Feeling Stronger Every Day

We enter 2Q2021 cautiously optimistic, seeing some light at the end of the tunnel, and this time, not an oncoming train. Many point to growing evidence there is actual progress against COVID-19 infections in recent weeks; a return to normalcy is within range. While it is far too early to claim victory, national daily infection numbers, seen below, and personal mobility data continue to improve. As one accomplished Ohioan once stated, “…. a giant leap for Mankind”. Indeed!

Big Problem, Big Response

Approved U.S. COVID fiscal funding, seen on the following page, now stands at $2 trillion (2020) and $3 trillion (2021) or 9.9% and 11% of GDP, respectfully. The March 2020 CARES Act was enacted at a time of 15% unemployment, a period of significant personal anxiety and economic uncertainty. The package was intended to offset the pandemic’s negative economic impact, providing Americans a bridge to a time when the virus was contained and economic growth more self-sustaining.
Big Problem  Continued

The recently enacted American Rescue Plan Act of 2021 is more comprehensive and economically stimulating, delivering $350 billion to states and municipalities, COVID aid, pension relief, and extension of enhanced unemployment benefits, while also supplementing educational funding. A second round of Paycheck Protection Program (PPP) loans and continued contributions from the Federal Reserve are incremental support levers for the U.S. economy. The scale of this stimulus is massive, resulting in quarterly GDP growth estimates of between 7% and 10% for each of the first two quarters in 2021.

Interest Rates on the Move

Consistent with expectations for a robust global economic rebound, interest rates are now on the rise. The increase in inflation expectations and interest rates began abruptly in late 2020, correlating with U.S. virus spread slowdown. Bahl & Gaynor considers higher nominal interest rates one of the most important variables impacting capital markets moving forward, impacting all asset classes to varying degrees. Investors have favored more economically sensitive sectors [such as Energy and Industrials] and commodities as stronger earnings trends have moved alongside economic improvement. On the contrary, long-dated bonds that have long enjoyed a steady decline in interest rates have underperformed. While the future scope, speed or persistence of the interest rate trending, seen below, is currently unknown, the influence of this important change in the investment landscape deserves close attention.

Source: Strategas, 2021.
The U.S. Consumer at the Starting Line

Supplemented by three stimulus checks and savings rates of 20%, U.S. consumer cash balances are 21% higher at $2.7 trillion year over year as of 12/31/2021. The latest round of stimulus checks are being received by more than 85% of all U.S. households and include transfer payments for eligible children and adult dependents. Additionally, consumer net worth registered all-time highs, driven by buoyant residential home prices and the rebound in capital markets. This record has not been enjoyed by all. The nature of the 2020 pandemic-induced recession delivered a disproportionally harsh blow to service industry employees. However, the economic recovery is lifting those affected industries (travel, food, leisure, etc.) as Americans cautiously return to pre-COVID daily lifestyles as seen in the graph below. Play ball. Game on!

![Retail Sales Excl Auto, Gas Stations, & Bldg Materials (SA, YoY%)](chart1)

Source: Strategas, 2021.

The Times are a Changin’, or are They?

As stated, a change in investor preference has been evident. Companies categorized as lower valuation and possessing a higher degree of economic sensitivity are currently in the performance spotlight. Commonly labeled as “value”, these stocks usually trade higher with domestic economic improvement. Investors currently in this equity “class” will likely enjoy much stronger earnings growth relative to companies categorized as “growth” in 2021. Analogous to the higher trend in interest rates, it remains unclear if these growth and value trends of the past several months, seen below, will endure or prove cyclical and temporary.

![Russell 1000 Growth vs. Value Total Return](chart2)

Source: Strategas, 2021.

We thank each of our partners and clients for their continued trust in Bahl and Gaynor.
Disclosure:

This material is distributed by Bahl & Gaynor, Inc., and is for information purposes only. Bahl & Gaynor, Inc., does not represent that the information is accurate or complete and it should not be relied on as such. It is provided with the understanding that no fiduciary relationship exists because of this report. Bahl & Gaynor, Inc. assumes no liability for the interpretation or use of this report. Investment conclusions and strategies suggested in this report may not be suitable for all investors and consultation with a qualified investment advisor is recommended prior to executing any investment strategy. No part of this document may be reproduced in any manner without the written permission of Bahl & Gaynor, Inc. Copyright Bahl & Gaynor, Inc., 2021. All rights reserved.