Tillotson Kenefick

Private Wealth Management
of Wells Fargo Advisors

Forward Focused
3rd Quarter 2021

The Tillotson Kenefick Private Wealth Management team is in the office and forward focused. We are embracing recovery and enthusiastic about the future. Markets have been kind and that puts everyone in a good mood. We will never be complacent or sanguine about markets, but we can be optimistic about potential growth opportunities for the economy. While there are innumerable and complex data points to consider, we have outlined our case for optimism using a few important metrics: S&P 500 earnings, interest rates, and inflation.

One of the metrics we are employing to temper our outlook is to compare economic data to 2019 numbers versus year over year, where the numbers are skewed in our opinion. In 2019, the S&P 500 earned ~$163 per share. Expectations for 2021 have grown since the start of the year from ~$165 to where we stand now, at mid-year, to ~$191 of earnings. There are more optimistic forecasts of ~$200-$205 per share. This implies growth of 15-25%. That spread of expectations will offer both volatility and the possibility of a higher year-end close for the index.*

Interest rates are another important variable to market performance. Rising interest rates are good and bad, depending on your perspective…regardless; we expect *higher* interest rates over the next several years. The speed of the rise and the reasons for the rise will impact both the stock and bond markets, as well as the housing market. We expect the Fed to raise rates by .25% in the next year. For context, the 10-year treasury was yielding 2.7% pre-pandemic in 2019 and is yielding 1.5% today. When rates rise, bond prices decline and that will reduce the value of bond portfolios. Accordingly, we are underweight traditional fixed income and over-weight stocks. The change in the Federal Reserve's posture toward interest rates from "accommodative" to "hawkish" underscores the case for growth…and inflation.

Inflation is one of the hottest topics in current events. The word is being used as often now as "pandemic" was used in the last year. Inflation in lumber, gas, food and particularly service is rising at levels not seen in over a decade. We expect the pace of inflation on commodities to moderate by 2022, but the trajectory of overall inflation to continue to be upward of our 2019 pace of 2% to a 3% trend. This level of inflation, while higher, is not corrosive. The most important inflation metric we follow is wage inflation. When wages rise, as they are now, coupled with a shrinking labor pool, inflation is legit. If inflation does not moderate and the trend is higher than 3%, we would lower our expectations for performance.

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One last factoid to consider, only one time in 100 years has the S&P 500 been up 10% the first half of the year, as it is now, and not finished with a gain. That was 1929. Even 1987, the year of the Black Monday crash, was a positive year!

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*Keeping in mind index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

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