Inside Views From an Investment Management Leader

UPDATE

July 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	**Long Story Short**	**The Starving Market**
by Mitchell Pletcher	by Kyle Aron	by Dane May
macmblog.com	thelongstoryshortblog.com	thestarvingmarket.com

Economic Review & Outlook

Expectations for Boomy Growth Sink!

The 2nd quarter was great yet again for equity markets, but volatile for expectations for the US Economy. How quickly the outlook can change – Boomy growth expectations from CEO's and Market strategists that were plentiful at the beginning of the quarter were nowhere to be found by the end. Leadership in the equity markets adjusted accordingly as secular growth companies (Tech, ecommerce, services) found renewed leadership and cyclical value oriented names fell from top to bottom as the quarter unfolded. Inflation spiked as the sleeping consumption giant awoke hungry and found the kitchen in a poor state of supply with modest inventory. The Fed's patient posture toward inflation is certainly under the microscope and is the center of worry for investors.

The Markets

Equities had another great quarter, along with fixed income returning to favor. Boomy growth expectations moderated causing the speculative rally in Commodities to stall and the rally in bonds to begin. The First half of the quarter was good for value names and deep cyclical names (Oil, Banks, Restaurants, transportation, etc), but ultimately the leadership shifted. The 2nd quarter leadership was led by a surge in previously Hard hit pandemic reopening names (Energy, REITs), and a shift back to Secular Growth Names. Indeed growth stocks did well in the second half - Russell LC Growth IWF +11.7%, Nasdaq 100 QQQ +11.1%, SP 500 up 8.5%, CIC DG + 7.9%, with value lagging - Russell 1000 Value IWD + 4.7%.

Leadership in equities involved Tech, Energy, REITS, Comm. Services, and Healthcare, along with strong performance in Residential Real Estate. Most REITS were up 13% or more in Quarter with an even bigger rebound in Commercial Property – SPG - +14.7%. Fixed Income bounced with long treasuries TLT +6.6%. The sharp move in Commodities in the prior quarter mostly ended in Q2. Most notable was the fall in Lumber off 58% from April peak. (pg. 4, fig. 1). Commodity Speculators seem to have pulled plug on their liquidity pump as capacity on the production of many commodities returned and the most severe Bottlenecks were relieved. The outlook for demand decreased in Q2 also driving speculators out.

Mitchell Anthony
President
Chief Investment Officer

The Economy

As expected the do everything from home theme faded a bit cooling durable good demand as demand for consumer experiences bounced back strongly. Housing which had been white hot ebbed a bit with demand moderating. Headwinds developed as rapid movement in prices caused some buyer hesitance driven further by: Low Inventory, mild decline in Covid 19 nesting, tighter credit, and the continued foreclosure moratorium limiting inventory. Still great Tailwinds to note: Money is still cheap even though rates have tilted a bit higher, this combined with strong consumer balance sheets have bolstered affordability. Further moderation in boomy expectations came into focus alongside other factors including: Less stimulus – One time payments gone and enhanced unemployment benefits gone for 25 states with further reductions to come by September. Pulled forward demand for durable goods is also now waning and industrial names are out of synch with volatile demand. Still notable, however, is that Consumer Confidence has moved to 127 which is near its all-time high of 142. (pg. 4, fig. 2). Indeed, consumers are generally in strong financial positions with elevated savings levels. However, it seems they may not be rushing to spend this all at once.

The reopening of America is well underway Despite a 3rd wave of the pandemic that may threaten America and is already entrenched in UK and other areas of globe with the new cases in the UK approaching all-time highs. This despite Vaccination rates of over 50% in the US and UK and affirmed vaccine protection against new strains of the Virus. Go figure!

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

Stimulus is still abundant but expected to end as all of those in need have had solutions and a return to work is now needed. The US Economy is strong with US retail sales at all-time highs. Personal income is still very high but far off highs of Q2. Personal Consumption is just off all-time highs as durable good purchases appear to have peaked. The Industrial Sector is moderating as demand for durable good consumption has fallen but the inventory build is still in place. The Auto Industry is ebbing and flowing with strong demand but choking from bottlenecks in semiconductors. Energy demand is tilting higher as capacity remains tight, but cracks at OPEC are developing, as domestic producers exercise discipline. Appliance demand is high but declining as inventory is arriving just in time! 5G Construction continues, but the Biden Infrastructure plan is moderating in size. The Renewable energy theme is underway with demand for Electrics, Solar and other green infrastructure.

