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Issue 116 ***Summer Quarter, 2021***

The markets have continued to drive upwards into quarters end, spurred by the US Government printing money and dumping it into the economy. Incredibly, Congress is now approving even more spending while they have not been able to spend all the money already approved last year. In fact, there are a trillion 'or so' dollars left over. Some have compared Congress to a 15-year-old boy with a credit card; seems apt.

Well, we knew someday this event would come, and someday is here. Dr. Hungerford will be stepping down from his position in consultation to our investment portfolios here at Woodard & Company and retiring. We have worked together for thirty years. Many of you have been here with us for much of that time, when he began to consult in 1991. It seems like only yesterday. The market of the '90s was fun. We can still confer with Dr. Hungerford, but he is retired from the office. Steve Hungerford will continue in his stead and he will undoubtedly be in ongoing consultation with his father, our old friend and associate. It is a sad day and he will be missed here in the office.

Portfolios have done well, spurred by government spending, a broad stock market advance is a tide that raises all ships. Value stocks picked up the pace during the quarter and then lagged a bit at the end as interest rates declined modestly. Small caps have continued to perform well, and select growth stocks have also done well. Bond market yields rose early in the year, then wallowed somewhat but yields have softened again of late to the surprise of many in this inflationary environment.

The inflation thing is very real. We are experiencing rising prices everywhere but it is dismissed by many as a temporary problem. We have not arrived at a firm conclusion yet ourselves as to the longer-term persistence of the problem. Often, we find that politicians and economist forecast encouraging data, hoping to boost confidence and markets, and hoping that people will forget later when they were wrong (unfortunately they usually are wrong). These pundits are dismissing what may well become a persistent and pernicious problem. However, the jury is still out on inflation. We will be monitoring it closely.

Allocations are performing well overall. We are essentially 'style neutral' (balancing our growth and value allocations). We are slightly overweight in stocks relative to our long-term targets.

Generally fixed income in the portfolios

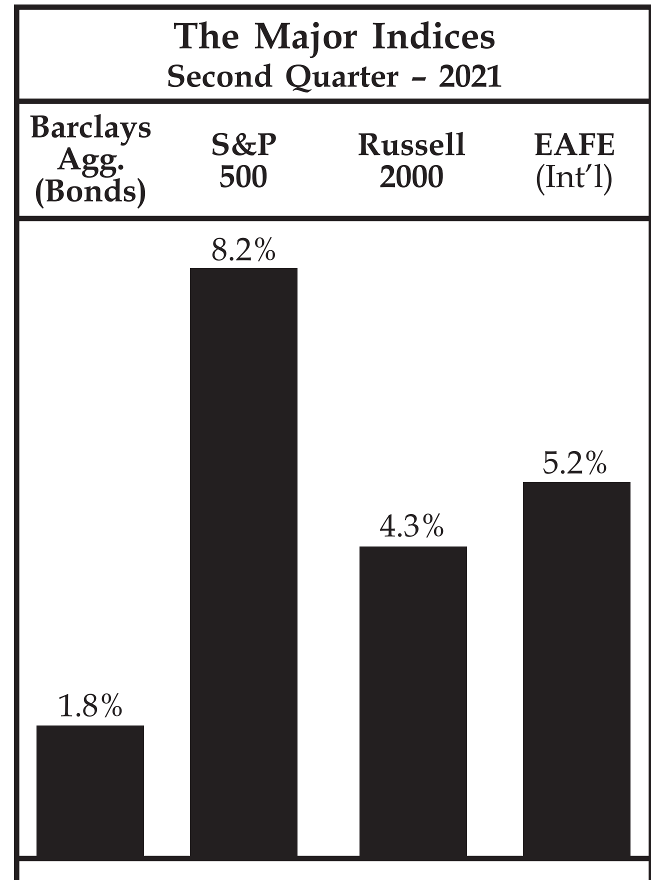
has relatively short to intermediate maturities. We recently shortened them even more when bond yields dropped and bond valuations increased. We are anticipating rising interest rates at some point in the not-too-distant future.

We had taken a couple of positions in gold and foreign bonds to address inflation and what we expected would be a weakening dollar for many accounts. As you are no doubt aware, the U.S. Government is wildly printing money. Normally, that activity makes each dollar worth less and the practice is typically inflationary. However, the fact that Germany, France, and Switzerland have almost no yield or they have negative yields has resulted in foreign dollars flooding into our U.S. Government bonds to get a better return. The subsequent effect of these inflows is keeping yields low and strengthening the dollar. When the tide finally turns on that activity, it could be quite dramatic and sweeping in scope. We sold the foreign bond position recently at about breakeven, but we will continue to hold the small gold position for the time being.

We expect there will continue to be stock market corrections here and there (the Dow dropped 4% in mid-June before rallying back). Typically, the markets rally into the quarter's end at the July 4th weekend, then there is often a selloff after that as the Wall Street barons head to the Hamptons. Then markets often 'wallow' much of the summer on low volume. As we get later in the quarter, especially into the fourth quarter of the year, we feel the stock market could continue a nice upward trend into year end.

