nVEST nSIGHTS

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nvest WEALTH STRATEGIES

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GREEN LIGHT = GO!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Fresh stimulus spending from the government combined with the Federal Reserve's pledge to keep easy monetary policies in place for the foreseeable future helped the stock market notch a continuing gain in 1Q2021. Huge government stimulus spending around the globe is a green light for stocks. We are "Go" for the second year of the new bull market that began on March 23, 2020. The S&P500 gained +6.2% during the first quarter extending the 12 month "rocket ship" rise totaling almost +81% (through 3/31); fastest rise ever. Frenzied trading existed in riskier parts of the stock market, and style shift from growth to value and large-size to smaller-size companies was noticeable.

Since the trough in valuations 12-months ago, stock price-earnings ratios today feel/appear extreme. Investors sit at a point where the economy and earnings recovery should cause valuations to contract and return to more normal. The economy and company earnings will likely experience exceptional growth this next quarter which should be a welcome occurrence for long-term investors to stay the course. Worry can develop to "cash-in" following such a robust recent market recovery; the logic being that "it can't keep going." Worries about too much government spending only add to the concern about valuations and inflation expectations (see other articles).

During 1Q, investors sold bonds (causing yields to rise) on the worry that a sharp economic recovery will be accompanied by higher inflation. Rates usually rise, sometimes quickly, when economic recovery is fast occurring off the low. Interest rates on 10-year US Treasury bonds rose from 1% at year-end to 1.7% during 1Q. That's a big move in a short period; a surprise to most investors. Higher rates are good for banks, making loans more profitable. Key also, risky areas of the bond market do not show stress (they historically signal sinister activity earlier than stocks). But rising rates will slow the advance of the stock market, and lend to greater volatility. A slowing advance in stock prices coupled with rising company earnings from an expanding economy allow valuations to return to better levels. Seldom do markets see a significant stumble while fundamentals remain strong.

The outlook for 2021 looks good, but don't expect the exuberant pace of last year. Tactical changes we made to portfolios last year still offer merit. Small and mid-size stocks should continue advancing better than large; small also performs well with rising inflation expectations. Value-style stocks should provide attractive performance relative to growth. And, international stocks should provide benefit due to 4 reasons: better (lower) valuations than domestic; being earlier in their economic recovery; less political changes being forecast; and a US dollar that looks positioned to weaken against other currencies. Investors' performance expectations should be upward for 2021, but tamed because of increased up/down volatility versus last year. It is important to keep looking forward because the "green light" is lit. Portfolios will again incur rebalancing during the year to maintain investment objectives relative to established asset mix (risk control) profiles. This can be achieved via new money deposits to an account, and/or by our making trades that return exposures to pre-existing investment targets. Managing risk is very appropriate for long term disciplined investment success.

YEAR TWO FOLLOWING THE LOW

March 23 marked the one-year anniversary of last year's stock market low as COVID fears were quickly rising. Since then, the market provided a surprisingly huge rebound largely driven by massive fiscal spending (stimulus) and low interest rates, wherein the US money supply expanded 25% during 2020, and is followed by another 12% increase in early 2021. The economy was/is unable to fully utilize this huge amount of new money; it did not need it all to finance its growth. The extra $$$ were "poured" into the financial markets propelling the best ever rise off the low. Most investors were greatly surprised by this rapid market rebound. Markets often provide important reminders - timing the market (getting out and in) proves ill-advised.

Investors should be aware how different year 2 off the low historically looks. Performance for stocks is likely to be more in line with historical averages, and it's rarely a smooth experience. The 2nd year of new bull markets historically produced an average advance of almost +13%, but also endured an average pullback of -10% at some point. That means volatility, or a grinding experience should be expected. This is not bearish despite pullbacks always feeling uncomfortable; rather just the historical dynamics of market action. Also, we should be reminded that this second year coincides with the first year of a new Administration in the White House. Since 1950, every first year of a new administration produced a positive performance experience, albeit with increased volatility. That's due to uncertainties created by announcements of new/different polices (spending, tax, regulation, etc.).