The Experience industry is in the midst of a steady strong rebound that is coming slower than anticipated. Pent up demand is visible for Leisure related flights, Hotels, Restaurants, & Entertainment. However, No real visible recovery yet in: Business related flights, and Hotels, & Dining. Secular Consumption of Tech remains intact with strong demand for hardware, semi's and software services. The Financial Sector is still hoping for higher rates and improved margins on loans. The recent decline in expectations for boomy consumption was a big blow to bank investors! There is conflicting opinions on the longevity of the Inflation we are experiencing. Continued stimulus and low rates are building a scenario for enduring inflation. However, the Fed does not believe current consumption themes are sustainable enough for demand pull inflation to develop for any extended period of time. Inflation is transitory. Gold prices indicate that investors are not believing much inflation lies on the horizon.

Economic Outlook

The robust Boomy recovery in America is not materializing. Consumer experiences are leading the modest to moderate wave of consumption. Housing and durable good consumption has moderated but will have a second wave of acceleration. Technology demand will continue with work and do everything from home still alive. E-Commerce will continue to grow. Return to the office is underway but competitive forces are involved. Goldman Sachs is demanding a return to the office while Citibank says work from home for as long as you like in a strategy to poach talent from the King.

Market Outlook

Most Risk assets will remain highly valued and trend higher. Stocks and Real Estate will undoubtedly move higher but leadership remains unknown….Some Risk assets that are highly valued will tilt lower. Treasuries and High quality debt are in this risk basket. Commodities that have run up because of Covid capacity problems and incrementally higher demand are also in the bucket. Steel, Grains, etc.. Leadership in Equities will change. FAANG, Consumer experience cyclical, and Industrials will likely lead. The FAANG with go again as earnings ignite new purchases. SIFI Names (Sexy Innovative Fragmented Industries) will surprise to upside and downside as earnings and the rate environment play out. Late to the party REITs could be in for a run as well as gold if the fed gets to stubborn and the data surprises us all.

We remain optimistic!

Table 1: Stock & Bond Market Returns *06/30/2021*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	11.8%	42.3%	Small Cap Value (IWN)	4.2%	72.8%
Large Cap Value (IWD)	5.0%	43.5%	Small Cap Growth (IWO)	3.7%	51.2%
Europe Asia Far East (EFA)	5.4%	32.6%	Emerging Markets (EEM)	3.8%	39.9%
Invest Grade Bonds (LQD)	3.9%	2.4%	High Yield Bonds (HYG)	2.0%	12.9%
Interm Treasurys (IEF)	2.5%	-4.5%	Mortgage Bonds (MBB)	0.3%	-0.4%

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

Table 2: Real Estate & Commodity Returns *06/30/2021*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	11.4%	32.4%	DJ Commodity Index (DJP)	15.0%	54.6%
Int'l Real Estate (IFGL)	7.1%	29.5%	Goldman Commodity (GSG)	15.2%	55.2%
NAREIT Residential (REZ)	13.2%	43.0%	Gold (GLD)	3.5%	-1.0%

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

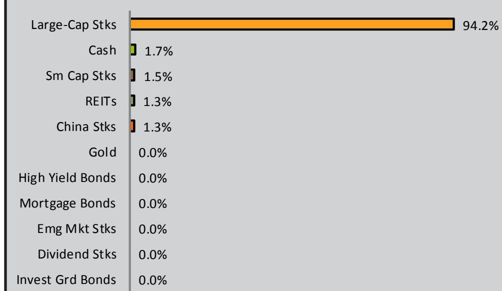
MACM Managed Accounts

Growth Portfolios

Dynamic Growth

(Qualified Accounts)

