CBL WEALTH MANAGEMENT
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Market Brief

April 9, 2021

Commentary:

Market Snapshot

Closing Values as of 04/09/2021

Dow	33,746
S&P 500	4,128
Nasdaq	13,850
Gold	$1,732

The last year has been remarkable, to say the least. The COVID-19 pandemic has created some of the most frightening and volatile social, economic and market conditions experienced in modern times. It has been just over 12 months since the world's largest economy was brought to a near stand-still by a government imposed economic lockdown in an effort to slow the rapidly evolving COVID-19 health crisis. The resulting self-inflicted "COVID Recession" prompted the Federal Reserve to unleash a series of the most aggressive and unique monetary policy responses imaginable, while our leaders in Washington passed a series of massive stimulus bills issuing funds directly to American families, enhancing unemployment benefits and making funds available to small businesses as potentially forgivable loans.

Consider where we were at this point in time just one year ago; the longest bull market run in history had been brought to a sudden and crashing end, plunging from all-time highs to bear market lows in just 15 trading days. What killed the longest bull market expansions since the Great Depression? It wasn't a systemic failure or economic excess that finally brought down the raging bull market, it was a global health crisis…fear of the unknowns and the inability to quantify or understand the demand shocks and supply chain disruptions we KNEW pandemic mitigation efforts were going to create.

After falling nearly 34% from February 19th through March 23rd of last year, it took only five months for the S&P 500 to recover its losses, the fastest bounce back ever for the S&P 500 from a loss of more than 30%. (*The S&P 500 also lost 34% in 1987 but took 20 months to get back to new highs). Proving aggressive Fed monetary policy is more powerful than investor fear, the speedy recovery and rally to new highs that followed, all occurred while the pandemic continued to spread and economic activity was being suppressed by lockdowns and/or COVID related restrictions. With so much additional liquidity from the Fed being dumped into the economy during the pandemic, a significant amount of the increased money supply remained trapped in financial markets and accounts, helping the markets to recover and pushing asset valuations to record levels.

Now, just better than 12 months after the pandemic first turned the world upside down, investors are less fearful of the pandemic and potential lockdowns than they are of inflation and the Fed. As existing COVID related restrictions are removed and the economy begins to spring back to life, Pent-up consumer demand fueled by excess accumulated savings and new stimulus savings is expected to help kick-start the economy and lead to a surge in second quarter economic growth.

The biggest problem for companies is not demand, but getting badly needed supplies at reasonable prices in light of wide spread shortages of key materials. The introduction of a rapid change in consumer demand brought on by economic reopening's on a worldwide scale into damaged supply chains is leading to a forceful surge in the price of raw materials and the goods being produced. The big concern now, is not just that there is or will be demand-surge induced price inflation, but whether there is so much money sloshing around courtesy of the Fed and Treasury that it will begin to have its own inflationary impact on the markets and economy.

Make no mistake, over the next several months and through the summer, data for economic growth, and particularly for inflation, will be explosive, but a stimulus fueled surge in money supply will not be the primary cause of the increase. Today's inflationary impulse is very real and will last at least through the summer. A combination of a radical shift in consumer spending patterns, depleted inventory, damaged supply chains, and easy comparative year over year base effects set up for a surge in inflation. These conditions are expected to recede as the U.S. and economies around the world get back to normal, but could take some time.

Valuations remain at record highs as the markets appear to be discounting not only a return to where we were before COVID but meaningful economic growth beyond that. No one knows how much pent-up demand there is or how much growth beyond what we should reasonably expect to see. Helping to make investors even more optimistic, corporate guidance has become significantly more positive, for the first time in many years companies are continuing to raise their performance guidance going into earnings season. Because economic conditions were SO suppressed early last year as a result of COVID, the comparative base effects over the next several months set up for a large spike in year-over-year inflation, economic and earnings growth data…even if growth isn't explosive, it will appear explosive by comparison to this time last year.

The latest wave of market enthusiasm brought with it a stunning rush of new money. Inflows into stocks over the last 5 months has exceeded the inflows of the prior 12 years combined. Amid the frenzy, $569 billion has gone to global equity funds since November, compared to only $452 billion in the previous 12 years that go back to the beginning of the beginning of the longest bull market run in history. The wave of cash may have been influenced by late year or recent stimulus but the main driver of the massive inflow of cash into equities appears to be less about "irrational exuberance" and more about expectations of an explosion in economic activity.

The record inflows into equities seems to have further reduced market volatility, masked potential market risks and extending valuations even more. The market's bullish tone is largely due to vaccine, cyclical rebound and stimulus having been priced in, and expectations of strong Q1 corporate earnings growth (earnings seasons kicks of mid-April). With the markets appearing to be priced for perfection and investor sentiment being almost euphoric, any significant disappointments in Q1 earnings or surprise "bad news" on the COVID front could be a catalyst for a short term pullback or correction.

Even if there are no surprises or disappointments, at some point investor focus will shift to longer term concerns that have the potential to put pressure on or limit market performance. Issues such as; taxation, interest rates, inflation, COVID resurgence and Geopolitical tensions. I think It is important to acknowledge and explore the potential impacts or risks each of these issues present. While it is possible for any of these issue to evolve in a way that results in a market pullback or correction, given the expected pace of growth, it is unlikely they result in a lasting "bear market" like drawdown occurring in the next 6-12 months.

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