ANCHOR
Investment Management, LLC

Q2 COMMENTARY 2021

July 14, 2021

Market/Index	2018 Close	2019 Close	2020 Close	2020 Change	As of 06/30/21	2021 Change
DJIA	23,327.46	28,538.44	30,606.48	7.25%	34,502.51	12.73%
NASDAQ	6,635.28	8,972.60	12,888.28	43.64%	14,503.95	12.54%
S&P 500	2,506.85	3,230.78	3,756.07	16.26%	4,297.50	14.41%
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%	1.45%	0.52%

And The Train Keeps On Rolling

The last 18 months has been an amazing time to watch the US and world economies weather some turbulent times. The world had an opportunity to hit the reset button and many existing trends (economic and business related) suddenly accelerated and the pace of change resulted in a fast recovery. Online commerce vs shopping malls, streaming movies vs movie theaters, work from home vs the normal in-office work week, new industries being started vs old industries that were going to die anyway. Individually, this shift has hurt a lot of people and we don't intend to make light of that, but the doors it has opened to the US and the rest of the world are the greatest we have seen since the end of World War II. Let's take stock of where we are and where we are going.

The US Economy & Market Returns

In February 2020, the US GDP was $22 Trillion, a rise of 22% in the five years prior. Unemployment was at 3.5%, the lowest it had been since the 1960's and the stock market was at all-time highs. Then came the Pandemic. By April 2020 GDP had fallen 16%, unemployment rose 322%, and the stock market fell 35%. Then we hit the reset button.

Fast forward to today, Unemployment remains at 5.9%, but it is the second lowest unemployment rate in the industrialized world. The stock market is again at all-time highs, up 26.8% since February 2020 and up 96% since the lows of March 2020. Most importantly, US GDP is now at $22.74 Trillion, greater than it was before the pandemic despite supply chain issues, higher unemployment, inflation concerns, and people not working at the office. How did this happen? We learned better ways to do things and became even more productive, despite (or because of) the hurdles of the previous year. Let's talk about why some of our current hurdles are actually positive catalysts for the year ahead.

Inflation

As of May 31, US Inflation is at 4.99% and many people think it is too high and bad for the economy. In our viewpoint it is not because of how the inflation number is derived. Inflation is the ***annual*** rate of change of the Consumer Price Index (CPI), a basket of goods and services that consumers buy on a regular basis. One year ago, we were in a locked down economy; nobody bought anything they didn't have to and prices for certain goods fell tremendously. Now that we are coming out of the lockdown, demand for these goods has increased and their prices are returning to normal. Examples of this are: Gasoline (Up 58%), Airline Fares (Up 24%), Car and Truck Rental (Up 110%), Hotel Rooms (Up 10%), Men's

Pants (Up 12.5%), Ladies Dresses (Up 10%), and Used Cars (Up 29%). Contrast that with Ground Beef (Down 5%), Medical Equipment (Down 6%), and Video Rentals (Down 4%) and the pattern will become recognizable. In most of these cases, the prices of all goods and services constituting the CPI have basically returned to where they would have been if the pandemic had not occurred.

Unemployment

With unemployment benefits at all-time highs, most business owners are lamenting the fact that they cannot get workers to return to work. You can't blame the workers really; would you rather make $20/hr. to roof a house in June or make $18/hr. to sit at home? However, we think it's all part of the "reset" described earlier. Despite not having enough workers, GDP is at all-time highs. Businesses have figured out how to do more with less and become much more efficient. As unemployment benefits taper off this fall and workers are compelled back into the labor force, the combination of more labor with improved efficiency should result in an explosion of output. Prices will fall, innovation will skyrocket, and new technologies that we can't currently imagine will soon be developed.

Taxes

The three rounds of stimulus spending to combat the coronavirus and its economic impact has contributed to a nearly $4.5 trillion increase in the federal debt, raising it to $21.9 trillion as of March 1. Existing federal debt as a percentage of GDP is now the highest since World War II and it currently exceeds the size of the nation's entire economic output. The stimulus and resulting recovery put a spotlight on many folks that were economically left behind and much of the government focus will be on "catching up". The stimulus will slow as the economy is fully righted and the crisis has passed, but the larger than normal debt ratio will remain.

Decreasing the national debt has not been, nor will it ever be the goal. Our national debt will be higher five years from now than it is today, but we must decrease our debt to GDP ratio. This can be accomplished in three ways:

1. Decreasing government services, reducing expenses and therefore reducing new debt we must issue
2. Increasing government tax revenues by increasing collected taxes
3. Increasing GDP, (growing the economy) and by association increasing government tax revenues

Increasing GDP is the best way to accomplish the goal because it increases the denominator and increases government tax revenues. But we would expect a modest increase in individual and corporate taxes, a change in estate tax exemptions, and perhaps a wealth tax on the richest of the rich.

All of us at Anchor would like to thank you for your business and the trust and confidence you put in us each day. We look forward to working with you in the years to come and seeing you soon without a mask!

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