QUARTERLY INSIGHTS
July 2021

We thought you might be interested in our Firm's latest quarterly commentary discussing our thoughts on the current economic conditions.

The world has undergone unprecedented changes since the beginning of 2020. Never have stock market gains occurred so quickly as the post-COVID bull market. To the surprise of many, the market continues to shrug off investors' strongest fears to date, including inflation, COVID resurgence, Federal Reserve tapering/rising interest rates, and excess retail investment speculation. The S&P 500 continues setting new all-time closing highs (34 in the first six months of 2021), contrary to some investors counting on a market pullback to get in. Seasoned investors have learned that markets hitting new highs more often continue to do so. Rising stock prices have been driven by a robust economic recovery. The boom in progress is expected to realize double-digit corporate profit gains in 2021. Companies standing to benefit most from an improving economy, as well as those that have grown earnings during the recession caused by COVID, have both led the market, albeit at different times. As we return to normalcy, investors are anticipating a rolling recovery among countries. The strongest growth is anticipated to be this quarter. Not all believe the Fed that the near-term surge in consumer prices is transitory.

Some investors believe that there is a positive correlation between the economy and the stock market. In other words, when the economy is doing great, the stock market should perform similarly well. Ironically, under surging economic conditions, future stock market gains sometimes slow or struggle. The logic supporting this relationship is actually not counterintuitive. During such environments, the Federal Reserve's responsibility is to continue managing a stable economy and avoid consumer demand outstripping the supply of goods and services that can cause higher than desired inflation. Their primary tool to contain run-a-way prices is to raise interest rates, which can overshoot and trigger a recession, which is every investor's fear. With the third quarter economic conditions anticipated to be "as good as it gets," we would not be surprised if investors become less enthusiastic when contrasting economic data later versus now, especially if good news becomes less good afterwards.

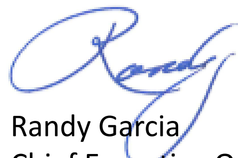
The Fed has already announced that it expects two hikes near the end of 2023. A common perception today is that these policymakers would be forced to raise interest rates sooner and/or more than anticipated if inflation is stronger or lasts longer than suggested. A reactionary Fed is a concern that can cause investors to become defensive. In other words, if the Fed does not do what investors believe is necessary, investors may realign their investments based on such views, affecting both interest rates and capital markets. In the last six months, interest rates have fallen, not risen as some anticipated, confounding many investors. Thus, based on the bond market's recent performance, the Fed appears to be proactive, viewing deflation as a bigger risk than "transitory" higher inflation. However, not all believe the Fed that the near-term surge in consumer prices is temporary.

If the last year has taught us anything, it is that experts have a hard time reliably and consistently forecasting an uncertain future. Interpreting economic data is a complex subject containing many minefields for experts and amateurs alike. Sometimes rising interest rates are construed as a positive indication of improving economic growth and fuel stock market gains, especially when times are sluggish. Other times, rising rates can be an indication of an economy too hot and needing to slow, which is often negative for company earnings and the equity market. If investors are not well positioned for a change in economic circumstances or even investor sentiment, as noted above, they can easily fall victim to occasional volatile asset price swings. That is why Federal Reserve Board meetings matter to markets.

Today there is more and faster information than ever available to all investors. Consequentially, we believe that it is beneficial to remember often that there are also more false positives when interpreting today's unprecedented conditions, leading to potential pitfalls by investors. The list of concerns now is almost endless, including high prices relative to traditional measures, unsustainable current economic growth, a wave of younger investors adding a new dynamic, overenthusiastic public sentiment, and unprecedented liquidity in our financial markets. As a result, we remain skeptical of experts and retail investors alike who portend to know how the economy and financial markets will react to any future expected circumstance. Federal Reserve Chairman, Jerome Powell, seconded our view when he remarked, "This is an extraordinarily unusual time, and we really don't have a template or any experience of a situation like this."

Outweighing today's concerns, equity markets continue to be pulled upward by massive monetary stimulus from the Fed, unparalleled consumer net worth, and pent-up demand for goods which all remain favorable for stocks. Our team at ICC is focused on maintaining strong comprehension of both present financial opportunities and risks, committed to effectively navigating through this astonishing period on behalf of our valued clients. We are grateful for this trust and confidence. We also look forward to meeting in person soon and once again enjoying personal interaction with clients. In the meanwhile, we wish you and your family continued good health.

Sincerely,



Randy Garcia
Chief Executive Officer

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