Dave Hutchison, CERTIFIED FINANCIAL PLANNER™

1720 E Calle Santa Cruz
Phoenix Arizona 85022

HUTCHISON INVESTMENT ADVISORS
Registered Investment Advisor
Founded on a CPA Firm Background
(602) 955-7500

E-mail:dave@hutchisonria.com
website: www.hutchisonria.com
Fax (602) 955-1458

Hope for "Roaring 20's" Builds - Update – Late February 2021

While nothing can be assured, my prior report https://dhutch.news/Roaring2020s outlook for "roaring 20s" growth starting possibly by mid-2021 is on track with more economic and market enthusiasm.

Latest News:
2/18/2021 CNN Headline: **Corporate America is jumping for joy while millions of workers remain jobless**

America's CEOs are the most confident they have been in 17 years, as company leaders expect fewer layoffs and further improvements in the business environment, according to a recent survey from the Conference Board, a non-profit think tank.

But this sentiment does not align with the experience of millions of Americans who are still unemployed and need government aid to make ends meet as a result of the pandemic. The disconnect is yet more proof of the k-shaped recovery, in which some Americans are experiencing major improvements while others are still suffering.

CEO confidence stood at its highest level since 2004, according to the Conference Board. "With the vaccine rollout underway in major economies, CEOs entered 2021 historically upbeat," said Dana Peterson, chief economist at the Conference Board. On top of that, the stock market is at near-record highs, with the Dow notching a new all-time high Wednesday and company valuations soaring. The strength in the market is due to hope for more government stimulus to bring the economy back to life, as well as the rollout of vaccines across the country.

Goldman Sachs predicts US gross domestic productivity will grow this year at the fastest pace since 1989. Meanwhile, the Federal Reserve's interest rates remain near zero. Source: CNN

Earnings Beating Estimates: With most of the S&P500 companies reporting 4th quarter earnings 80% beat earnings estimates and 78% beat revenue estimates. This marks the third-highest percentage of positive earnings surprises since FactSet began tracking this metric in 2008. Source: FactSet

Equity Market Rejoices: As of 2/5/2021 the Dow and S&P500 were on their longest winning streak since the big gains in August 2020. And most of the major indexes again reached record highs.

Investors are optimistic the Biden proposed economic relief package will be passed. Markets are broadly betting the aid, coupled with distribution of the coronavirus vaccine, will support a swift economic rebound, though some analysts warn those bets could suffer if the effects of the relief package take too long to materialize or is reduced to below $1 trillion.

Recent data has shown unusual strength in retail sales, as well as continued gains in real estate and manufacturing. A tracker from the Atlanta Federal Reserve that gauges gross domestic product growth is indicating a gain of 9.5% in the first quarter.

"Super-charged fiscal policy" means the argument for the US economy growing faster than its peers "seems to get stronger day-by-day," economists at Bank of America wrote in a recent report to clients.

Oxford Economics chief US economist Gregory Daco is calling for a "summer mini-boom" in the United States and 5.9% GDP growth in 2021. Likewise Jefferies economists say, "Explosive income growth is likely to propel US GDP 6.4% higher this year and nearly 5% next year."

Continued

"If anything, our forecast might be too conservative," Jefferies Financial told clients in a recent note, pointing out that its view incorporates just $1 trillion of the Biden plan.

Even more stimulus is likely from a separate recovery package that has some bipartisan support for another $2 trillion into the economy's infrastructure this year to bolster clean energy efforts and combat climate change, as well as much-needed spending on bridges, highways, and other transportation infrastructure.

Fed Minutes issued 2/17/2021: The voting members of the Fed's interest-rate committee agreed that expected progress on vaccinations and the change in the outlook for fiscal policy had improved the longer-run prospects for the economy so much that officials "decided that the reference in previous post-meeting statements to risks to the economic outlook over the medium term was no longer warranted," according to the minutes.

Most Fed officials thought the stimulus passed in December, the chance of more stimulus this year and progress in vaccinations "would lead to a sizable boost in economic activity," the minutes said. Officials were not concerned about inflation, with "most" officials saying that inflation risks were weighted towards too low rather than too high.

Bond Prices Fall as Treasury rates increase

The yield on the 30-year Treasury has surpassed 2% for the first time in a year, as investors expect the coronavirus relief package to fuel economic growth. The 10-year Treasury yield, which impacts mortgages and other loans, rose to 1.33% early on 2/17/2021.This is up from an all-time low of 0.318% on 3/8/2020.

I have warned against most bonds since as rates increase, values decline. Even at 1.5% we are at exceptionally low historic rates. By contrast, the long-term average yield has been 4.38% and was as high as 15.84% in 1981 – Source: Ycharts 2/18/2021

2/17/2021 CNBC reports: Interest rates will continue to rise, but do not blame it all on inflation, economists say. Interest rates are rising because of expectations for better economic growth, and they should continue to move up, though moderately. Inflation is a fear in the market, but strategists do not yet see it as a main catalyst for interest rates. Interest rates are expected to continue their upward march, but for now they are not expected to get high enough to harpoon the stock market.

Action Plan Recommendations

I can discuss individually specific recommendations based on one's goals, objectives, and risk tolerance.

In general, I suggest investors have a diversified portfolio - often combining growth and value sector allocations - using managers with long-term track records of outperformance compared to the category they invest in and the risk taken (Alpha vs. Beta in investment terms) – not just raw returns.

US Small-Mid Caps often have the potential for faster growth, and with so many more smaller companies than large, good research can potentially find hidden gems. Smaller companies' stocks are often more volatile with less trading volume, but have rewarded investors over the long term.

I avoid "dumb" index funds with no stock selection based on individual company outlooks, or similar ETF's (only make sense for traders, not investors). For those seeking income or for the more conservative allocation in a diversified portfolio, I suggest various bond alternatives, without the interest rate risk of many bonds at this point in the economic cycle.

Part of our "participate-yet-protect" strategy in a growth-oriented portfolio is to have alternative investments, so that in a significant equity market decline when you also need cash, you do not have to lock in large losses. Markets have always returned to new highs - only the timing is uncertain.