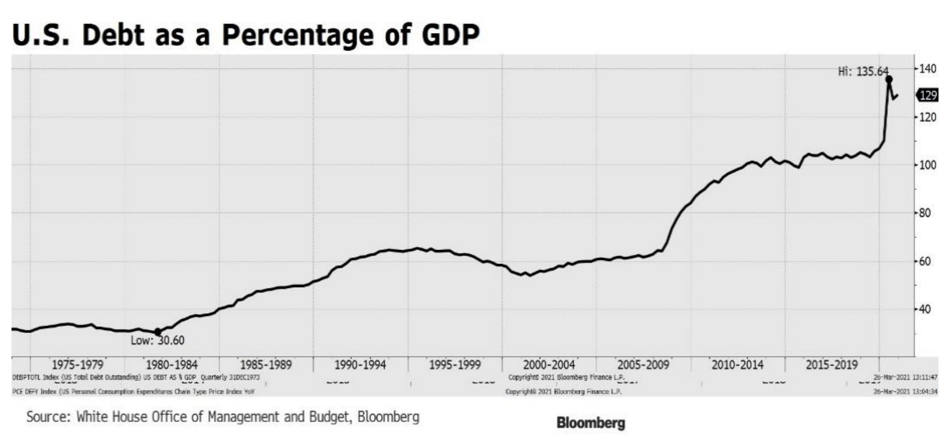
This has resulted in price and lead time increases in automobiles, household appliances and furniture, housing, chips and energy mainly due to lack of supply coupled with growing demand. Whether it is called inflation or not the supply chain issues and the unexpected growth in demand have caused price increases in specific categories of consumer goods.



The grounding of the cargo ship EverGiven in the Suez Canal has also contributed to disruptions by blocking a shipping lane that transports 13% of world trade worth about $10 billion per day. Currently the backlog of ships behind it are causing a significant delay and ships not yet in the canal are deciding whether to wait or take the long route around the southern tip of Africa.

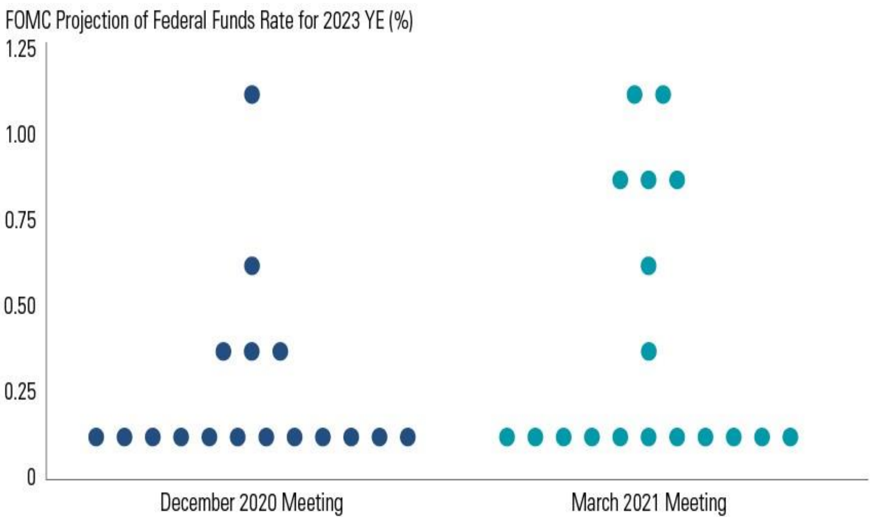
The next few months may also send a false inflation signal as March-May 2020 rate of price change as measured by headline Consumer Price Index (CPI) was negative (deflation) with rates of -0.30%, -0.90% and -0.10% respectively. Any positive inflation in the same months this year is going to seem like an unusually large year-over-year increase.

This past week also saw the introduction of the Biden Administration's next policy initiative of an infrastructure package for the country. The total pack of a reported minimum $3 trillion up to $4 trillion and will be split into two different bills to secure bipartisan support or pass by use of Budget Reconciliation two more times. The major elements of the first infrastructure package would be approximately $2 trillion and include traditional infrastructure of roads, bridges, etc. ($1,000 billion), climate, renewable energy and future industries ($700 billion), housing, broadband schools ($400 billion). The second piece is deemed "Social" or "Human" infrastructure and totals $1.0-1.5 trillion and its major elements include paid leave ($550 billion), child tax credit extension ($420 billion), national child care ($350 billion) and free community college and universal Pre-K ($500 billion). All the amounts are estimates and can change as more details come to light. The total of the recent stimulus of $1.9 trillion and the infrastructure would represent about $5 trillion (about 25% of annual GDP) in the first few months of the administration. While most of this will be borrowed the administration has proposed new taxes to help offset some of the infrastructure spending. The new taxes would be approximately $2.5 trillion in the same time frame and would be driven primarily by an increase in the corporate tax rate to 28% from the current 21% ($700 billion), individual income tax increases including top marginal rates and capital gains ($1.3 trillion) and negotiated drug prices ($500 billion).