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"Is inflation on the way?

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ANNOUNCEMENTS:

- Early April - 2Q 2021 fees collected and 2Q reports distributed.
- May 17 - TAX DAY EXTENDED; deadline to file personal income taxes; and last day to contribute to IRA accounts for 2020 tax year.
- May 31 - Memorial Day; banks & markets closed.
- June 30 - Last Day of 2Q
- July 5 - Independence Day (observed); banks & financial markets closed.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

There is some irony in this story. Last year (2020), did you question, "how can the market be up so much when the economy is so bad?" Now in year two the narrative is quite to opposite, "the economy looks better, maybe even great, but gosh this market is a grind!" Maybe it's appropriate to state that volatile market action may feel frustrating (in light of last year), but unlikely to prove fatal. Any pauses/correction is not necessarily the start of something worse, especially when so much of the market is participating in the advance. The transition from year 1 to year 2 of a new advance exhibits this reputation. The key is not to get too defensive. Bull markets usually run an average of 62 months and rise +181% (the last one ran over 132 months, or 11 years).

Will you consider a really "contrarian" idea? Could we be in the midst of a long-run *"secular"* bull market advance? March 9 marked the 12th anniversary from the "generational" 2009 low from the great financial crisis. In that time the S&P500 advanced +480%. The idea of a *secular* bull market (means longer term vs cyclical) includes more than one bull market. Because the "COVID" bear market drawdown was very sharp and short, some make the point that a *secular* bull market is underway. The last *secular* bull market ran from 1982 to 2000 producing a +1389% rise; and another ran from 1942 to 1968 producing an advance of +1350%. Each of those periods contained cyclical bull and bear markets, but the longer-trend was definitively up. Since March 2009, there were 8 meaningful drawdowns during the current advance; each provided a pause to refresh before the market rise continued. Is the new 1-year old (cyclical) bull market part of a 12-year *secular* bull market? Interesting; but does it even matter? The key for long term investor success = stay a long-term investor.

ROARING 20s

The 1920s in the United States is often referred to as the "Roaring 20s" because it was a decade of surging economic growth and widespread prosperity. It was a recovery from wartime devastation and deferred spending, creating a boom in construction and rapid growth of consumer goods such as the automobile and electricity. The "jazz-age" flappers defied Prohibition, indulged in new styles of dancing and dress, and rejected many traditional standards. In general, the decade created the largest wave of prosperity the world ever witnessed.

Does history repeat? 100 years later, some market participants are wondering if this decade of 2020 will be similar. It seems early, it's only 2021. At a minimum, vaccines are proving effective for economic reopening, and allowing the economic recovery to progress quickly. The reopening of the economy is likely a massive rise because of huge government and monetary stimulus. The huge increase in money supply is way more than required by the economy to finance itself. As stated before, excess $$$ flows into financial markets and real estate aiding them with significant jumps in prices. Low (no) interest rates make financing cheap and attractive. Almost sounds like the 20s of years ago!

Are you uncomfortable with the idea of limitless government spending? In 2020, two stimulus spending packages were completed amounting to $3.3 trillion (16% of GDP); each package on its own was bigger than any fiscal package in the past 50 years. That's on top of the Fed buying trillions of bonds in the financial markets and holding short term interest rates at 0%. Just days ago, Washington approved another $1.9 trillion stimulus plan. Putting the size of the various packages in perspective, the CARES Act was passed at the height of the pandemic when unemployment was swiftly increasing to15% and the US economy was on the verge of a pandemic -induced shutdown. It turned what likely would be a depression into just two bad quarters for the economy with the opportunity for a strong rebound. The opposite scenario exists today just 12 months later. Currently, the unemployment rate is 6% and still improving with the economy, which is on the doorsteps of a massive re-opening of growth. The late Senator Everett Dirksen (1960s), cautioned that federal spending can get out of control, observing "A billion here, a billion there, and pretty soon you're talking real money"…Except today it's a trillion here and a trillion there. Independent economic research firm Strategas recently observed, "Never has so much money that didn't exist been spent on so many by so few."

