Inside Views From an Investment Management Leader

UPDATE

April 2021

About our Company

Company Profile:

Mitchell Anthony Capital Management is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- *Personal wealth management*
- *Proactive investment strategies*
- *Proprietary research*
- *A professional team*
- *Fee-only services*

Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective Analysis*

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In the News

Check out the MACM Team's New Blogs

If you have't already, check out the MACM team's new blogs. You'll find them full of up-to-date commentary on everything from finance and economics to politics and current events.

The Intuitive View
by Mitchell Pletcher
macmblog.com

Long Story Short
by Kyle Aron
thelongstoryshortblog.com

The Starving Market
by Dane May
thestarvingmarket.com

Economic Review & Outlook

Consumer Confidence Bouncing?

Mitchell Anthony
President
Chief Investment Officer

The Equity and Commodity Markets roared ahead in the first quarter of 2021 as Covid concerns fell and consumer confidence bounced. Expectations for more fiscal stimulus was met by Congress's approval of a 1.8 trillion stimulus package full of support for almost all of those in need and then some who are not. Despite an Economy that is not yet robust or demanding high quantities of raw materials, most commodities rallied strongly as suppliers were caught off guard as demand tilted up and capacity was minimized with many mills and processing plants offline. Optimism for a broad economic recovery developed in the quarter driving up stocks and putting downward pressure on Bonds. Real Estate continued to fly higher.

The Markets

Equities had another good start to the year. The first quarter was good for value names and deep cyclical names as Covid fears fell abruptly. Growth stocks mostly paused (Russell LC Growth - IWF +0.8%, and the Nasdaq 100 QQQ +1.7%) as the leadership fell, at least briefly, to Value oriented cyclical names. The S&P 500 gained 6.2%, MACM's Dynamic growth Portfolio rose 4%, while the Russell Value Index - IWD gained + 10.8%. There was strong Leadership in Energy, Banks, and Experience oriented cyclicals (Airlines, Hotels, Casinos, and restaurants). Residential Real Estate continued to move higher gaining 11% in 2020 as measured by the Case Schiller Index. Most REITS were up 9% or more in Quarter. There was a modest rebound in Commercial Property but the leadership was in Apartment REITS. Fixed Income's dramatic long run may have ended as confidence has bounced and investors positioned for a lasting recession gave up hope. Treasury yields rose over 100 basis points causing quant based institutional equity management firms to sell high PE stocks as DCF (discounted cash flow) calculations turned negative as rates rose. This hit the SIFI (Sexy Innovative Fractured Industries) names hard. PTON, PYPL, CRWD, ZOOM, etc all fell 25% or more as rates rose and the quant models blasted sell signals. Most Commodities had sharp moves higher because of Covid capacity problems. (pg. 4, fig. 1). Lumber and Steel Mills were forced to shut down during Covid 19 and have been slow to return to full capacity. Grains have had capacity problems as well tied to Covid employment issues.

The Economy

Consumer Confidence finally made a sharp turn upward after months of worry and hesitancy to think vaccination could be successful. (pg. 4, fig. 2). However the US has been Vaccinating America at Warp speed and Herd Immunity is visible on the Horizon. Vaccine hesitancy has fallen into a steep decline. The Covid Case count has declined 80% from the winter spike and sits at 50k cases/day currently (Summer levels). Stimulus is abundant and all of those in need have solutions. A fully opened economy is on the horizon. US retail sales are at all-time highs and accelerating. Personal income is still very high due to ongoing stimulus and Personal Consumption is coming back with volatility.

Housing consumption is gaining strength. The industry has good tailwinds - money is cheap but rates have tilted higher, Strong consumer balance sheets are notable, and Covid 19 nesting is stimulating demand. There are some Headwinds that cannot be ignored - Low Inventory is driving significant price hikes, tight credit is limiting consumption, Aging Baby Boomers are net sellers, and the foreclosure moratorium is limiting inventory.

The Industrial Sector is rebounding as demand for durable goods has risen. 5G Construction is well underway and employing thousands. The renewable energy theme is also underway and entrenched. Demand continues to grow for Electrics, Solar, and Green fuels.

(continued on page 2)

Economic Review & Outlook (continued)

(continued from page 1)

The Experience industry has begun a rebound that may be very strong. We have seen a mild recovery in: Flights, Restaurants, Hotels, and Entertainment. There is clearly pent up demand for Entertainment & Leisure that will last for several years. Consumers are equipped with Stimulus capital and rising confidence that will build momentum.

