Q1

2021

QUARTERLY MARKET UPDATE

The first quarter of 2021 was markedly different than the first quarter of 2021 that is for sure. This quarter we witnessed a third and massive stimulus program introduced and passed by Congress which would inject 1.9 trillion dollars into the economy on top of the 2 previous stimulus packages over the past year. This stimulus package in conjunction with the introduction of the massive inoculation program and the introduction of a 2.25 trillion-dollar infrastructure bill brought every major index to new highs. The S&P 500 Index gained 6.2% for the quarter while the Dow Jones Industrial average gained 7.76% and the NASDAQ gained 2.78%

Optimism over the prospect of herd immunity and a return to normalcy combined with the liquidity injections into the market has brought concern over valuations in the equity markets in one of the most euphoric periods of growth in the markets in recent history. Value stocks ("Recovery Stocks") were the drivers in this quarter as growth stocks ("Stay at home" stocks) took a back seat. The narrowing of the spread between growth stocks and value stocks was long overdue and could be evidence that the markets are returning to some semblance of normalcy as the U.S. economy prepares to emerge from its Covid Cocoon. Valuations remain very elevated across the board however with the amount of liquidity injected into the economy it could be some time before a reckoning and subsequent return to the mean. We continue to conservatively position our clients for growth.

The focus now turns to the impact of these incredibly large stimulus programs on inflation and its impact on the economy. Inflation has been very muted since the end of the last recession despite multiple quantitative easing programs and super low interest rates. The impact of inflation on bond markets and the economy in general is very concerning. The yield on the 10 year U.S. Treasury bottomed out last year at .58% but steadily rose into the end of the year to close at .93%. The first quarter saw a jump in bond yields to close the quarter at 1.74% on the 10 year. This represents a very drastic move in yields and perhaps a recognition by the markets that inflation is unavoidable at this juncture.

The rise in interest rates had a negative impact on bonds and bond funds as interest rates and bond prices move inversely. Many investors gave back gains that they made last year when interest rates moved down from near 3% to .93%. We look to position our investors in low duration bond funds to shield them from rising interest rates and we also look to inflation protected bond funds to guard against the effects of inflation on our client's bond portfolios.

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Q2

2021

QUARTERLY MARKET UPDATE

The second quarter of 2021 saw strong stock market returns as the economy began to reopen and the Fed's $1.9 trillion stimulus package was absorbed into the economy. This was a bit surprising considering the market's lofty valuations, inflation and rising interest rate concerns, and the potential for higher income taxes on the table. All major indexes closed the quarter near record highs with the S&P 500 Index gaining 8.5% for the quarter and 15.2% for the year. The Dow Industrial Average closed the quarter up 5.1% and 13.8% for the year, while the NASDAQ closed up 11.4% for the quarter and 13.3% for the year.

Stock market valuations continue to be extremely high, and the specter of inflation is reinforced as the May year-over-year rise in consumer prices hit 5%. This is the biggest rise in inflation in 13 years. While inflation is not necessarily bad for the stock market, it may be bad for the economy and indicative of rising interest rates. The Federal Central Bank sets the short-term borrowing rate and uses higher interest rates to combat inflation. Rising interest rates may not be good for the stock market as investors seek the safety of higher bond yields and transition out of equites and into bonds as yields rise. Fed Chairman Jay Powel insists that the inflationary pressures are transitory and will not be impactful long term, however we take this advisement with a grain of salt.

Ten-year treasury yields had a volatile quarter, rising to 1.74% on March 31st but then coming all the way in to end the quarter at 1.45%. This would seem to support Mr. Powel's contention that as the market reads the tea leaves and apparently is comfortable with a 1.45% ten-year yield despite impending inflationary pressures. At the end of the day, talking heads are talking heads and the market speaks the loudest truth. We, however, believe that interest rates are on the way up, despite the recent pull back in yields and continue to position our clients in shorter-term bond instruments so as to mitigate the effect of rising interest rates on their bond portfolios. Bond prices move adversely to interest rates, so any significant rise in interest rates could have a correspondingly significant adverse effect on longer term bond instruments.

We continue to invest conservatively for our clients given the tenuous nature of this stock market and keep bond duration very short to guard against further increases in interest rates. When and if we see a significant downturn in the market, we will begin to reposition more aggressively according to our client's risk tolerance and investment time horizon. Feel free to reach out with any questions or comments on this commentary. You may do so through this website or email me directly at jdimaggio@ae.cadaretgrant.com. Enjoy this beautiful summer of re-opening!

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HIGH PEAKS
ASSET MANAGEMENT

YEAR END UPDATE

Happy New Year! We hope that you have made it through 2021 in good health and with optimism for 2022. As it turns out, this was not an easy feat. 2021 was a very volatile year with respect to the Corona Virus, but you'd never guess it by looking at the stock market returns. As vaccines rolled out and spring turned to summer, it appeared that we were on precipice of putting this Covid nightmare behind us. As cruel reality would have it, we then saw the Omicron Variant roll in, taking the world by storm and having us all digging out our masks once again. Let's hope 2022 is quite a different story!

The stock market was amazingly resilient, not only in the face of this virus recurrence, but also considering inflation come storming in, stronger than we've seen in 30 years. The S&P 500 Index, the broadest stock market index closed the year up a whopping 26.89%, while the Dow Jones Industrial Average gained 18.73% and the NASDAQ Composite Index finished up 21.39%. The stock market seemed to have blinders on and steamed higher despite the prevalence of Covid infections occurring at an alarming rate and the Consumer Price Index (CPI, measure of inflation) was persistently between 5 and 6% for the later half of the year. High CPI numbers signal high inflation and are typically bad for the economy and in turn, bad for the stock market.

High CPI numbers are also bad for the bond markets as the Federal Reserve raises interest rates to combat high inflation and as we know rising interest rates have a negative impact on bond prices. This is evidenced by the performance of many of our client's bond funds which suffered slight declines as the 10-year treasury yield rose from .95% to 1.512% over the year. We anticipated a rise in interest rates this year and had positioned our clients accordingly in low duration bond funds. This does not wholly insulate these bond funds from the negative price impact of rising interest rates but certainly mitigates the effects. We will continue to brace for rising interest rates and position our client accordingly.

As we enter 2022, it seems the stock market is over-valued, and we therefore proceed with caution when allocating new monies to equities and conservatively position our clients. Please feel free to contact us with any questions or concerns or to set up a portfolio review. We wish you a healthy and prosperous 2022 and thank you for allowing us to serve your investment needs.

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