Rochester Financial Services

Fee-Only® Financial Management Services

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
33,153	4,020	13,480	2,254	1.68%	4.52%	$1,730	$61.24

Investment Strategy Report

Vaccinations and Stimulus Help to Push Stock Indexes to Record Highs

The stock market uptrend continued into the new quarter as stocks finished yesterday at record levels, ahead of the holiday weekend. The question on most investors' minds these days is not if the stock market is going higher, but which sectors will lead the way.

The stock market seems to be riding a wave of optimism as our national vaccination program is paving the way to eradicate the virus. In New York State, anyone over 30 is now eligible for a vaccine and beginning next week, those 16 and over will be eligible. President Biden's call for a return to normalcy by July 4th seems like it is well within reach. This morning's March employment report brought more good news as the economy added 916,000 new jobs in March and the unemployment rate fell to 6%. Those industries hardest hit by the pandemic are anxious to reopen. Those industries that have weathered the storm, such as the housing industry, continue to do well. As Steve Sjuggerud wrote in his latest issue of True Wealth Systems, "Housing prices in the US jumped 11% year over year in January. That's the biggest jump in 6 years. Put simply, housing is booming."

In addition to the economic recovery that is underway, we also have the trillions of dollars of stimulus that the government is adding to the economy. The recently passed $1.9 trillion spending bill will add a tremendous amount of cash to the system, which is on top of the $3 trillion in stimulus spending that was passed last year. President Biden just proposed a multi-trillion dollar infrastructure plan that he hopes will get passed by July. And the Federal Reserve continues to add billions of dollars to its balance sheet each month. At its recent FOMC meeting, the Fed projected real growth this year of over 6%. Bob Brinker states in his April letter that "the Leading Economic Index (LEI) rose for the 10th consecutive month and indicates continued economic growth even before the $1.9 trillion in new stimulus takes hold." Based on his estimates of S&P 500 earnings, he feels that the index can challenge the 4,100 level going forward. "Although stock market valuation remains elevated, the combination of low interest rates and low inflation provides the underpinning for our valuation estimate."

While low interest rates can provide an environment conducive to higher stock prices, investors do need to be wary of rising interest rates. The 10 year Treasury began this year with a yield of 0.92% and has risen now to 1.68%. While we need to take note of this sharp rise in rates, especially with the massive amount of spending going on in Washington, the general consensus is that this absolute rate is still very low on a historical basis. And with the 10 year German bund yielding negative 0.32%, once the US dollar stabilizes, investor demand for higher yielding US bonds should keep the yield from rising much further.

As for the ongoing debate between growth and value, or as some characterize it, the reopening trade vs. the "what's been working trade", I have not yet made any moves to increase our exposure to value. As I mentioned last month, I did add small cap stock funds for many of you, which in a way is taking advantage of the reopening trade. But many of the beaten down value stocks have already had a strong recovery and may have run their course. Plus many of the growth stocks have had their 10% correction and now represent a more compelling value. Both Steve Sjuggerud (and his partner Chris Igou) and Louis Navellier feel that sticking with growth is still the way to go. In Chris' 3/30 column, he titles it "It's Time to Bet on Growth Stocks". He states that from mid February through March 8th, the Nasdaq fell 10%, but has since bounced back. And sentiment is still very negative for growth, which from a contrarian standpoint, is bullish for growth. "Fund managers are now betting on value stocks to beat growth stocks. These folks have a history of getting this bet wrong. And that means growth stocks are still likely to outperform in the next few months". Navellier also feels that the value rally is thinning out and that growth stocks will reemerge as leaders. These views align with my view that while growth companies might have a higher P/E ratio, their superior earnings growth rates provide a solid underpinning that could make them less of a risk than some of their high flying value counterparts.

Tax Filing Extension – In case you didn't hear, you now have until May 17th to file your income taxes. *Jeff Feldman*

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