

# Rochester Financial Services

Fee-Only\* Financial Management Services

Jeffrey Feldman Ph.D., CFP  
Certified Financial Planner  
Principal



August 3, 2021

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
35,116	4,423	14,761	2,224	1.18%	38,097	\$1,814	\$70.60

## Investment Strategy Report

### Stocks Continue To Climb Despite Virus Resurgence

No matter what gets thrown at it, the stock market continues to move higher. The latest deterrent has been the emergence of the Delta variant, which has proven to be more virulent and contagious than the original coronavirus. We are experiencing a spike in new cases not seen since last winter, prior to the vaccinations. While this is proving to be an epidemic of the unvaccinated, this latest surge is threatening to put a damper on the reopening of the economy.

However, despite the dramatic rise in new virus cases, US consumers and businesses seem to be ignoring the threat and continue to contribute to a strong economic recovery. As Ken Langone, co-founder of Home Depot said on CNBC (7/28), "the reopening economy is white hot. Used car prices are through the roof. We haven't seen anything like this since World War II. There are shortages of labor and materials. Vendors for Home Depot can't keep with the demand". Bob Brinker (August Letter) estimates that 2021 GDP growth will come in at 6-7%. He also states that elevated readings of the Leading Economic Indicators (LEI) are consistent with above-trend economic growth. And strong demand for residential housing has caused a spike in home prices as well as in the costs of building materials.

As the economy has come roaring back, so have concerns about runaway inflation, as strong demand has pushed prices across the board higher. It's hard to believe the tremendous spike in car and home prices over the past 6 months. Yet you wouldn't know it by looking at the bond market, as interest rates continue to slide lower. In the past month, the 10 year Treasury yield has declined from 1.43% to 1.18%. Steve Sjuggerud (StansberryResearch.com 7/16) agrees with the "bond market" and is not concerned about inflation. "Interest rates are surprisingly "smart" and do a decent job of forecasting inflation and the economy. The downward move in interest rates tells me that most of the inflation we are seeing today is temporary."

If you remove inflation as a major concern for the stock market, then you have more reasons to be optimistic about the prospects for stocks. Louis Navellier (7/27) emphasizes that with the phenomenal 2<sup>nd</sup> quarter earnings reports, we don't need to worry about the short term ups and downs of the stock market. Strong earnings will power the market higher. In addition, the tremendous amount of fiscal and monetary stimulus will also serve to boost stocks. The Federal Reserve has added \$5 trillion of liquidity to the money supply in the past 18 months. And they are giving no indication of slowing down any time soon. Congress is about to pass a \$1 trillion plus infrastructure bill, which will most likely be following by an additional \$3-5 trillion of spending on domestic causes.

Ed Yardeni (CNBC, 8/2) sees no imminent correction, saying that we have already gotten rolling corrections in various sectors during the first 7 months of the year. He feels that we are in the early stages of a major productivity boom, spurred on by innovations developed during the crisis. He foresees a "Roaring 2020's story that will be one for the history books, with unprecedented productivity yielding greater earnings". As we learn to live with the virus, life will go on and the stock market will continue to move higher. Foreign buying of our Treasuries will keep interest rates low. He envisions a Goldilocks scenario. He predicts the S&P 500 to hit 5,000 by the end of 2022 (13% higher from here).

The see-saw battle for market leadership, between growth and value, and small and large stocks continues. Last month, most sectors did well, although small cap stocks were the exception. However, Steve Sjuggerud's colleague Chris Igou believes that small caps' recent underperformance is about to reverse. He believes that they are oversold and are ripe for a significant rebound. Similar setups like this have occurred in the past and on average, they outperformed and have returned 16% over the next 12 months. We have a small position in small cap funds and I will plan to be patient with them, at least for a while longer. *Jeff Feldman*

Tel: 585 / 442-7580  
Fax: 585 / 351-2458  
Email: jmfeld@aol.com

4 Old Brick Circle, Pittsford, NY 14534  
<http://www.rochesterfinancial.com>

Fee  Only  
TM