As expected inflationary forces are building. Lots of stimulus and low rates are building a scenario for possible inflation. The Fed does not believe current consumption themes are sustainable enough for demand-pull inflation to develop for any extended period of time, hence rates remain very accommodative. Gold investors are not believing much inflation lies on the horizon either as prices hit a wall months ago and many inflation hawks have thrown in the towel.

Global economic recovery conditions have become unbalanced. Europe is lagging America and Asia dramatically due to Vaccine issues. The Astra-Zeneca vaccine used exclusively in Europe has had blood clot problems and usage has been delayed as a result of the concerns. The vaccine has been ruled out for those under 30. India, Latin America, and Africa have problems as well. The vaccine is in short supply in many areas throughout these countries.

<u>Economic Outlook</u>
The robust recovery expected in America has begun already. Consumer experiences will lead the growth in demand. Housing and durable goods will be strong leaders as well. Technology demand will continue with work and do everything from home still alive. E-Commerce growth remains and consumers have only begun their transition to Web based shopping. Biden's infrastructure plan (the American Jobs Plan) is on track to be passed without needing republican support. It will bring another 2 trillion of spending to the US Economy over the next 8 years if the democrats remain in office. The stimulus has some problems however as it is keeping service employees at home because they are not motivated to return to work where they are needed.

<u>Market Outlook</u>
Most risk assets remain highly valued and will tilt higher. Stocks and real estate look the most favorable in the environment that lies ahead. Some Risk assets that are highly valued will tilt lower as long term recession hawks throw in the towel at least partially as they await evidence of the recovery becoming sustainable. This would mean further downside in Treasuries and High quality debt. Commodities that have run up because of Covid capacity problems and incrementally higher demand would seem to have limited upside and may well have overshot where real demand will settle in at by substantial margins. Steel, Aluminum, copper as well as most meats and Grains are vulnerable to new capacity coming on and kicking prices lower. Commodities that are only experiencing supply constraints are the most vulnerable to significant price declines such as grains and meat.

Leadership in equities will likely change. Consumer experience cyclicals ability to build sustainable momentum from the Covid recovery demand spike that lies ahead is difficult to forecast. It is unclear whether the world will have to stay entrenched at home with work and play as Covid fears play out. The FAANG, housing, and Industrials sectors will lead. The FAANG with go again as great earnings ignite new purchases and the SIFI and Cyclical areas become over-owned. Industrial will go as Infrastructure and housing experience nice improvement in long term demand.

We remain optimistic.

Table 1: Stock & Bond Market Returns — *03/31/2021*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	0.9%	62.5%	Small Cap Value (IWN)	21.3%	97.9%
Large Cap Value (IWD)	11.3%	56.0%	Small Cap Growth (IWO)	5.0%	91.1%
Europe Asia Far East (EFA)	4.0%	45.3%	Emerging Markets (EEM)	3.2%	58.8%
Invest Grade Bonds (LQD)	-5.5%	8.1%	High Yield Bonds (HYG)	0.6%	18.9%
Interm Treasurys (IEF)	-5.7%	-6.2%	Mortgage Bonds (MBB)	-1.2%	0.2%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns — *03/31/2021*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	7.9%	35.5%	DJ Commodity Index (DJP)	8.0%	43.1%
Int'l Real Estate (IFGL)	2.2%	30.5%	Goldman Commodity (GSG)	13.3%	50.2%
NAREIT Residential (REZ)	9.8%	38.5%	Gold (GLD)	-10.3%	8.0%

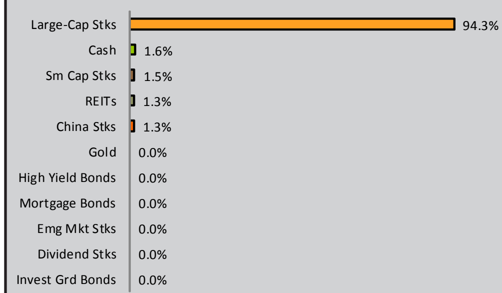
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

MACM Managed Accounts

<u>Growth Portfolios</u>

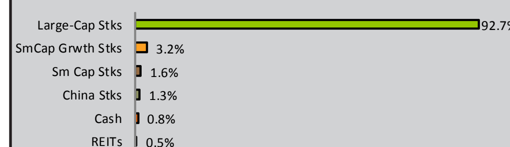
Dynamic Growth
(Qualified Accounts)

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.



Growth
A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity
A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.