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

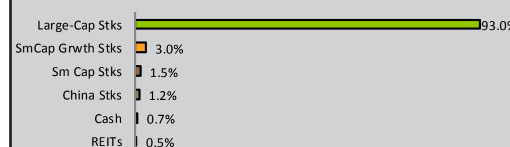


Growth

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

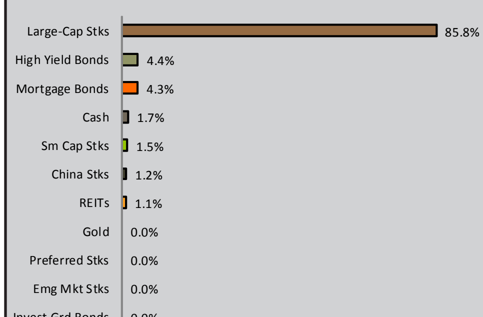
A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Dynamic Growth & Income

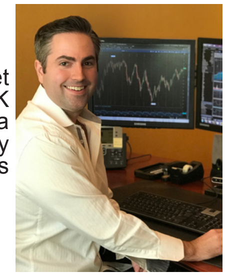
(Qualified Accounts)

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



MACM Research Spotlight

Derailed by Delta?



Kyle Aron
Senior Analyst

Just as the US and many parts of the world are nearing a return to normal, a new covid variant has emerged – the so-called "Delta" variant. How concerned should we be about Delta? What impact might Delta have on the global recovery? At least domestically in the US, the outlook is encouraging. The rest of the globe, particularly emerging markets, remains in question.

What is the Delta variant?
As expected, covid strains have mutated over time. Unvaccinated countries have been particularly problematic, where the virus' spread remains largely unchecked - giving it ample opportunity to mutate. New covid strains that are sufficiently differentiated from other strains are typically named (using Greek alphabet) – i.e. Beta, Gamma – and now Delta.

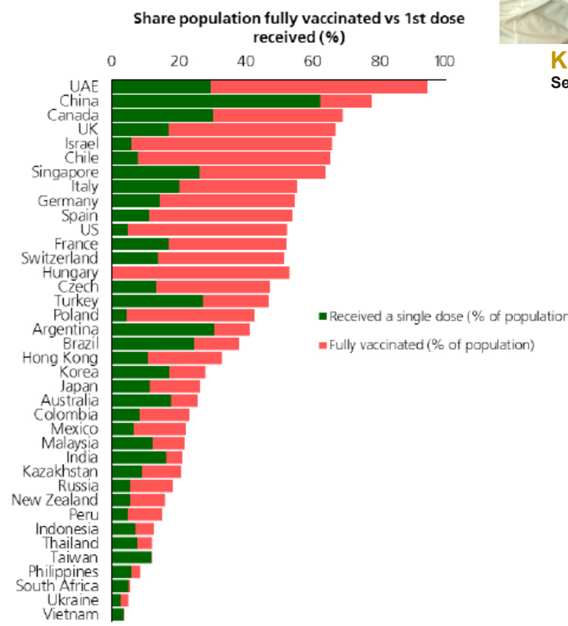
First identified in India last December, the Delta variant is particularly concerning. Delta appears to be both more contagious and more severe that prior variants. Estimates show that the Delta variant is currently spreading 50% faster than the original ("Alpha") variant. Even worse, early research suggests the Delta variant is about twice as likely as the Alpha variant to result in hospitalization for unvaccinated individuals. The Delta variant has rapidly swept the globe and become the dominant strain in much of the world.

Vaccine Efficacy vs Delta
Fear not, however – for the most part, vaccines are still excellent protection against the Delta variant. Even better news is that the primary vaccines being used in the US – the mRNA Pfizer and Moderna vaccines, seemingly remain highly effective. Data shows that the Pfizer vaccine is still approximately 90% effective against symptomatic infection (even better with respect to severe outcomes – i.e. hospitalization). Moderna has seen similar preliminary results. Strong protection against even symptomatic infection should help keep spread of the virus relatively low, at least in the US.

Unfortunately, other vaccines are not quite as effective. Though it still offers good protection against severe outcomes, the Astrazeneca vaccine appears to only offer about 60% effectiveness in preventing symptomatic infection (down 10% or more vs Alpha). Similarly lower levels of protection against symptomatic infection have been observed in popular Chinese vaccines. Complicating matters further globally is the fact that Astrazeneca's vaccine is currently estimated to have the largest distribution worldwide, leaving much of the vaccinated world with suboptimal protection.