Is so much government stimulus the recipe for inflation? Is inflation on the way? That's a frequent question right now (see chart on pg. 4 showing how often inflation is being researched). Ingredients for inflation exist – economy is showing a sharp recovery with vaccine deployment; supply-chain bottlenecks exist; and oil/commodity prices are rising. Accelerating inflation is now the base case in 2021. Yet the Fed expects the 2021 run-up in inflation to be transitory, slow moving and global in nature. Policymakers are focused on unemployment and underemployment, and are willing to let the economy run "hot" even if inflation jumps upward temporarily. It's difficult to change from deficit spending when the whole world is doing the same. The most important current topic for debate - how long will markets allow deficit spending with no apparent cost to occur? Market participants are trying to get comfortable with this approach. Investors should expect that bond vigilantes will weigh-in on the topic from time to time by pushing interest rates up to challenge the Fed's plans. We are keenly aware how bonds are poor performers during rising inflation due to fixed interest rate returns; stocks perform well against a general rise in inflation; real estate, oil and commodities do well like stocks; hyper-inflation (not forecasted) hits most assets hard.

The COVID-induced fiscal spending spigot is likely closing. That could be good news and validate the Fed's perspective any inflation jump will be temporary. The recent new infrastructure spending idea of $2+ trillion also includes a $3 trillion tax bill. IF both spending and taxes were to pass in coming months, infrastructure spending would take place over 8 to 10 years, or more. Unlike earlier stimulus bills (a flood of money), the infrastructure proposals translate into very small increases to annual GDP growth. Tax increases (higher corporate, capital gains and dividends) will create a fiscal drag immediately, likely starting in 2022. Tax increases are immediate while infrastructure spending is slow and spread over many years. Together, these create a "push-pull" variable to future economic growth. Saying it differently… a year ago, it was hard to get worse than worst. 12 months later are we close to the opposite… it is better than best? But new taxes and spending will not boost from the height at which the domestic economy sits. It seems unlikely to get better than best. Massive stimulus policies will fade with COVID, and perhaps inflation too.

Keep a close watch on inflation expectations and bond vigilantes. Currently, the bond market does not exhibit stress points that suggest anything sinister occurring in the near term. When low quality bonds show rising rates faster than the market, it could signal that Washington policies (fiscal and monetary) are being poorly viewed by investors. Market vigilantes can speak loudly when they dislike policy direction. For present, stay invested and watching. Don't pursue "Roaring 20s" reckless investing practices that incorporate undue risk; keep pursuing proven long-term disciplined investment principles.

ARPA, WHAT?

Jordan Acer, CFP, Nvest Wealth Strategies, Inc.

On March 11, Congress passed a third round of COVID-related stimulus via the American Rescue Plan Act (ARPA) with a price tag of $1.9 trillion. This latest package – months in the making - is best known for direct payments of $1,400 to qualifying persons and each of their dependents. A more abrupt income phase-out (adjusted gross income of $75,000 or $150,000 married filing jointly) made fewer people eligible this round. Those who are near that threshold may consider making a deductible IRA contribution for example. But stimulus payment eligibility aside, there are other provisions in the bill that may provide you with some strategic planning opportunities – even for those who do not qualify for direct payments.

Here are a few additional items/areas of the bill we found most interesting and/or likely relevant:

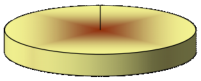
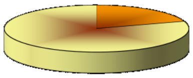
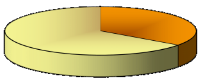
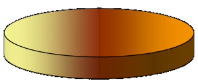
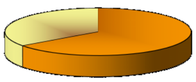
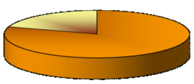
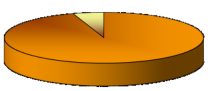
- Health Insurance: Do you pay for your own health insurance? The bill expanded and/or increased Affordable Care Act (ACA) Premium Subsidies, which may benefit you.
  - HealthCare.gov was updated on April 1st to include the new premium subsidy schedule.
  - ARPA eliminated income limits for subsidy eligibility and reduced the portion of premiums individuals are responsible for.
    https://www.jdsupra.com/legalnews/the-american-rescue-plan-act-and-3766554/
- Child Care: If you pay for childcare, increased Child Tax & Dependent Care Credits are included.
  - You may want to re-evaluate your contributions into a dependent care Flexible Spending Account (FSA), etc. for 2021; raising the tax credit for such care, potentially making tax savings more valuable than what you are receiving from FSA contributions.
    https://www.jdsupra.com/legalnews/what-you-need-to-know-about-the-3997471/
- Job Loss: leaving a job where health insurance was provided? Free COBRA insurance may be of interest.
  - Before you step out the door, verify if your employer will classify your departure as a termination.
    https://www.jdsupra.com/legalnews/arpa-cobra-subsidy-when-is-a-3964620/
- Time off due to COVID: ARPA expands Voluntary Families First Coronavirus Response Act leave in 2021.
  - If you took time off from work due to COVID, you may be eligible for extra paid leave
    https://www.jdsupra.com/legalnews/american-rescue-plan-act-of-2021-3414251/

If ARPA money is creating surplus cash flow for you and your family, you may find it tempting to splurge. Better instead that you consider saving the extra as a personal emergency fund. Last year was a perfect example of why maintaining a rainy day savings account is important. Not everyone made it through 2020 unscathed. That being said, we also believe it unwise to save too much in low-interest savings accounts. Sitting on substantially more than you'll reasonably need will result in lost purchasing power to inflation and growth of value over time. Let us help you review and restore appropriate min/max balance ranges for your situation and bank accounts, so that your money is working hard; it should be working as hard as you are.

Lastly, if you hear about strategies to defer current income into future years to qualify for recent stimulus provisions, be careful. While this year seems like a good year to do so with the added benefits from ARPA, it is increasingly likely that tax changes are coming. While the potential changes may ultimately prove a topic deserving of their own article, it would not surprise us to see rates drift higher in 2022 – particularly for households making more than $400k/year. We will continue to monitor what that means with respect to your investments, but never advocate allowing taxes to be the sole factor driving decisions. The full ARPA legislation can be viewed at: https://www.congress.gov/bill/117th-congress/house-bill/1319/text

Benchmarking as of March 31, 2021

Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

	Index Portfolio	Stock/Bond Allocation		Total Return Through 3/31/2021 1st Qtr	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	-0.1%	5.6%	9.6%	12.7%
			Annualized		5.6%	3.1%	2.4%
	Income	20% / 80%	*Cumulative*	1.4%	17.5%	16.0%	25.7%
			Annualized		17.5%	5.1%	4.7%
	Balanced Conservative	35% / 65%	*Cumulative*	2.1%	23.4%	23.4%	19.4%
			Annualized		23.4%	6.1%	5.8%
	Balanced	50% / 50%	*Cumulative*	3.2%	31.9%	24.7%	44.0%
			Annualized		31.9%	7.6%	7.6%
	Balanced Growth	65% / 35%	*Cumulative*	4.3%	40.6%	29.4%	55.2%
			Annualized		40.6%	9.0%	9.2%
	Growth	80% / 20%	*Cumulative*	5.5%	49.8%	35.2%	68.4%
			Annualized		49.8%	10.6%	11.0%
	Aggressive Growth	95% / 5%	*Cumulative*	6.4%	56.2%	38.6%	76.9%
			Annualized		56.2%	11.5%	12.1%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash.

A trillion here, a trillion there...

Three earlier stimulus bills of some $4 trillion later, it should not be a surprise that many people are considering and/or concerned about the prospects for higher inflation. Indeed, internet search activity for the term "inflation" was recently the highest since the massive stimulus that was pursued following the Great Financial Crisis ending in 2009.

