



# THE MCCREA - BOLLINGER GROUP

## FIRST KENTUCKY SECURITIES CORPORATION

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## PARTY LIKE IT'S THE 1990s

Continuing the recovery from the 2020 COVID-related economic shutdown, the U. S. economy is firing on all cylinders. The second quarter real GDP reached all-time highs, hitting a rate of 6.5% and consumers reported record savings. But now the re-opening of the economy, new government stimulus, and low interest rates have consumers slowing their savings rate and they are ready to party. In the second quarter of 2021, consumer spending on goods and services were up a whopping 10%, and benefitting from historically low interest rates, housing prices were also booming with new home sales up 11%.

Consumers are not the only ones increasing spending in 2021. The federal government continues to party like there is no tomorrow. With interest rates near zero, the government continues to borrow at no apparent cost. In its latest budget, the federal government has estimated that spending will be up 10% in FY 2021, totaling over \$7.0 trillion. Budget scorekeepers on Capitol Hill estimate that nearly half of new government spending will come from government borrowing, which will lead to an annual budget deficit of roughly \$3.5 trillion for FY 2021, a new record high.

Not to be left out, businesses are also joining the party. According to First Trust, business investment has reached a record high as investments in equipment and intellectual property were up 13.0% and 10.7% respectively in the second quarter of this year. Record amounts of corporate cash, along with record profits, may help keep the party going a while longer.

Through this economic “party,” stock market investors are enjoying a run to record highs as the S&P 500 has nearly doubled from its low in March 2020. According to the Wall Street Journal, the S&P 500 hasn't had more than a 5% pullback since October. Re-opening the economy, low interest rates, and deficit spending are all keeping the party going with strong economic growth and many companies are enjoying record profits.

### NOT TO BE A PARTY POOPER, BUT...

All of this spending has led to higher inflation. If higher inflation proves to not be transitory, consumers will have to spend more and will get less. Additionally, higher inflation would likely lead to higher interest rates. This rising cost of borrowing would likely not only cool the red-hot real estate market, but also consumer spending in general. If rates rise, the government will need to borrow even more to cover the extra cost of debt.

Our concern is that the stock market appears to be somewhat overvalued by most historic measures. While the market can continue to be overvalued for extended periods, it will come back to fair value. This can happen by future earnings growth catching up to market prices or market prices coming down to normal historic values.

### WHAT WE ARE DOING AND RECOMMENDING

We don't expect the market to crash, but we do believe we will see a significant slowing in the market in the not-too-distant future. In our portfolios, we are emphasizing areas of the market that we believe will fare better in a high inflation and higher interest rate environment.

*In the meantime, we are enjoying the party as much as everyone else, while trying our best to avoid the hangover.*



The investment markets are constantly changing. As long-term investors, we look at these changes as opportunities for your overall investment strategy. What is your timetable? How best to balance risk and rewards based on your objectives? What are the important reasons for you to build and protect wealth? We monitor each investor's portfolio against changing market conditions to maximize performance. It is our simple approach to produce wealth for you.

Your Team: Sheree Bollinger, Bruce McCrea,  
Chris McCrea, Caroline Flatt, & Bryan McCrea

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## Investing Green is Harder Than You'd Think

*Excerpt by Anneken Tappe, CNN Business*

ESG investing — funds that are conscious of companies' actions on the **environment**, **society** and **governance** — is an increasingly popular trend for people concerned about how their money is being used. It sounds great, but it's complicated.

The ESG label is meant to make investing green easier by giving investors a simple way to allocate their money to good causes. And, indeed, there are plenty of sustainability- and climate change-focused exchange traded funds available. But it's still not the catch-all stamp of approval you'd expect.

The label started with the idea that ESG issues should be included when valuing a business. More recently, however, the emphasis has moved to the impact company's products and services have, said Jon Hale, director of sustainability research at Sustainalytics. "A lot of ESG funds are oriented more toward the ESG valuations rather than the impact," he told CNN Business. That's why the blanket ESG designation might not mean all companies in an ETF are up-to-snuff on all fronts. "You can't tell just from the label. You actually have to figure out what they're doing," said Hale.

That essentially forces investors into tough choices between the E, the S and the G. Invest in one, and you often have to sacrifice another. This puts climate and socially conscious investors in a tough spot.

ESG investing doesn't do away with all problems in business, environmental or otherwise. But investor decisions still make a difference. "As investors we have to invest in the future we want to see," said Elizabeth Levy, portfolio manager at Trillium Asset Management. That means understanding the depth of the commitment companies are making to reach their ESG goals and how they can actually be held accountable. "That's one of the reasons ESG investors such as ourselves are pressuring the SEC to require climate disclosures," which would standardize that kind of reporting, Levy added.

Shareholder activism surrounding ESG issues is also becoming more common. "Companies are starting to realize that they have a fairly sizable amount of ESG-minded investors in their investor base," said Jon Hale, the Sustainalytics sustainability research director. And that's "doing some good in terms of shifting corporate behavior toward operating with sustainability in mind."

*To learn more about ESG investing, go to*

[www.cnn.com/2021/08/16/economy/green-investing-stocks-etf](http://www.cnn.com/2021/08/16/economy/green-investing-stocks-etf)

Source: CNN Business



### ENVIRONMENTAL

#### Impact on the planet

- Greenhouse gas emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Recycling and waste management
- Natural resource use
- Renewable energy
- Water scarcity
- Energy efficiency
- Sustainability initiatives
- Relationships with regulators



### SOCIAL

#### Relationships with employees, customers and community

- Diversity and inclusion
- Company culture
- Data protection and privacy
- Customer satisfaction
- Relations with local communities
- Human rights
- Labor standards
- Product safety
- Employee training
- Ethical supply chain sourcing



### GOVERNANCE

#### Corporate leadership standards

- Board composition
- Management diversity
- Shareholder rights
- Lobbying
- Executive compensation
- Accounting transparency
- Separation of CEO and Chairman roles
- History of shareholder lawsuits
- Relationships with regulators

## By the Numbers

### WELL ABOVE AVERAGE

The S&P 500 is up **+19.4% YTD** (total return) through the close of trading 8/20/21. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight proportionate to its market value (source: S&P Dow Jones Indices).

### FED

The Fed's Board of Governors is a **7-member** group that has **1 vacancy today**. Of the 6 current members, the roles of 3 members are up for reappointment over the next 5 ½ months: **Randy Quarles** (Vice Chair of Supervision), **Richard Clarida** (Fed Governor) and **Jay Powell** (Fed Chair) (source: Federal Reserve).

### MONTHLY BENEFIT

**54 million** Americans receive monthly **Social Security** retirement benefits, including retired workers, dependents of retired workers, and survivors of deceased workers. **42 million** Americans receive monthly assistance from the **Supplemental Nutrition Assistance Program** (SNAP), aka "food stamps" (source: SNAP).

### AVERAGE PER MONTH

The average Social Security retirement benefit is **\$1,503 per month**. The average "food stamp" benefit (SNAP) is **\$157 per month per person** (source: BTN Research).

## Upcoming Events

*9th Annual*  
**Client Appreciation Day**  
at the Races

**Churchill Downs Turf Club**  
**September 16, 2021**