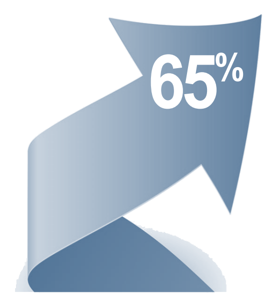
Q1 COMMENTARY 2021

April 20, 2021

Market/Index	2018 Close	2019 Close	2020 Close	2020 Change	As of 03/31/21	2021 Change
DJIA	23,327.46	28,538.44	30,606.48	7.25%	32,981.55	7.76%
NASDAQ	6,635.28	8,972.60	12,888.28	43.64%	13,246.87	2.78%
S&P 500	2,506.85	3,230.78	3,756.07	16.26%	3,972.89	5.77%
Prime Rate	5.50%	4.75%	3.25%	-1.50%	3.25%	0.0%
10-year Treasury	2.69%	1.92%	0.93%	-0.99%	1.74%	0.81%

The last 12 months have been interesting to say the least, but the first quarter of 2021 was somewhat boring after the fireworks of 2020. The rhetoric has calmed considerably and that has allowed us to look back and review what has happened and hopefully understand what will happen going forward. Fortunately (or unfortunately) we keep coming back to the same market driver, stimulus money.

In the past 12 months $3.5 trillion in new money was created by the Federal Reserve through open market bond purchases and there was $5.35 trillion in COVID-19 relief spending by the US Government. Together, that totals $8.85 trillion of economic stimulus in the US alone. (In comparison, during the 2008 Housing Crisis, there was only $1.5 trillion of stimulus money) As a result, M2, the amount of money in the banking system, has grown by $4 trillion. The US Personal Savings rate, which in the last few years has been about 7% of income, peaked at 26% last spring and is currently at 13%. While it is a great thing that people are saving, it forbodes a likely three-stage recovery pattern led by the wealthiest 25% and hopefully soon to be followed by the rest of the population.



In Stage 1, wealthier families typically earned income in professions that allowed them to continue their normal job or work remotely. However, they could not spend all of their income and were able to save money and buy shares of stock at a discount which led to a rapid rebound in stock prices. In the last 12 months the S&P 500 Total Return has increased 65%, the largest 12 month increase since before 1950. Wealthier families have also been able to purchase new homes at higher prices due to low interest rates; US building permits and existing home prices are both up 16% during the last 12 months. Economically, it was a good year to be wealthy in the United States.

In Stage 2, as we come out of the pandemic, we should see the return to full employment for the rest of the population. Office workers will return to their offices, restaurants will return to full capacity, businesses in the travel and leisure sector such as movie theatres, airlines, and hotels will reopen to full capacity. Unemployment should return to pre-pandemic levels and the global workforce will regain their full earning potential and may even see wage increases as employers struggle to hire additional workers. With their increased income, worker's spending will also increase and the overall demand for goods and services will return to or surpass pre-pandemic levels.

Stage 3 is where it gets interesting. Who among us hasn't created a "Things I'm going to do when this is over" list? Pent up demand to fulfill these wishes, along with trillions of dollars in savings to fund them should create tremendous excess demand for products and services that will overwhelm our ability to produce them. As demand exceeds supply, prices will inevitably rise and the concern will become excess inflation. The Consumer Price Index (CPI) has risen 1.69% so far this year and some economists have forecast 4-5% inflation in 2021. So what does this mean for your investments? In the short-term it's actually a positive. If inflation is at 4% and bonds are paying 1.5% there will be negative real return; prudent investors will continue to buy more equities and real estate. This will continue to push up valuations of these assets, but that doesn't necessarily mean a bubble will be created. The difference between 1999, 2008, and today is that there is real money behind the current asset purchases. In 1999 and 2008 the money supply remained relatively constant and the prices of certain assets (internet stocks and real estate) rose. Today, there is an extra $4 trillion dollars of real money and it is getting allocated to ALL asset classes. This could lead to investors living with permanent increases in valuation metrics such as the Price/Earnings Ratio and the Price/Sales Ratio. For this reason, Anchor believes there is a strong possibility that equity prices will continue to rise into the foreseeable future.

When will it end? Barring other unforeseen circumstances, the trigger for a market correction will probably be a change in the World's Central Bank's monetary policies. When they decide to start raising interest rates the reduction in asset prices could be quite swift but don't expect that to happen anytime soon. On March 11 the European Central Bank announced that it was ***increasing*** their bond buying stimulus to stop what it deemed a "premature rise in borrowing costs in the 19 countries that use the Euro Currency." On March 14 the US Federal Reserve said that "any interest rate hike is unlikely through 2023." There will also be tremendous political pressure for the central banks to keep interest rates low to prevent their governments from having to pay higher interest rates on the debt incurred due to stimulus programs. Low interest rates will benefit individuals, corporations, governments, and most importantly for us, investors.

Anchor will continue to do what we have always done: buy stock in good companies that are striving to increase their revenues, increase their earnings, and increase their dividends so that hopefully their share price will increase. We have shortened bond durations and, depending upon each client's situation, allocated more towards equities than usual. We appreciate your business and strive to earn the trust you place in us every day. Have a wonderful spring. We look forward to seeing you soon!

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