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MARKET COMMENTARY June 10, 2021

Dow Jones Industrial Avg.	32,981.55	Standard and Poor's 500	3972.89
2021 (YTD) +7.8%	1st Qtr. +7.8%	2021 (YTD) +5.8%	1st Qtr. +5.8%

"Spend, spend, spend. More, more, more" -- Summary of President Biden's State of the Union Address.- Anonymous

Our New Leader - During the first quarter the hope was the election that pushed President Trump to the sidelines would result in a more civil, constructive atmosphere in Washington. A major reason for President Biden's victory was his assertion he would be a unifier rather than a divider unlike his predecessor. He portrayed himself as able to work with his former colleagues on both sides of the aisles of the Congress. He maintained that pretense until his first day in the Oval office of the White House when he unleashed a blizzard of executive orders, which totaled more than 60 in his first 100 days in office, far exceeding the totals of each of his three predecessors. Twenty-four of his actions were aimed at reversing some of Trump's policies, including ten related to immigration. The negative consequences of his actions on this controversial issue continue to reverberate throughout the country. States on the southern border are in crisis mode due to of the persistent flood of undocumented immigrants, which has averaged 170,000 in recent months.

Direction of the Economy -When the Coronavirus struck this country last spring, the economy imploded. It collapsed like a tired, old skyscraper being reduced to rubble. Many experts expected it would require an extended time period to recover, yet miraculously the recovery began within a month or two. The economic statistics improved gradually through the summer and fall. By year-end, the recovery was well underway and further progress was expected as the coronavirus vaccines, which resulted from President Trump's "Operation Warp Speed", began to be widely administered. Evidence of the extent of the recovery is found in the number of unemployed which soared to 14.8 million in April, 2020, yet fell to 6.3 million in January of this year, the month Trump left the Presidency. It is clear when the recovery started and who was President as the recovery progressed. The economy would have rebounded more quickly if some states gradually lifted their lockdown restrictions as the effectiveness of the vaccines became evident. Now that those restrictions are being set aside, the boost to consumer sentiment is evident in a strong recovery in retail sales. This is expected to result in a strong business recovery over the balance of the year

First Quarter Surprise - Many market observers predicted the economy would slow in the first quarter of the year. However, beleaguered consumers received a timely boost in the form of a $1400 check as Congress passed the first of President Biden's three proposed mega-spending plans. The three plans will total more than $6 TRILLION - if adopted. The first phase, the "American Rescue Plan", occurred in the first quarter and carried a $1.9 trillion price tag. It provided checks to a broad section of the population as well as to many small businesses. The primary goal was to help families and individuals cope with the widespread negative economic setbacks, which were a direct result of the pandemic virus. Even as the recovery gathered momentum, the Biden administration has continued to insist on the continuation of a federal supplement to unemployment checks. Initially this supplement was an extra $600 per month. Although it has been reduced to $300 per month, many lower skilled and entry level workers have no incentive to return to work. The irony is national unemployment statistics remain elevated because of this government disincentive.

Investors and the Wall – Investors are positioned behind this wall meant to protect their investments that is being slowly eroded by the flood of spending occurring in Washington. The base of the wall is also being undermined by the continued policy of quantitative easing by the Federal Reserve and the resulting prolonged period of ultra-low interest rates. Storm clouds have appeared as budget negotiations have hit an impasse over the enormous "infrastructure" bill. The Democrats have decided the bipartisan negotiations yielded results well shy of their goals, so they plan to revert to their original $2.2 trillion plan. More spending. More pork. More debt. Will serious inflation be a consequence of these ill-conceived efforts, after decades of price stability? Finally, there is the looming threat of a confrontation with one of the nation's known adversaries – China, Russia, Iran, or North Korea. In spite of all these challenges, stocks are flirting with all-time highs. Consumer confidence is increasing as the yoke of the virus is lifted and the economy continues to build momentum. Investors are acting as though the road ahead is clear and it likely is through the end of this year.

Prudent investors need to decide whether to pay heed to all the warning signs and take defensive action or trust there is a wall that can withstand these pressures. Our concern is investors are willing to pay 20-25 times earnings versus an historical average of 15 times for companies that are growing revenues in the mid-single digits. The result is many companies are too richly valued. Therefore, extra care must be taken when adding a new position to a portfolio. At this point in the economic cycle, quality should be the first criterion to consider. A second consideration is a company should have solid growth prospects. Third, many companies have issued too much debt because interest rates have been so low and they feared what the pandemic might do to their businesses. This provided them a cushion against adversity, but excessive leverage caries its own risks.

Speaking of debt, the fixed income market continues to offer scant returns. If one feels compelled to hold some bonds or notes to provide balance to a portfolio, it will be necessary to realize any interest earned will be scant, and longer maturities will provide disappointing returns if interest rates begin to rise.

Washington Machinations - Yes, the President and his Democrat majority in Congress have big spending plans. They also have plans to pay some of the bill by raising taxes. President Biden declared in his first State of the Union address no taxpayer with an income of less than $400,000 per year will see an increase in his/her tax bill. However, hidden in the fine print there lurks provisions likely to impact the estates of families who are certainly earning less than $400,000. In order for the Administration to keep its promise concerning those with incomes of less than $400,000, their challenge is to identify other sources of revenue to pay for the trillions they propose to spend. However, it will be difficult to identify taxable pools equivalent to the gross income of all the taxpayers earning less than $400,000. Their first target was again the ultra-wealthy, and their trial balloon was an annual tax on wealth in addition to income. Next on their list are estates, that is what you are able to leave to your heirs after you pass on. Here they most assuredly are aiming to broaden their grasp and it is likely many in the middle class will find a target on their back. This next idea is even more draconian. They have been telling us for years that Social Security and Medicare are on an unsustainable path, so we should save more for our own retirements. Many individuals have been able to accumulate a comfortable nest egg, so our retirement plans (e.g. 401(k)s, 403(B)s, and IRAs) may soon qualify as a revenue target as well. The bottom line is big spending plans require large revenues which necessitates a corresponding increase in taxes.

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Happy summer! JML