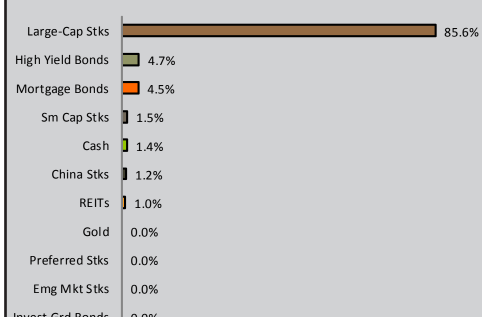


Focused REIT
A portfolio of companies whose primary business is owning and leasing real properties.

<u>Balanced Portfolios</u>

Dynamic Growth & Income
(Qualified Accounts)

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



MACM Research Spotlight

Coronavirus: Light at the End of the Tunnel

It's been just over a year since COVID halted life as we know it worldwide. It seems like an eternity. With the light at the end of this tunnel finally visible, let's take a deeper look at the current state of the virus and the outlook ahead.

Current Cases

As we finally approach herd immunity through vaccinations and infections, new cases have declined substantially. Combined with some continued social distancing measures, national new daily cases have declined 80% from their winter surge of more than 250,000 per day.

Some states, like Florida and Texas, have fully reopened. While this has caused their new case rates to remain slightly elevated, they are still seeing a sharp reduction in new cases. California, with continued distancing measures in place, is doing exceptionally well. New cases in Orange County, CA, are down 95% from February. Indeed, California is finally planning to fully reopen by June 15. Even Disneyland is finally opening its doors.

Vaccination Progress

No doubt the reduction in new cases can be significantly attributed to vaccines in arms. Biden's original pledge to vaccinate 100 million people in his first 100 days was achieved in less than half that time. In fact, the US is tracking to achieve more than twice that amount by Biden's 100th day. We have been vaccinating more than 2 million people per day on average since February, with a recent high of more than 4.5 million on a single April Saturday.

The vaccination statistics are truly impressive:

Total Vaccine Doses	
Delivered	237,796,105
Administered	187,047,131

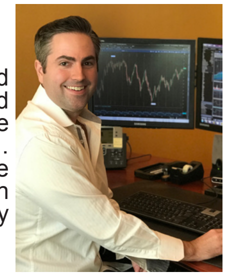
Learn more about the distribution of vaccines.

People Vaccinated	At Least One Dose	Fully Vaccinated
Total	119,242,902	72,630,892
% of Total Population	35.9%	21.9%
Population ≥ 18 Years of Age	118,428,320	72,446,679
% of Population ≥ 18 Years of Age	45.9%	28.1%
Population ≥ 65 Years of Age	42,964,165	33,603,113
% of Population ≥ 65 Years of Age	78.5%	61.4%

About these data

CDC | Data as of: Apr 11 2021 6:00am ET | Posted: Apr 11 2021 6:17PM

Nearly the entire elder population, the most at risk from the virus, has received at least 1 vaccination dose. About half of those 18+ have also gotten at least one dose. Given the studies showing the effectiveness from even one dose of multi-dose vaccines at preventing severe outcomes, this is incredible progress. Younger age groups will soon be in this mix as well – both Pfizer and Moderna have already applied for emergency use in the 12-16 age groups, and they should be ready to seek that same authorization for all remaining children by late summer / early fall.



Kyle Aron
Senior Analyst

Dr. Anthony Fauci and other experts have estimated that herd immunity could be effectively reached when 70% or more of the population was immune through either previous infection or inoculation. With estimates that approximately 30-40% of the population has already been infected, combined with the current pace of vaccinations, herd immunity may be mere months away.

Indeed, countries that have fully vaccinated 40% or more of their populations (along with some degree of previous infections) have all seen significant and sustained declines in new cases. Israel and the United Arab Emirates, for example, paint a promising picture for our path ahead.

America First

As predicted, the pace of vaccination has been uneven across the globe. Blood clot and production problems have plagued the AstraZeneca vaccine, which Europe was tied heavily to in its vaccination hopes. Moreover, the US drew up the funding/advance purchase contracts with Pfizer and Moderna to effectively give the US first rights to vaccine orders. Only fair, perhaps, as the US' Operation Warp Speed was what effectively got these vaccines developed and in record time. Indeed, the US is set to receive enough collective vaccine doses by July to inoculate 400 million people – a surplus relative to the entire US population.

