

June 1, 2021



## Weekly Commentary



### END OF AN EMPIRE

In 1533, a highly advanced civilization lay spread across the Andes Mountains. The Incas commanded an empire that stretched three thousand miles and was about twice the size of Texas. It boasted paved roads, intricate fortifications as good as any in the world, and an army of eighty thousand men. Over the centuries this empire had also accumulated a vast supply of gold.

That's what attracted Spanish conquistador Francisco Pizarro. After arriving on the scene, however, his band of soldiers became terrified by the numbers and might of the Incas, and feared for their lives. Still, their thirst for riches knew no bounds, and they were willing to risk everything to get their hands on all that gold.

So Pizarro conceived a plan that was breathtaking both in its daring and in its ruthlessness. He and his men tricked the all-powerful emperor of the Incas, Atahualpa, into attending a meeting with them. Then they staged a bloody ambush, killing thousands of Atahualpa's men so they could capture the emperor himself. It proved to be a masterstroke that threw the Incas into disarray, and eventually enabled the Spaniards to subjugate the entire empire. The cities and fortifications of this once proud people were reduced to ruins.

The most amazing thing is that Pizarro even had the nerve to undertake this conquest, never mind succeed at it. True, the Spaniards had superior weapons-crossbows and guns-but only enough for a handful of their soldiers. It remains an astonishing fact that he toppled a well-defended empire of 6 million warlike people-with just 150 men.

*Pizarro was a perfect example of the expression "he who lives by the sword dies by the sword." After a lifetime of treachery and violence, even toward his own countrymen, he was surprised and killed by a band of assassins as he ate dinner in the governor's palace in Peru. The assassins were there to avenge the death of a fellow conquistador who Pizarro had first cheated, then executed.*

The Greatest Stories Never Told by Rick Beyer

## Weekly Market Commentary June 1, 2021

### The Markets

Are we at a tipping point?

One side effect of the pandemic was a collapse in demand for oil, which led to “the largest revision to the value of the oil industry’s assets in at least a decade,” reported Collin Eaton and Sarah McFarlane of *The Wall Street Journal*.

Last week brought another reckoning for big oil as a court ruling and shareholder influence made it clear companies need to revisit their strategies for emissions reductions and clean energy. Here’s what happened:

1. **Do it faster.** In the Netherlands, a court ruled an Anglo-Dutch oil producer would need to lower its emissions by 45 percent from 2019 levels by 2030, far more quickly than the company had intended.

“Analysts said the...ruling could set a precedent for similar cases against the world’s biggest corporate polluters, which may now face related lawsuits and be forced to overhaul their business models,” reported Derek Brower and Anjali Raval of *Financial Times*.

2. **Change direction.** For weeks, a U.S. oil supermajor had done battle with an investment group that holds 0.02 percent of its shares. The investment group wanted the company “to gradually diversify its investments to be ready for a world that will need fewer fossil fuels in coming decades” rather than focus on carbon capture and storage solutions, reported Sarah McFarlane and Christopher Matthews of *The Wall Street Journal*.

To that end, the investment group nominated four outside board-of-director candidates stating, “A Board that has underperformed this dramatically and defied shareholder sentiment for this long has not earned the right to choose its own new members or pack itself in the face of calls for change...shareholders deserve a

Board that works proactively to create long-term value, not defensively in the face of deteriorating returns and the threat of losing their seats.”

Other shareholders agreed and, in a highly unusual outcome, two of the four candidates were elected to the board, reported Ben Geman of *Axios*.

**3. Less is more.** Two other multinational energy companies experienced shareholder uprisings recently, reported Sergio Chapa and Caroline Hyde of *Bloomberg*. Shareholder proposals to aggressively reduce emissions and limit pollution by a company’s customers were approved despite the companies’ boards urging shareholders to vote against the changes.

Major stock indices in the United States finished last week higher.

(The one-year numbers in the scorecard below remain noteworthy. They reflect the strong recovery of U.S. stocks from last year’s coronavirus downturn to the present day.)

Data as of 5/28/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor’s 500 (Domestic Stocks)	1.2%	11.9%	38.8%	16.1%	14.9%	12.1%
Dow Jones Global ex-U.S.	1.6	8.7	39.6	6.2	8.4	3.3
10-year Treasury Note (Yield Only)	1.6	NA	0.7	2.8	1.8	3.1
Gold (per ounce)	1.3	0.7	10.6	13.6	9.4	2.2
Bloomberg Commodity Index	2.1	18.9	47.9	0.9	1.7	-5.7

S&P 500, Dow Jones 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; Federal Reserve Bank of St. Louis; 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.

**HOW MUCH IS A CEO WORTH?** The COVID-19 pandemic created enormous losses for many companies so it might seem logical some CEO pay packages would decline along with companies’ profits. In fact, a number of CEOs announced high-profile salary cuts last year, reported *Axios*.

The stinger is salary is often a small part of CEO compensation. While executive compensation packages vary from company to company, they often include:

- Base salary
- Short-term incentives such as bonuses
- Long-term incentives such stock options
- Benefits such as health and life insurance, retirement plans, and paid vacations
- Perquisites (perks), such as financial counseling, tax preparation, security, cars and drivers, corporate aircraft, and country club fees

When all aspects of CEO pay are considered, the majority of CEOs received higher pay in 2020.

“Fortunately for those CEOs, many had boards of directors willing to see the pandemic as an extraordinary event beyond [CEOs’] control. Across the country, boards made changes to the intricate formulas that determine their CEOs’ pay – and other moves – which helped make up for losses created by the crisis,” reported Stan Choe of the *AP*.

As a result, median pay for CEOs at companies in the Standard & Poor’s 500 Index was \$12.7 million, according to data analyzed by Equilar for the *AP*. That’s a 5 percent pay increase over 2019 levels. In contrast, wages and benefits for non-government workers who were employed went up by 2.6 percent in 2020.

“Companies have to show how much more their CEO makes than their typical worker, and the median in this year’s survey was 172 times. That’s up from 167 times for those same CEOs last year, and it means employees must work lifetimes to make what their CEO does in just a year,” reported AP.

## Weekly Focus – Think About It

“Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.”

--Adam Smith, Economist and philosopher

Best Regards,



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\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

\* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

\* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

\* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

\* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

\* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

\* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

\* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

\* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

\* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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