Bell Institutional Investment Management

EQUITY & FIXED INCOME OUTLOOK APRIL 2021

The prospect for inflation appears to be the near-term focus of the financial markets. Official consumer price index (CPI) reports suggest inflation is not a risk, but we believe consumers experience higher inflation levels on a day-to-day basis than reported. Perhaps that inflation comes not as direct price increases but as “rationing,” with consumers unable to take immediate delivery of the products they purchase and waiting weeks or even months before final delivery. This form of inflation is not captured by CPI or personal consumption expenditures (PCE). Expectations for the direction and magnitude of inflation may be different in the short term from those in the intermediate or longer term – showing with more upward emphasis in the near term, but calming after that. Themes that may hold inflation in check longer term are accelerating automation and digitization across corporate America, as minimum wage pressure and lack of skilled labor drive corporations to pursue investments in technology.

Economic growth is expected to be robust this year. It has been taking hold for the last couple of months and will become more evident moving forward. In the past, economic slowdowns typically present themselves as some sort of financial or liquidity crisis. This time, the slowdown was the result of lockdowns and social distancing to combat the pandemic – so expect some differences, compared to past expansions. While growth accelerates, its direction and magnitude could be choppy. Economic scarring has been more evident in some areas of the economy than others. One area that surprised many forecasters is that state tax collections remained more stable that initially anticipated.

Maximum employment may be a bit elusive this year, as infrastructure spending may require workers with a different skill set than those of workers who remain displaced. This could lead to some degree of wage inflation.

Rising interest rates remain the leading cause of fear in the bond market (since rising interest rates erode the value of fixed income holdings). One way to limit the effects of rising rates on fixed income performance is to have shorter-maturity bonds. This is the case with our fixed income allocations. While the shorter-maturity bonds do not totally protect portfolios against the price pressure of rising interest rates, they can help isolate the magnitude. We are not looking to time the market by holding cash and making market timing calls. Instead, we look at the best opportunities available and deploy investment dollars accordingly.

Markets seem to be acting like there is too much money with no place to go. The crypto craze seems to have this aura, reinforced by recent activity in non-fungible token (NFT) purchase activity. The stock market price-to-earnings (P/E) ratio continues to expand and is 32.82 at this writing. This surpasses the previous peak of 30, reached during the tech stock mania of 1999. We are not predicting that a selloff is around the corner, but we believe the market will be disappointed if expected corporate earnings do not materialize to the degree anticipated.

At this point, the data may lead investors to question their commitment to remain invested. Today’s data might be a call to action to review your overall portfolio allocation and determine if it is consistent with your goals and risk tolerances – but it is not a signal to abandon your strategy. It is important to remain focused on long-term averages and goals and avoid the noise of day-to-day occurrences.

As always, thank you for your business and confidence in Bell.

Greg Sweeney, CFA
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Years of Investment Experience: 35 years
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