Leadership in the equity markets has shifted from technology/ biotech and growth to large cap cyclical. The duration of any rotation is central to taking advantage of momentary adjustments. Most agree that inflation is a significant market risk for the US Dollar, interest sensitive equities and fixed income. Energy, home prices, shipping rates and consumer goods are escalating as the economy gathers steam. The methodology for determining CPI - consumer price index - as determined by the Bureau of Labor Statistics - has devolved into a flawed method that does not capture the true rate of inflation. Entertainment, restaurants, hotels and other service categories impacted by the pandemic are depressing current CPI reporting; all the while statisticians are not able to access prices through field visits for many goods and services with target businesses suspending operations in the spring of 2020. The current CPI reading is in my opinion obsolete, with a large amount of inflation going undetected. The *target* inflation rate as stated by the Federal Reserve is 2%. With the latest read at 1.7%, there is no required advance in the fed funds rate. Chairman Powell and the Fed are playing a risky game - attempting to hold rates artificially low for a variety of reasons. The bond market is not oblivious to stronger economic growth. Rates are moving higher, particularly on the longer end of the yield curve. The rapidity along with volatility in the upward movement of rates will determine how well growth stocks perform over the near term. Many swiftly growing companies are being punished as their future cash flows are discounted back at higher rates, translating into a lower present values. Large cap, particularly cyclicals, are a preferred market segment to ride out any prolonged period of inflation, as these companies can and will pass on input costs to the consumer - becoming an integrated part of the inflation cycle. Metals (Palladium, platinum and others currently in high demand for EV and other technology), energy, lumber and cement are all likely to continue rising with inflation. Add a potential massive proposed infrastructure bill of $2.3 Trillion dollars, and demand for these commodities will increase with incremental demand. As noted above, duration is key to positioning. Cyclicals have moved higher, while technology has drifted lower for the last several months – now reflected in current prices as expectations for rates and their anticipated path are in the mix. Diversification is incredibly important during various economic cycles. Exposure to multiple sectors and market capitalizations is critical for successful long term investment outcomes.

US consumer sentiment is surging in March, as bank accounts are padded with pandemic relief stimulus payments. Confidence is also assisted by the significant progress with vaccinations. *Initial* claims for unemployment continue declining to a level equivalent with onset of the pandemic. *Ongoing* unemployment rates remain elevated. This is likely to be the case so long as increased Covid Relief unemployment benefits outweigh the compensation for hourly/ other workers. Consumer spending and personal income have been relatively strong during 2021, although February witnessed a month over month decline following a strong January - curtailed by disruptive winter storms in Texas and severe weather in other regions of the southeast.

The Federal Reserve and economists are providing bullish forecasts regarding real (net of inflation) GDP growth. Theoretically, GDP could be higher than forecasts, but are tempered by fears that the Conronavirus variants might render vaccines partially ineffective. Slower vaccine rollouts for global trading partners will probably suppress exports. There is a cash hoard of $2.8 Trillion in US household's savings, money markets and checking accounts, the result of suspended consumption during the pandemic. Demand for goods and services are likely to surge during 2021, with a surprise to the upside (growth will outpace estimates) if history is any guide.

A global recovery and strong earnings are likely, the result of mass immunization/ opening up of the economy. All indications point to equities as a preferred investment during associated expected growth/ inflation. Corporate earnings have the best chance of keeping pace with inflation, and in turn, their respective stock price. Undoubtedly there will be twists and turns, and the unexpected. Maintaining a long term view will assist in riding out any turbulence in equity prices.

Ramsdell Capital Management . 505 Montgomery Street. Suite 1000. San Francisco, Ca 94111
415.568.2200 / 800.959.9950 / will@ramsdellcapital.com