Retire sooner? Retire later?

Or just retire from worrying about it.

Bangor Wealth Management

Key Takeaways

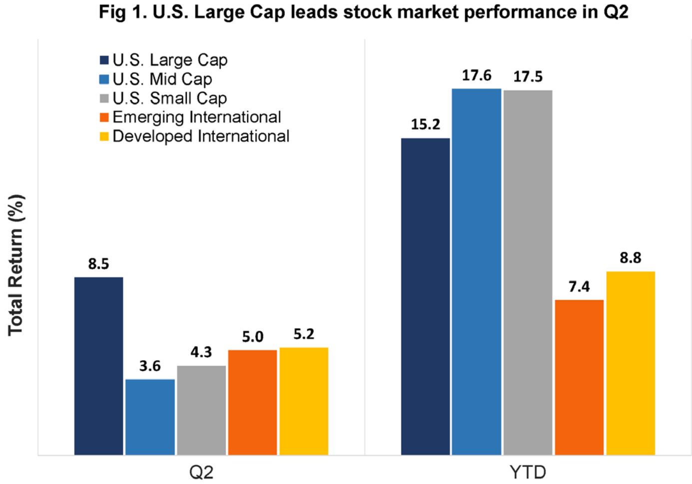
- Economic activity is robust as the vaccine rollout reduces fear and businesses reopen
- All major equity and fixed income markets posted positive returns for the quarter
- Cryptocurrencies decline significantly from their April highs
- Corporate earnings are poised to report over 60% in year over year growth.
- The Federal Reserve and the bond market don't seem concerned about inflation

2021 is off to a good start, as major stock markets all delivered. During the past three months, we have seen some truly positive signs compared with the dark days of the pandemic a year ago. Over 50% of the vaccine eligible population is now fully vaccinated with another 10% awaiting their second shot. Cases of COVID-19 have fallen dramatically here in the U.S., even as businesses re-open and masks come off in public places. Consumers, sitting on savings accumulated last year, are snapping up all kinds of goods including cars, boats, lumber, and sporting goods. The economy is bustling as the spigot that was turned off for so long has been opened wide.

Stocks Continue to Post Solid Returns

This positive news was largely anticipated by the stock market, which continues looking forward and sees more strength ahead. The 2nd quarter saw all major equity indices posting strong gains, led by U.S. large-cap, and continuing the trend that started last year. For most of the quarter, the shift out of growth and into cyclical value has also continued. We saw a change in tenor for June though, as investors began to bid up growth stocks again. As a result, the performance gap of value over growth stocks in 2021 has narrowed significantly. International stock market returns have been more muted, with both developed international and emerging markets indices around 5% (Fig 1.)

Fig 1. U.S. Large Cap leads stock market performance in Q2



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Cracks in Crypto

Cryptocurrency had a challenging quarter as the price level of most coins saw significant declines. Bitcoin tumbled from a high of $65,000 in April to the current level of $34,000, a drop of 47%, in the face of a crackdown by the Chinese government as well as a few errant tweets from Elon Musk. These huge price swings illustrate the speculative nature of this nascent digital asset.

Corporate Earnings Shine

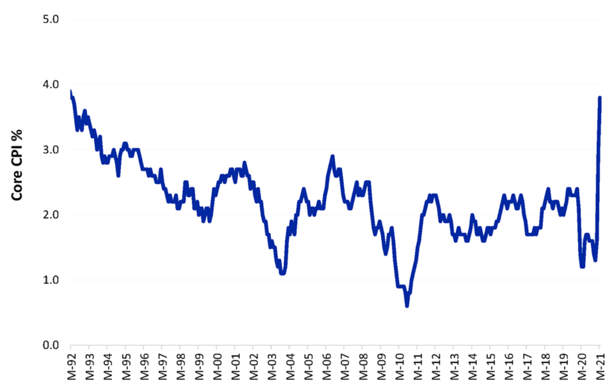
Here in the U.S., corporate earnings have been strong -- analysts have been revising estimates higher over the course of the three month period, when typically they are revised lower. According to Bloomberg, analysts expect earnings growth north of 60% in the current quarter, which if actually met, would be one of the highest growth rates since 2009. This is a function of both stronger growth as well as easy comparisons to the very difficult 2nd quarter of last year. For the full year, analysts are projecting earnings growth of over 35%.