Fragmented Global Recovery
The key takeaway here is that much of the globe, particularly outside the US, is likely to face a fragmented path of recovery. Unvaccinated countries are clearly the most at risk. Indeed, with only about 20% of its population fully vaccinated, Japan is sounding the alarm and has declared a state of emergency amid a virus resurgence. This shocked the world as the summer Olympics will no longer be allowed spectators as a result. Likewise in Australia, with a vaccination rate similar to Japan, nearly 1 in 2 people are currently under new stay-at-home orders. In total, merely 10% of the global population is estimated to be fully vaccinated.

But vaccinated countries may be at heightened risk as well. The UK is a particularly interesting situation, as they have among the highest percentage of population vaccinated worldwide, yet are seeing a huge surge in new cases. Notably, the UK has predominately used their home-grown Astrazeneca vaccine. It could well be that Astrazeneca's relatively poorer protection against symptomatic infection is allowing Delta to spread more rapidly in the UK.



Path Forward & Investment Implications
The US, however, seems uniquely well-prepared with its high levels of vaccination and dominant use of particularly effective mRNA vaccines. Nearly 50% of the entire US population is fully vaccinated. For those in the higher risk portion of the population – people over the age of 65 – the numbers look even better. In this group, 4 of every 5 people are already fully vaccinated. The US may see pockets of outbreaks in lesser vaccinated regions, but it seems unlikely that severe outcomes will tick up meaningfully, or that cases will broadly reaccelerate to concerning levels. This should bode well for a continued domestic recovery, albeit alongside a fragmented globe. The rest of the world should ultimately improve as more people are vaccinated generally, and more countries get access to Pfizer and Moderna vaccines following their US-focused initial rollout. This may take some time, however, particularly as these mRNA vaccines are relatively more difficult to transport/store.

As such, investors should remain primarily focus domestically, as an uneven recovery may continue to plague the rest of the world. Likewise, investors should exercise caution around experience and travel related names, particularly those with global exposure, as the Delta variant throws a wrench in re-opening and travel plans for much of the world.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Real Estate	12.3%	33.2%
Energy	12.0%	51.5%
Technology	11.6%	43.4%
Comm Services	10.7%	49.9%
Healthcare	8.8%	29.0%
Financials	8.0%	61.6%
Cons Discretionary	6.7%	49.5%
Materials	4.7%	48.6%
Industrials	4.3%	51.1%
Cons Staples	3.7%	23.8%
Utilities	-0.3%	16.1%

2021 Q2: Leadership Shifts

After two quarters of dominant performance, the previously leading sectors – financial, materials, and industrials – passed the baton in Q2 of 2021. Late to the party recovery sectors, like REITs and Energy, were out in front in Q2. It seemed more visibility on the path of recovery was needed to encourage investors into these hard-hit segments; in addition, the other re-opening sectors seemed to have gotten a bit overheated. Energy was particularly strong as oil prices spiked alongside recovering demand and limited supply. REITs meanwhile were bolstered by expectations for strengthening rental prices. Following closely behind REITs and Energy was the Technology sector, which found favor again as investors began to question just how boomy the coming recovery/growth was actually going to be, and the Delta variant threatened re-opening progress across the globe.

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

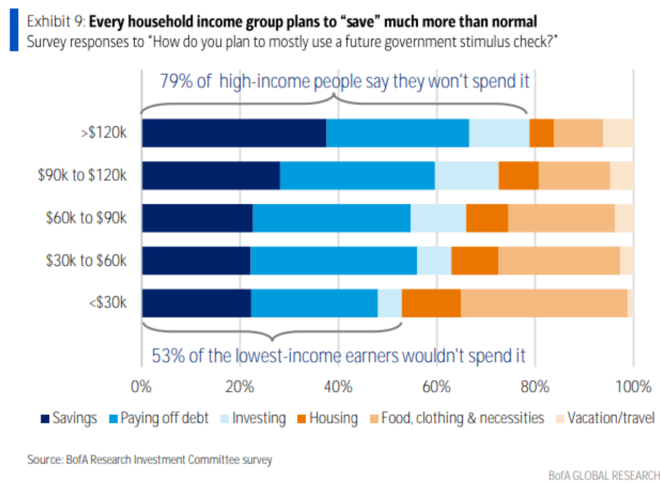
Spending Sugar High?