Selected Mutual Funds - Total Return Performance Summary

As of March 31, 2021

Bond Funds - Taxable	Style	1st Qtr	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*-0.1%*	*6.2%*	*3.3%*	*2.5%*
Taxable Intermediate Bond Average		*-3.0%*	*2.8%*	*4.6%*	*3.1%*
Wells Fargo Ultra Short	AS	0.1%	5.0%	2.4%	1.9%
Vanguard Short Federal	HS	-0.2%	1.6%	3.3%	2.0%
American Century Short Duration	HS	0.5%	5.6%	3.3%	2.5%
Pioneer Short-Term Income	HS	1.0%	10.9%	2.6%	2.1%
DoubleLine Low Duration	HS	0.3%	6.8%	2.6%	2.4%
Vanguard Short-Term Investment Grade	HS	-0.5%	6.3%	3.9%	2.8%
American Funds Bond Fund of America	HI	-3.0%	3.5%	5.5%	3.6%
American Century GNMA Income	HI	-0.6%	0.5%	3.6%	2.0%
Diamond Hill Corporate Credit	LI	0.8%	24.1%	7.6%	8.0%
Miller Convertible	LI	1.4%	35.8%	8.5%	8.5%
Bond Funds - Tax Exempt					
Tax-Free Intermediate Bond Average		*-0.2%*	*5.8%*	*4.3%*	*2.9%*
Vanguard Muni Limited Term	HS	-0.0%	3.9%	3.0%	2.0%
T. Rowe Price Tax Free S/I	HS	-0.2%	3.6%	2.7%	1.7%
Vanguard Muni Intermediate Term	HI	-0.3%	5.3%	4.6%	3.1%
Vanguard Ohio Long-Term	HL	-0.5%	5.9%	5.6%	4.1%
Stock Funds - Domestic					
S&P 500 Index		*6.2%*	*56.4%*	*16.8%*	*16.3%*
Equity Fund Average (Morningstar Mgr Agg US Core EW)		*10.3%*	*71.8%*	*13.8%*	*14.4%*
Schwab Large Cap Growth	LG	1.0%	63.7%	23.0%	21.0%
Parnassus Endeavor	LG	16.9%	98.6%	20.8%	19.9%
T.Rowe Price Dividend Growth	LV	5.0%	47.0%	16.0%	15.1%
WisdomTree US Quality Dividend Growth	LV	6.4%	50.2%	14.9%	15.3%
American Century Equity Income	LV	5.1%	35.3%	9.2%	10.0%
Hennessy Focus	MG	13.4%	71.4%	13.9%	12.6%
John Hancock Multifactor Mid-Cap	MB	9.1%	74.8%	14.2%	14.9%
John Hancock Disciplined Value Mid-Cap	MV	13.5%	71.6%	10.0%	12.0%
SPDR S&P600 Small Cap Growth	SG	12.2%	86.4%	14.9%	16.7%
Neuberger & Berman Genesis	SB	6.6%	68.4%	16.9%	16.7%
Diamond Hill Small-Cap	SV	15.9%	80.7%	6.3%	8.3%
SPDR S&P600 Small Cap Value	SV	24.1%	103.1%	11.9%	14.0%
Stock Funds - International					
Morgan Stanley EAFE Index (Foreign)		*3.5%*	*44.6%*	*6.0%*	*8.9%*
Oakmark International	LV	9.0%	84.8%	3.8%	9.4%
Schwab Fundamental International Index	LV	8.9%	55.6%	5.6%	9.2%
John Hancock International Growth	LG	3.3%	54.1%	11.0%	13.4%
Thornburg Developing World	LG	1.5%	65.5%	11.1%	12.8%
Harding Loevner International Small Company	SG	-0.8%	59.5%	7.4%	11.1%
Hennessy Japan	LB	-4.8%	42.5%	9.1%	14.0%
Stock Funds - Specialty					
Salient-Forward Select Income (REIT)	MV	4.9%	48.6%	5.4%	4.3%
Neuberger Berman Real Estate Securities	MV	8.3%	29.5%	12.1%	7.9%

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