The Outlook Continues to Brighten

June 28, 2021

As the number of Covid cases continues to shrink and a state-by-state "reopening" is underway, the economy is accelerating into the second half of 2021. The preliminary estimate for second quarter GDP is between 9-10% according to a consensus of economic forecasters. This estimate follows the report of a 6.4% growth in the first quarter. Of note is that an important indicator, capital spending (orders for non-defense capital goods excluding aircraft), is near the highest levels for records tracing back to the 1990s. According to the Wall Street Journal, "robust capital investment will be key to ensuring that the recovery maintains strength after the spending boost from fiscal stimulus." The paper also reported that the "demand for manufactured goods strengthened in May, while customer inventories hit an all-time low." These data give us greater confidence that the bounce after the sharp decline in activity last year will be long-lasting.

As we have mentioned before, stock market performance is usually a good indicator of economic activity. According to BTN research, "in the last 30 years, the best 12-month performance of the S&P 500 occurred over the 1-year period that ended 3/31/21! And, as we have seen during the second quarter, that rally continues with the leaders being small capitalization stocks that have had an outsized run of 24% this year. Earnings reports for the second quarter should be unusually strong and should add to the interest of investing in the stock market.

Another important factor that encourages an optimistic outlook is the financial condition of the American consumer. The one-time confluence of three factors sets up the consumer to be a major component of rising economic growth through 2022 and beyond. Those factors are the surge in the stock market that benefited not only big time investors but also all of those 401k and IRA accounts that have a meaningful investment in stocks, the surge in house prices that benefited from low interest rates and the government program of stimulus that put money in people's pockets at record levels. In total these events accounted for most of the outsized gains in U.S. consumer wealth, taking the year-end increase to $13.5 trillion.

Over the first half of 2021, investors have been misled by market volatility and the major rotation from growth stocks into value stocks. The rotation is a reflection of renewed confidence in the economy and the return to a normal business environment. However, the recent strength in growth stocks reinforces the likelihood that the equity markets will continue to rise across investment styles and capitalizations. This is a time when investors should not be rattled by this short-term volatility and stay with a viable investment strategy that avoids trying to jump from one investment option to another. Guessing the top of a market and attempting to avoid the next market correction can be a decision that can undermine a long-term strategy. History reflects that all bull markets have periods that are characterized by "corrections" that can take the overall market down by 10-15%. While such corrections are possible, they could occur from much higher levels. In this environment, our recommendation is to stay the course.

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