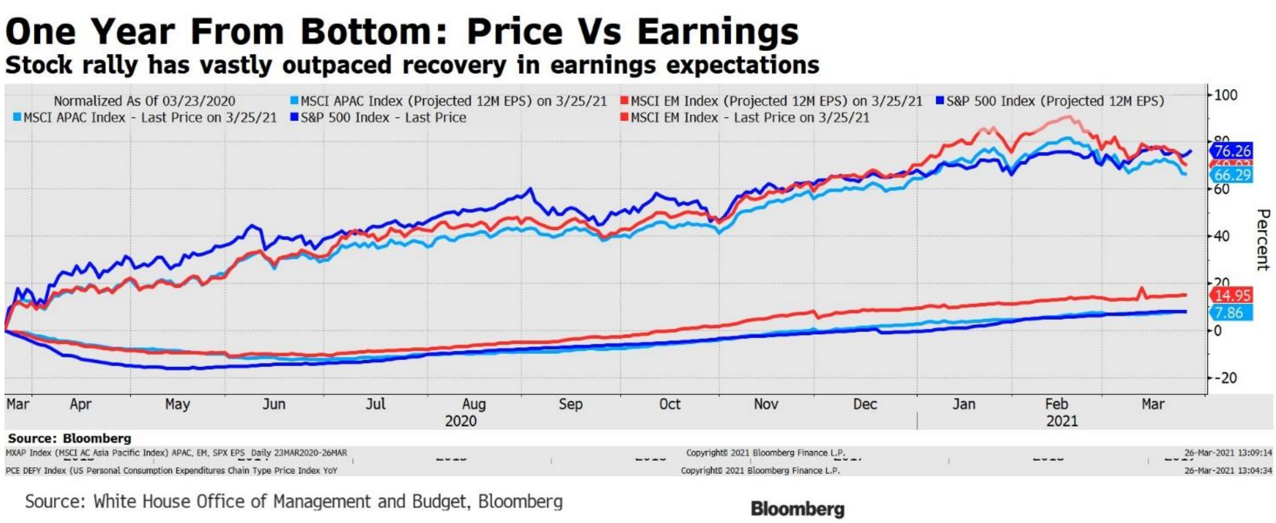


Financial Markets

The recent climb in long U.S. interest rates has continued with some volatility as yields on the 10-year treasury ended the month around 1.74%. The combination of inflation possibilities, increased federal fiscal spending and a growing economy are shifting market expectations of fed rate increases to start sooner than the Federal Reserve has recently signaled. In addition, Fed Chairman Jerome Powell has indicated an expectation of yield increases in longer dated maturities. This would also stand to reason as the Fed has been clear that they are working towards average inflation at 2.0% (and willing to let it go higher for a short time) and 10-year Treasury rates at 1.74% would indicate negative real borrowing costs (which could not hold long-term in a rational economy). The recent FOMC "dot plot" (an expectation of short rates by FOMC members) also indicates potential earlier increases in short term rates among Federal Reserve members than they did in December. Gradual yield increases due to economic growth are healthy, but quick or unexpected rate increases for other reasons can cause major disruption in financial markets.



Equity markets have also been performing well with the S&P 500 up about 6.00% in 2021 and setting a record high during the month, though the ride has been a little rocky. The U.S. market has shifted more into the "reopening" companies (financials, energy, transportation, etc.) while interest rates have had a negative impact on the growth stocks which have done so well over the past few years. This is an example of where diversified portfolios should help mute some of the volatility caused by rotation.



This March 23rd marked the one-year anniversary in the market lows of 2020 and since that time the S&P 500 is up about 76% with other parts of the market up as well. Currently valuations are historically high, and the question is whether the market is pricing in better corporate revenue and profit results than may materialize even with a reopening economy. In addition to the tentative reopening in the U.S. there is still risk due to a potential virus resurgence not only in the U.S. but globally. European economies are still at risk due to the virus situation. Potential new lockdowns would hinder a global recovery (which would affect U.S.-based multinational companies as well). In addition, policy and regulatory challenges like the proposed corporate tax increase would constrain S&P 500 profitability growth. There is also the potential for the US/China relationship to continue to deteriorate which bears watching due to its impact on trade. Initial meetings between the two countries in March did not go well.

The difficulties of trying to time the market

Bank of America looked at the impact of missing the market's best and worst days each decade

Decade	Price return	Excluding worst 10 days per decade	Excluding best 10 days per decade	Excluding best/worst 10 days per decade
1930	-42%	39%	-79%	-50%
1940	35%	136%	-14%	51%
1950	257%	425%	167%	293%
1960	54%	107%	14%	54%
1970	17%	59%	-20%	8%
1980	227%	572%	108%	328%
1990	316%	526%	186%	330%
2000	-24%	57%	-62%	-21%
2010	190%	351%	95%	203%
2020	18%	125%	-33%	27%
Since 1930	**17,715%**	**3,793,787%**	**28%**	**27,213%**

Source: Bank of America, S&P 500 returns

Finally, CNBC reported on a Bank of America study which reiterated that time in the market is what drives long-term investor returns rather than timing the market. Staying invested at your long-term asset allocation in critical. Since 1930 the equity market returns were 17,715% by staying invested yet drops to 28% if you miss the best 10 days in each decade. If your crystal ball is in good working order missing the 10 worst days in each decade significantly increased your returns but you would have to know exactly when each of those days were going to be before they happened.

Should you have any questions please contact us.

Image sources: Bloomberg and CNBC unless otherwise noted

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