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# INVESTMENT COMMENTARY & OUTLOOK

## April 2021

Our growth portfolios oscillated with the interest-rate-driven rotation in the market in recent weeks, but finished March on a strong note thanks to quarter-end window dressing. Furthermore, this relative strength has continued in April and our growth portfolios seem truly excited about their upcoming first-quarter earnings announcements. We believe the average stock in our growth portfolio will post stunning sales and earnings growth in the upcoming weeks, as you can see in the following link:

https://navellier.com/sales-and-earnings-projections/

The first-quarter announcement season will represent "peak" sales and earnings momentum due to easy year-over-year comparisons. I should add that 2021 will be characterized by easy year-over-year comparisons, but the pace of annual sales and earnings will decelerate a bit after the stunning first-quarter announcements.

The latest economic news is simply stunning. The Atlanta Fed recently raised its first quarter GDP estimate to a 6.2% annual pace. The U.S. is expected to boost global GDP growth more in 2021 than China for the first time since 2005. Since the U.S. is a robust consumer driven market, the U.S. has the potential to keep pace and exceed China's overall GDP growth in 2021, since the U.S. economy is about one-third larger than China's Economy.

As another example of how strong the U.S. economy was in the first-quarter, the Institute of Supply Management (ISM) recently announced that its manufacturing index surged to a 37-year high (since December 1983) of 64.7 in March, up from 60.8 in February. This surge in economic activity caused the Labor Department to announce that a whopping 916,000 new payroll jobs were created in March, which represents the biggest monthly gain since August and was substantially above economists' consensus estimate of 675,000. Looking forward, when the U.S. economy is adding new workers, retail sales naturally rise.

Fed Chairman Jerome Powell recently said that the U.S. economy is "much improved" and thanked Congress for their "unprecedented" support, but then added that the U.S. economic recovery was "far from complete." Then, Treasury Secretary Janet Yellen, in prepared testimony before the House Financial Services Committee, said, "I am confident that people will reach the other side of this pandemic with the foundations of their lives intact. And I believe they will be met there by a growing economy. In fact, I think we may see a return to full employment next year." This goal of full employment seems to be both Fed Chairman Powell and Treasury Secretary Yellen's primary goal in 2022. After the U.S. economy reaches full employment, which is likely around 4% unemployment, then the Fed can contemplate raising key interest rates in 2024 or beyond.

In the meantime, the Biden Administration's infrastructure plan that was recently announced has been largely well-received, since both political parties back new infrastructure spending. However, this support for

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infrastructure spending could quickly break down over proposals on how to pay for the infrastructure as well as infighting on "pork" projects breaks out in Congress. Joe Biden was wise enough to pledge to work with Congress, so we suspect an infrastructure bill will be passed.

As far as raising taxes to pay for infrastructure, the proposed corporate tax increase was not a surprise, so there was no negative stock market reaction. Regarding individual income taxes and taxes on dividends, as well as long-term capital gains, that remains much more uncertain. The most important factor is the tax rate on dividends and long-term capital gains must remain the same, otherwise companies may curtail paying dividends. So, as an example, if the tax rate on dividends and long-term capital gains is increased from 20% to 28%, we do not believe there will be an adverse market reaction. However, if the qualified dividend tax rate rises to 39.7%, then companies will likely curtail their dividend payments, since they are already taxed at corporate level, so they deserve to be taxed at a lower rate, since dividends are double taxed on both the corporate and individual levels.

We should add that many members of Congress were disappointed that the Biden Administration did not propose increasing the state and local (SALT) deduction from $10,000, since it hurts many higher tax "blue" states. As a result, we expect a lot of infighting in Congress about the Biden Administration's proposed tax increases.

All this government spending has the potential to send Treasury bond yields soaring. Fortunately, as Treasury bond yields rose in recent months, subsequent Treasury auctions were better received, since the bid-to-cover ratios improved. The U.S. dollar has also improved significantly since late February as continental Europe has slipped into a double dip recession and the European Central Bank (ECB) has boosted its quantitative easing. Due to a stronger U.S. dollar, there is now apparently more international money buying U.S. Treasury securities, so it is possible that Treasury bond yields may stabilize.

The truth is, as the cumulative U.S. budget debt load climbs above $30 trillion in the upcoming months, it just forces the Fed and the Treasury Department to strive to keep key interest rates low; so frankly, we do not expect that the Fed will ever significantly raise key interest rates for the rest of our lifetimes. As more investors realize that it is futile to save in an ultra-low interest rate environment, then we expect that the stock market will continue to prosper as investors seek companies that are posting record sales and earnings!

## SUMMARY

Our fundamentally superior dividend and growth portfolios will be announcing peak first-quarter sales and earnings momentum in the upcoming weeks. After wave after wave of positive first-quarter announcements, we expect that the overall stock market will become increasingly selective and the breadth and power of the overall stock market will become more narrow after May. April is a seasonally strong month due to new pension contributions and that seasonal strength typically carries over into May.

There has been a rotation into value stocks in recent months, as the financial networks have been reminding everyone. However, we instead view this rotation more as a mean reversion rally. To be super successful since September, you had to buy low priced, lower capitalization stocks that had been dead in the past five years! This is merely a sign of a healthy market rotation that will help build a "launching pad" for our fundamentally superior dividend and growth portfolios for the remainder of this year.

As the year progresses, we have to keep an eye on both consumer and business confidence. Right now, the velocity of money has surged and prosperity is rising. New Covid-19 strains could potentially derail U.S. economic growth, but hopefully the high U.S. vaccination rate will help to continue to allow states to reopen their respective economies. There are also some international incidents brewing like the Russian military buildup on the Ukrainian border and China pledging $400 billion in investment in Iran that could possibly test the Biden Administration, but we do not expect any international incident would derail U.S. economic expansion.

Furthermore, consumer confidence also surged recently, which bodes well for continued strong consumer spending. The U.S. has led the world in vaccinations, so our economy is reopening much faster than continental Europe, which has a much lower vaccination rate and is in the midst of a double dip recession.

All that can really go wrong is if Treasury bond yields continue to rise too fast and suck money out of the stock market. But, international demand for U. S Treasury securities has risen and growth stocks are not adversely impacted by higher bond yields, long-term, like interest rate sensitive value stocks, so we expect that our dividend and growth portfolios will remain an oasis.

As always, we remain "locked and loaded" for the upcoming first-quarter announcement season. The analyst community has revised their consensus earnings estimate substantially higher in recent months. Typically, positive analyst earnings revisions precede future earnings surprises, so we remain especially optimistic that our dividend and growth portfolios will announce wave after wave of positive quarterly results in the upcoming weeks. Enjoy the ride!

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