With the rest of the world struggling to access effective or any vaccines, vaccination rates have become starkly divided. The US vaccination rate is nearly 5 times that of Europe (e.g. France, Italy, Spain), and nearly 10 times that of developing nations (e.g. India, Brazil). It's unclear what this means for truly defeating the virus, but at least near-term this suggest US resumption of activity will remain domestically focused.

Path Forward & Investment Implications

With the vaccination progress being made, consumers are finally getting out and about – back to long-awaited experiences and travel (within the US, at least). Restaurant dining data shows we are back to 80% of the dine-in traffic seen in 2019. Airline travel is solidly over 60% of pre-COVID levels. These numbers should only continue to improve. Indeed, given the rapid pace of vaccinations, US GDP growth estimates for the year have been revised sharply up from 3% last winter to 6-8% now.

It's difficult to tell how much of this excitement and resumption of experiences and travel is already baked into stock prices. Or just how much pent-up demand for these things there may truly be. Many experience names – restaurants and live entertainment, for example, are trading well above pre-COVID levels. Indeed, most have been running hot since the vaccinations were approved for emergency use last November. Appropriate positioning around names tied to reopening has been a key component of our portfolio strategy over the last year. With the pace of vaccination happening a bit quicker than anticipated, we are keeping a close eye on reopening data and adjusting our positioning accordingly as expectations for experience related companies come into clearer view.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Energy	30.8%	79.3%
Financials	16.2%	68.7%
Industrials	10.8%	70.1%
Materials	9.3%	78.7%
Utilities	8.5%	19.8%
Comm Services	7.4%	63.9%
Cons Discretionary	3.6%	91.1%
Real Estate	2.9%	34.3%
Healthcare	2.7%	36.8%
Cons Staples	1.6%	29.6%
Technology	1.3%	69.6%

2021 Q1: Re-Opening Trade Continues

The trends from Q4 of last year largely persisted to start Q1 of 2021, with reopening focused sectors leading the way and stay-at-home segments lagging. Energy lead the pack as oil prices and demand continued to recover from COVID depths. Financials continued to roar as interest rates moved sharply higher in the quarter. Conversely, the focus on re-opening and move higher in rates undercut the performance of technology / stay-at-home plays. Indeed, Technology came in dead last performance-wise amongst the sectors. However, many of the reopening segments have now had significant runs and could be at or near full value. Investors may well refocus on the strong earnings that remain within much of the technology space, where valuations arguably seem a bit more reasonable and may offer more upside.

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

A Word from our Client Team

Dane May
Client Relations Manager
& Research Analyst

Inflation Incoming?

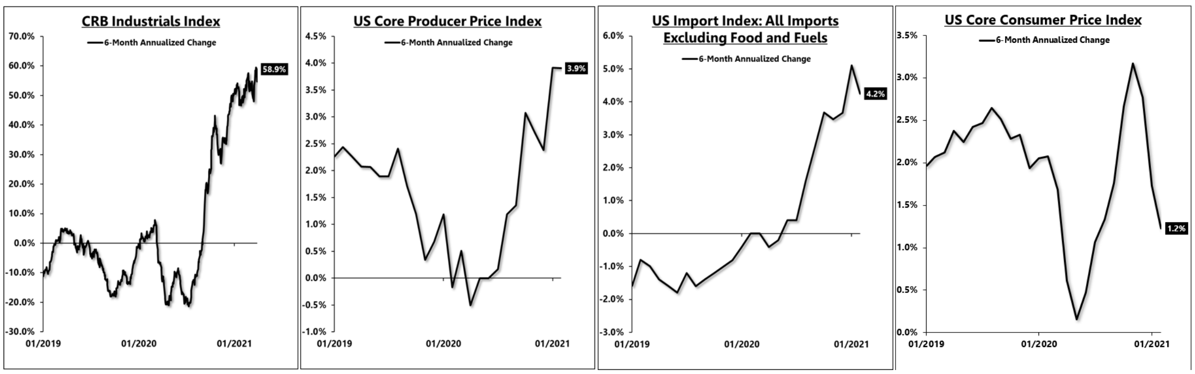
This Sunday Federal Reserve Chairman, Jerome Powell, was on CBS News 60 Minutes re-affirming his position on consumer inflation. Last summer the Fed announced a plan which will allow the economy to run hotter than normal. They stated they will let inflation run moderately above, for some time, the Fed's 2% target before hiking interest rates. Powell insists inflation will be transient but many experts disagree. Is Powell right and inflation will be transitory? Or will the Fed run the economy too hot and cause sustained high inflation?