As we have written in the recent past, valuation of stocks, particularly in the U.S., are leaving little room for disappointment. With the S&P 500 index at all-time record level highs, it will be important for the earnings momentum to continue in order to justify the forward price to earnings ratio of more than 22.

Trademarking "Transitory"

One side effect of the sudden economic shift into high gear has been higher prices, aka inflation. It has been a much discussed topic in the financial news. The latest inflation measure, the Core Consumer Price Index in May was 3.8%, the highest level since 1992 (Fig 2.)

Fig 2. Core-Inflation near 30-year high



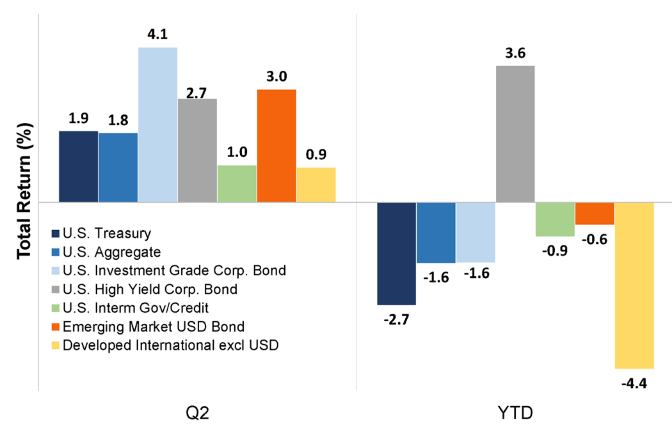
Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Jerome Powell has practically trademarked the term "transitory" in his description of this recent reading. His belief is that these recent levels are a function of both an easy comparison over 2020's declining inflation levels as well as the sudden surge in current demand, creating supply imbalances. All of this, in his view, should abate in time as manufacturers ramp up production and demand normalizes. Investors are closely focused on this subject, as the timing of future tightening monetary policy could be accelerated should inflation prove more persistent. Already we have seen expectations for future rate increases in 2023 and a possibility of tapering of asset purchases (quantitative easing) later this year.

Interest Rates Take a Break

Interestingly, against the backdrop of the highest inflation over almost three decades, all indications from the bond market show little concern. Long term interest rates as measured by the yield on 10 and 30 year Treasuries have declined from 1.7% and 2.4% to 1.5% and 2.1% respectively. The short and intermediate part of the yield curve has moved up materially. The yield on the 2-year Treasury climbed from 0.15% to 0.25% reacting to the signal of a potential policy shift from the FOMC June meeting. Fixed income has enjoyed a better than expected quarter after the drubbing received at the start of the year, especially for longer duration bonds and the corporate credit markets. Both investment grade and high yield bonds delivered a solid performance driven by narrowing credit spreads (Fig 3.)

Fig 3. Corporate bond markets delivered strong performance



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Forward Emphasis

Looking to the second half of the year, we continue to emphasize stock over bond holdings for long term investors who own both asset classes. While it is likely that the returns from stocks may be less robust in the near term, they should be able to exceed fixed income returns over time given the very low level of rates. Having said this though, we continue to use recent strength in stocks to rebalance back to our current targets, as many portfolios have experienced outsized growth in their equity holdings. To borrow a quip from Ed Clissold of Ned Davis Research, "It remains a bull market until it isn't."

If you have questions regarding how these changes may impact your portfolio or if you would like to schedule a review, please reach out to your Relationship Manager. We look forward to hearing from you!

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