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U.S. Equity markets continued to surge higher in the first quarter on the back of two overriding themes: greater than expected stimulus and vaccine distribution progress. The stimulus at the end of 2020 ($900 billion) and the relief package signed in early March ($1.9 trillion) equate to nearly 14% of GDP. In addition, the American Jobs Plan announced on the last day in March (which will cost $850,000 per job created, according to Moody's Analytics), proposes an additional $2.25 trillion in spending and plans to be paired with an additional $1 trillion focused on social programs that is expected to be unveiled sometime this month. This massive fiscal stimulus is unprecedented and clearly larger than what markets had priced at year end, which, in addition to lifting the equity markets, helped raise 10 year treasury rates by 83 basis points (or 90%!). To fund the plan, the Biden administration has suggested raising corporate tax rates to 28%, which by one estimate could cost 9% of next year's S&P 500 earnings. These policies have set off much debate regarding the tug-of-war between the positive short term effects of the massive increase in money supply and the longer term negatives created by increased taxes, potential inflation, and debt levels not seen since World War II.

Our Kirwan Capital Strategy portfolios gained 5.81% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 6.35%. The quarter's performance leaves our average compound annual return after fees since Jan 1, 2013 at 14.64%, which would have turned a $10,000 investment into $30,869 in 8 1/4 years. Our returns were boosted by outperformance from Alphabet (Google), Hanesbrands, and Kraft Heinz, as well as continued strength from banks Wells Fargo and JP Morgan. On the other side of the coin, long-term outperformer Apple finally lagged the market, while Amazon, Anheuser Busch, and Visa also provided a headwind to our portfolios.

Our activity during the quarter consisted of trimming profitable stakes in Apple, Hanesbrands, General Mills, and JP Morgan and buying 3 new companies that lean toward the value camp. At the time we bought General Mills, it had been falling for several months and Kellogg had risen and looked overpriced. Shortly after our purchase, General Mills rose for several months while Kellogg fell. We sold General Mills at a profit, and were able to purchase The Kellogg Company after it had fallen nearly 20% over the course of a half year or so. While the company has struggled to grow over the last several years, management has been laying the groundwork to reignite sales growth by reorganizing its distribution network and increasing investments in manufacturing capabilities and brands (including an increasing lineup of plant based meat alternatives). In addition, the pandemic provided a cash flow boost which should help improve the balance sheet and fund growth going forward.

We also purchased The Kroger Company, the nation's largest grocery store operator, which has performed surprisingly well over the past decade, generating strong cash flow and decent sales growth in the face of stiff competition from the likes of Amazon and Walmart. The company was given a fortuitous boost by the pandemic as people stopped eating out and Kroger became a beneficiary of heavy investment in its online business. The first two of several planned highly automated distribution centers are slated to open this spring, and continued investment in online fulfillment is planned. The company has quietly repurchased nearly half of its shares over the past 15 years while paying an increasing dividend the entire period. Continuing share buybacks and increasing store branded production and sales mix, in addition to improvements in online pickup/delivery should continue to drive profit growth through the decade. With our purchase price at around 11 times earnings, this purchase should benefit our portfolios nicely over time.

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The third stock we purchased during the quarter is a Canadian firm named Alimentation Couche-Tard Inc. The company, whose name translates to "food for those who go to bed late" in French, owns and/or operates over 14,000 convenience stores globally. They operate under several brands, but the name that most of us Americans recognize is Circle K. While growing nearly twice as fast as the most comparable American public company I could find over the past decade (Casey's General Stores), Alimentation was purchased at less than half the cost on a Price/Earnings basis. The company performed extremely well in light of sharply declining fuel sales and foot traffic during the pandemic, and management has stated the company is still on track to double the business in 5 years (a plan they announced nearly 2 years ago). If they perform even near this stated ambition, this investment should prove very rewarding for us over time.

In light of the massive increase in money supply with much more likely to come and the recently reiterated accommodative stance from the Federal Reserve, it looks like the tide will be working to lift all boats for the near to medium term. While this is no guarantee of positive returns over this timeframe, our strategy remains steadfast and over time should prove the best means to take advantage of positive business conditions while weathering the storm with relative success when conditions turn for the worse.

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.