We feel that many commodities will resume the upward trends that we have witnessed so far this year but abated to some extent in June, especially agricultural and building products. Oil has increased sharply but there are different factors driving it. We hope you have a good summer holiday even with elevated gas prices.

Market Review and Forecast. It was another great three months. The S&P 500 finished June with a 5-day winning streak to rack up an all-time high. It posted a solid 8.2% gain for last quarter. The small-cap Russell 2000 trailed, rising 4.3% for the last three months.



So far this year the S&P 500 has jumped 14.4% while the small-cap Russell 2000, after a stellar 12% return the first quarter, is up 17.5% this year. International stocks have risen 8.8% for the year after a 5.2% quarterly gain.

It's no wonder that markets move higher as Uncle Sam keeps the printing presses primed as new money floods into the economy. It is now estimated that one-third of all money in circulation has been created since March 2020! As a result, American families are reporting record high savings rates.

The Fed continues to buy $120 billion a month of mortgages and treasuries, creating almost a trillion dollars annually. These purchases keep bond rates low and credit cheap. The 10-year U.S. Treasury finished the quarter at 1.47%, well below the inflation rate. One estimate is that the "break-even" rate is now 2.32% (the 10-year rate that would equal the projected inflation rate).

Apparently President Biden's $1.2 trillion infrastructure bill has enough bi-partisan support that 11 Republican Senators are willing to vote for it so that a probable filibuster can be overridden (10 are needed if all Democrats support the bill).

However, House Speaker Nancy Pelosi has threatened that she won't let the infrastructure spending pass the House unless a massive "soft or human infrastructure" bill also passes the Senate. That passage, without any Republican support, is only possible using the rare reconciliation process that requires only a majority vote. (Vice President Kamala Harris would have to break a 50-50 tie vote.) Given this threat, the odds are diminished that an infrastructure deal actually gets passed.

Senator Bernie Sanders has proposed a so-called "human infrastructure" spending bill that would cost $6 trillion. It would lower the Medicare age to 60, make community college attendance free, provide no-cost day care for all three-to-five year-olds, add hearing and dental coverage to all health care plans, and of course, spend trillions on the "green new deal." It has no chance of passing as is, given that at least two moderate Democratic Senators claim they won't vote for any bill that spends more than $2 trillion at the very most.

Of course, any bill will increase our huge deficit. The Democrats hope to partially offset some of that deficit by increasing taxes on the those making over $400,000 and by hiking the corporate tax rate from 21% to 28%. President Biden has also proposed raising the top capital gain tax rate to a whopping 39.6%.

Given low interest rates and the massive money creation, money is pouring into the stock market. It was reported July 1 that $189 billion was added to stock mutual funds. The stock market is benefitting from a surge of interest from younger investors. Fidelity recently announced that it had added 1.6 million new accounts from investors 35 and younger during the first quarter of this year.

Child-credit payments from the U.S treasury will begin this month to potentially 36 million eligible families. For joint incomes of $150,000 ($75,000 for singles) or less, checks of $300 a month will be sent out until the end of 2021 for each child younger than 6 and $250 a month for all kids 6 to 17.

The total credit for the entire year is $3,600 for children 5 and younger and $3,000 for ages 6 to 17. Therefore, half of it is being distributed while the other half can be claimed on 2021 tax

returns. This expanded provision expires at the end of this year but it is included in all the democratic "human infrastructure" proposals.

The opening of the economy is exceeding all expectations. A terrific 850,000 new jobs were added last month as demand for new cars, travel and home buying hit post pandemic highs. Home prices rose 13% for the 12 months ending April 30, the highest 12-month gain since 2005. Five cities – Charlotte, Cleveland, Dallas, Denver and Seattle – all broke all-time records for the largest 12-month increase ever. The economy is certainly red hot.

Interest Rates. After starting 2021 yielding close to .95%, the 10 Year Treasury continues its wild ride as we begin the third quarter. We have mentioned in previous newsletters that we were hoping for a gradual increase in interest rates this year but interest rates did not get the memo. We like gradual moves because bond prices move inversely to interest rates and so gradual moves are more easily processed by the bond market. The sharper and quicker the move, the more drastic the price fluctuations for bonds.

The first quarter saw the benchmark 10 Year Treasury move from .95% to 1.75% by March 31st. The second quarter saw the 10 Year go from 1.75% down to 1.44% by 2nd quarter's end and continue back down to the 200-day moving average of 1.25% as of the writing of this newsletter in early July. This is not gradual and explains why fixed income investors have not seen much in the way of gains thus far in 2021, like they did in 2020. The Barclays Aggregate Bond Index finished the quarter -1.6% YTD. Our revised expectations are that the 10 Year Treasury could be closer to 2% by the end of this year, but it will no doubt be a volatile ride.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.

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