Let's quickly identify what some of the near-term drivers are for both inflation and disinflation/deflation.

Inflation Drivers:
Fiscal policy (transfer of $ from the gov't to consumers)
Monetary policy (zero-bound interest rates)
Damaged supply chains
Reopening of the economy with a cash-flush consumer

Disinflation/Deflation Drivers:
Demographics (baby boomers coming into retirement)
Technology (decrease in the cost of production of goods)
Return to normalcy for supply chains
Slow down in government spending

Over the last 6 months, we have had a cyclical upturn in underlying inflation drivers yet we have seen a decline in core consumer inflation. See the below chart showing a rise in commodity inflation, producer inflation, and import inflation yet a fall in core consumer inflation.



Why is this? It appears firms have yet to pass along those costs to the customer. In Q4 of 2020, we saw corporate margins were compressed telling us that up until now most companies have been taking the brunt of increased prices through reduced profit margins. But now we are at an inflection point in the re-opening. With the success of the vaccine roll-out more and more consumers who are flush with cash are seeking goods and services at an increasing rate. Corporates know this and should begin passing on these prices which should result in rising consumer inflation. Now the question becomes how sustainable is all of this and will it fade towards the end of this year?

To answer that let's take a look at what we know. We know a large portion of the increase in price pressure is coming from damaged supply chains. While this may persist for several months we will eventually return to some level of normalcy causing prices to mean revert. We know both individuals and families are flush with cash and ready to spend. Congress seeing such strong consumer balance sheets reduces the support for additional broad-based stimulus checks. Not having additional transfer payments could reduce a large portion of consumer's propensity to spend. Last but not least we know the Federal Reserve can hypothetically only move rates up, resulting in a tightening of financial conditions for both consumers and corporates. Taking all of this into consideration it becomes hard to see a clear path towards a sustainable inflation rate above 2%.

To summarize – Yes, consumer inflation is likely coming. We should see a cyclical upturn over the next few quarters but it is hard to see it sticking around for a sustained period of time. All of this barring any new big change in fiscal policy impacting the consumer directly.

Economic & Financial Market Charts

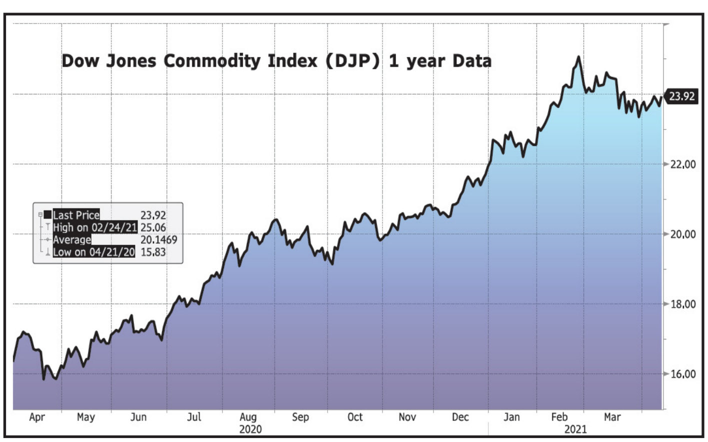


Figure 1 - Source: MACM / Bloomberg Financial
Graph of broad commodity prices soaring throughout
the pandemic due largely to supply constraints

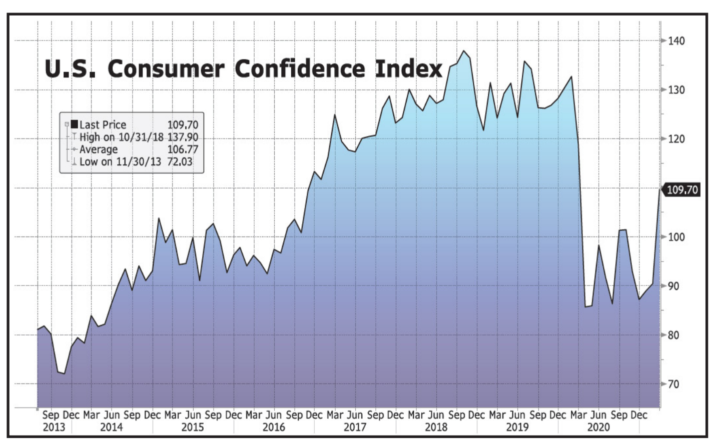


Figure 2 - Source: MACM / Bloomberg Financial
Graph of consumer confidence surging in 2021
as US vaccinations proceed at Warp Speed