

MARKET COMMENTARY – MARCH 1, 2021

By the Numbers

While we always enjoy providing clients and readers with snappy quotations from a variety of sources and then hearing your feedback, this month we failed to land on just the right tone. So, we've skipped the practice altogether. Eek! Instead, below you'll find a review of recent and forecasted fundamental numbers we deem most important. We hope for better hunting next month for the obscure, yet germane, historical tidbit.

Fourth quarter 2020 corporate results were better than expected and, in fact, quite good. Topline and bottom-line numbers alike, trounced expectations. For example, going into the quarter, expectations were for a 14% drop in earnings from the same period in 2019. We are happy to report that when the dust settled on all the reports from S&P 500 companies, earnings actually grew by 4% from 4Q 2019! A magnificent shift in just a few weeks.

Expectations for 2021 year-long results are solid. Admittedly, when businesses come off a year like 2020, growth rates are bound to look good. But the strength in forecasts is nonetheless impressive. As of this writing and in the aggregate, large US companies anticipate that their sales will climb by more than 9% in 2021. The projected earnings growth is even stronger at 24%.

But what about valuations? Stocks are expensive, right?

Sort of. But to thoroughly answer just how expensive stocks are or are not, let us delve into some economic numbers first.

First, fiscal policy entails all discretionary and automatic Congressional spending. And it is clear that for the coming year at least, D.C. policy is in aggressive reflationary mode. Multiple trillions have been spent. Multiple trillions are working their way through the system as we speak. And just as it has in previous examples, we anticipate that the near-term effect will be boosted spending and saving. There is a fair chance that revenue and earnings revisions for 2021 corporate America continue to edge higher – thereby making stocks seem less expensive.

Second, monetary policy is expansionary. We've often shared and will likely share again (because it is important) a Wall Street maxim. Don't fight the Fed. It means that

when the Federal Reserve is pulling all the levers to pump dollars into the system, don't assume that it will fail. Interest rates are low, and the board of Federal Reserve governors has publicly stated that they will remain so. They have also stated that there is no planned ending to their extra bond buying operations. Credit is easy. Rates are low.

Back to valuations. When rates are low and likely to remain in a low range for a long while, the mathematics of finance says that prices for assets will be higher. And so, bonds and stocks are pricier than they were before, but appear to be worth it. Of course, if rates move appreciably higher, prices will come down in many respects. Yet remember the maxim in the previous paragraph. Don't fight the Fed. Be sensible and do not take unwarranted risks, but don't fight the Fed.

February saw a miniature spike in longer term rates. On the whole, this does nothing to derail our opinions stated above. In fact, it merely provides a nice opportunity to purchase bonds in March paying a few dozen basis points more in interest than they did in January. We don't see the increase in rates as the start of a new trend.

Finally, China will continue to gobble up a massive amount of the global economic pie. Risks abound, but we remain hopeful that all nations realize that an uneasy peace is preferable to hostilities. Checks and balances must occur and will provide uncomfortable headlines. But we remain committed to investing where we believe we can capture reliable returns.

All of the preceding is based upon a slow re-normalizing of movement and commerce in the U.S. and world. We expect setbacks and delays. But we also expect that by the end of March many millions more will have gotten the vaccine. We expect each month thereafter to show steady progress.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

Jason Born, CFA
President