



Weekly Commentary

February 16, 2021

THE MARKETS

Way back, when radio disk jockeys played 45-rpm vinyl singles, the A-side of a disk was the song the record company was promoting and the other side – the flip side – held a song that sometimes had an equal or greater impact. For instance, the flip side of Queen’s We Are the Champions was We Will Rock You.

When it comes to the economy and financial markets, flip sides can have significant impact, too. For example:

- **Stock market performance.** Last week, major stock indices in the United States – the Standard & Poor’s 500, the Dow Jones Industrial, and the Nasdaq Composite – finished at record highs. That was happy news for investors.

The flip side: Concern that share prices may not be sustainable. “The long, long bull market since 2009 has finally matured into a fully-fledged epic bubble. Featuring extreme overvaluation, explosive price increases, frenzied issuance, and hysterically speculative investor behavior...this bubble will burst in due time...,” wrote asset manager Jeremy Grantham of **GMO** in January 2021.

- **Vaccination acceleration.** The pace of COVID-19 vaccinations has accelerated. Vaccinations are important to economic recovery because they are expected to restore confidence and increase economic activity, reported Janet Alvarez of **CNBC**.

The flip side: Vaccines may not be as effective as many anticipate for two

reasons: 1) Some Americans are reluctant to be vaccinated, and 2) Vaccines may not be effective against all strains of the virus.

- **Additional stimulus.** A \$1.9 trillion stimulus package is in the works, which could “...prevent unnecessary financial hardship and mitigate future economic risks,” according to **Morning Consult** economist John Leer.

That seems particularly important since employment gains have slowed. Last week, Carleton English of *Barron’s* reported, “All told there were 20.4 million workers receiving benefits under programs for the week ending January 23, a 2.6 million increase from the prior week. At this time last year, there were 2.2 million workers receiving benefits.”

The flip side: Too much stimulus could cause the economy to overheat, lead to inflation, and cause the Federal Reserve to raise rates. The bond market has already been pushing rates higher. Last week, the yield on 30-year U.S. Treasuries rose above 2 percent for the first time since February 2020.

- **Infrastructure spending.** Work has begun on a \$2 trillion bipartisan infrastructure plan that is intended to create jobs and rebuild U.S. transportation networks, reported Ian Duncan of *The Washington Post*.

The flip side: While many agree U.S. infrastructure needs repair, the cost may be paid through higher taxes. There is ongoing debate about whether

(Continued on page 2)

Data as of 2/12/21	1 WEEK	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Standard & Poor’s 500 (Domestic Stocks)	1.2%	4.8%	16.4%	14.0%	16.1%	11.4%
Dow Jones Global ex-U.S.	2.3	6.1	15.9	5.3	10.6	3.1
10-year Treasury Note (Yield Only)	1.2	NA	1.6	2.9	1.8	3.6
Gold (per ounce)	0.7	-3.8	16.2	11.2	7.9	2.9
Bloomberg Commodity Index	1.9	7.7	11.8	-0.9	2.2	-6.4

Notes: S&P 500, DJ Global ex US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

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IN THIS ISSUE:

- The Markets p1
- Market Statistics Table p1
- INNOVATIONS CAN BE DIFFICULT TO VALUE. p2
- Weekly Focus - Think About It p2

(continued from front page)

tax increases impede or accelerate economic growth, according to Jim Tankersley of *The New York Times*. In addition, government spending of this type is another form of stimulus, which could heat up economic growth.

Last week, Colby Smith of *Financial Times* reported numerous economists have increased U.S. gross domestic product (GDP) growth estimates for 2021. Estimates ranged from 5.9 percent to 6.3 percent.

INNOVATIONS CAN BE DIFFICULT TO VALUE

Throughout history, inventions and new ways of doing things have changed the world:

- The magnetic compass, which was invented in the 12th century, helped people navigate the world.
- The printing press, which was invented in the 1400s, made it possible to mass produce books, democratizing knowledge.
- Electricity and electric lights changed the rhythms of everyday life in the late 1800s.
- Currency, which was first used in the ninth century, eventually led to monetary systems, banking, and credit cards.

It would have been difficult to understand or estimate the long-term value of these innovations. It's possible some of today's innovations could have similar impact. One is machine learning. Machine learning uses algorithms to turn a data set into a model that can improve our understanding of a topic. For example, machine learning is being applied to:

- **Scientific research.** Researchers at the Massachusetts Institute of Technology (MIT) "...have now developed a machine-learning algorithm that helps them identify

multiple possible structures that a protein can take...The researchers are now using this technique to study the coronavirus spike protein, which is the viral protein that binds to receptors on human cells and allows them to enter cells," reported Anne Trafton of *MIT News*.

- **Smart cities.** Data-collecting technologies are being deployed in a number of cities. Kim Hart and

Aida Amer of *Axios* reported these technologies include location beacons (which track smartphones), smart tolls, drone cameras, smart landfills, security cameras, streetlight sensors, and smart grids. While expectations for smart cities are high, public skepticism has slowed the pace of these projects.

- **You, your friends, and your family.** "Much of the most privacy-sensitive data analysis today – such as search

algorithms, recommendation engines, and adtech networks – are driven by machine learning and decisions by algorithms. As artificial intelligence evolves, it magnifies the ability to use personal information in ways that can intrude on privacy interests..." explained Cameron Kerry of *Brookings*.

WEEKLY FOCUS - THINK ABOUT IT
"There is no recipe, there is no one way to do things – there is only your way. And, if you can recognize that in yourself and accept and appreciate that in others, you can make magic."

-Ara Katz, *Entrepreneur*



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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added. Michael A. Poland, CFA® – Financial Advisor and Portfolio Manager. Mike is a Chartered Financial Analyst with a BA from Michigan State University and an MBA from the University of St. Thomas, in St. Paul, Minnesota. Mike has been in the financial service industry since 1989. Mike's prior experience was with PaineWebber, Merrill Lynch and Rehmann Financial. Mike is a member of the CFA Society of West Michigan, and has served on the boards of The Builders Exchange of Grand Rapids and West Michigan, Mona Shores Education Foundation, and the West Michigan Symphony Orchestra. Mike lives in Norton Shores with his wife and three children.

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