Not long after COVID landed in the U.S. our government has doled out an unprecedented amount of pandemic relief directly to consumers. One-time stimulus payments, enhanced unemployment benefits, mortgage forbearance, student loan suspensions and other programs have enabled consumers to come out of this global recession with extremely strong balance sheets. This led us to see record retail sales numbers emerge through 2020 and the first half of 2021. But how will the consumer spend moving forward? Economists estimate U.S. households currently have 2.5tn of excess cash (or cash equivalents) on hand. Will they continue to rapidly spend as most predict? Or will we see a subsequent crash after the last 12-month "sugar high"? Let's explore.

The first thing we need to look at is who has all of this 2.5tn? 70% of the cash is held by the wealthiest 20% of households. This cohort tends to spend in the real economy at a much lower rate than lower-income working families. In fact, one Boston Fed Study found that in normal circumstances the bottom 20% of households were likely to spend $0.97 of every dollar earned, while the top 20% spent just $0.48 of every extra dollar. That being said, a glut of cash on the balance sheet of already wealthy households is unlikely to help keep us at sugar-high sustained spending levels.

So what about lower-income working families? We know they have been a large beneficiary of enhanced unemployment benefits, with the majority earning more by staying home and not working. This cohort has a much higher propensity to spend but with the looming deadline of unemployment benefits, many are saving as much as they can before going back to work to earn even less than they are making now. So now that we know where the cash sits and who is spending it let's take a look at what they may spend it on in the coming months.

At the end of February Bank of America surveyed more than 3,000 people about how they would spend their stimulus in 2021. You can see the results on the graph to the right - across every household income group 30% said they would pay off debts, 25% said they would save it and 9% said they would invest it. So for every $1 in stimulus across all income groups roughly $0.64 will go towards Paying Debts / Savings / Investing.



Along with consumers intending to save more, existing government programs will be rolling off over the course of the next 6-12 months. The Pandemic Unemployment Benefits will end come the middle of September. This removes the additional $300 in federal stimulus payment along with any emergency unemployment compensation for gig workers. We will see the end of the Mortgage Forbearance which requires homeowners to begin servicing their debts (taking away from consumption). We will see eviction moratoriums lifted which will put pressure on renters to either pay up or move to a new home and begin paying. Last but not least at the end of September student loans will no longer be suspended and payments must be made. You can begin to see how the consumer may have to start allocating their cash away from their current spending habits and back to a pre-sugar-high world.

In summary: Like a kid after Halloween, Americans have received trillions in both direct stimulus payments and indirect programs designed to strengthen their balance sheet giving them quite the sugar high. They are sitting on piles of cash. Some of it has been spent, a lot of it has been saved and a large portion has been used to pay down burdensome debt. We are now at the inflection point where the economy has nearly fully re-opened and we will see how big this pent-up demand really is. Will consumption revert to trend, coming down from the sugar high, as households direct more cash to savings (cash, debt payments, financial assets)? Or will spending continue to boom? Currently, the data is pointing towards consumer spending moderating going into the second half of 2021 but we will be closely monitoring spending habits to better understand the outlook of secular growth vs the re-opening.

Economic & Financial Market Charts

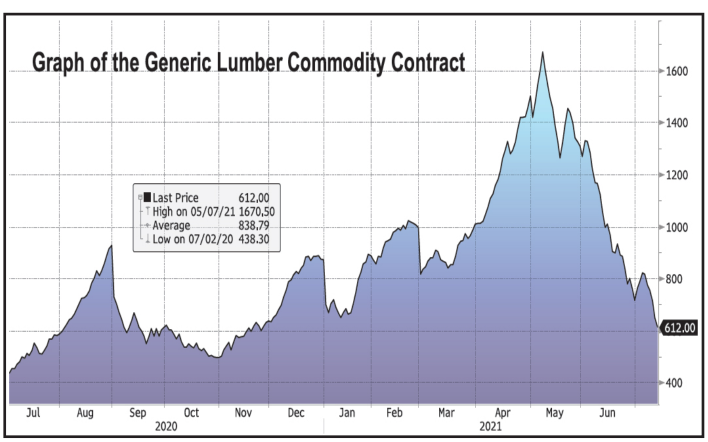


Figure 1 - Source: MACM / Bloomberg Financial
Graph of lumber prices plummeting more than 50% from their peak in Q2 as speculators seemingly fled

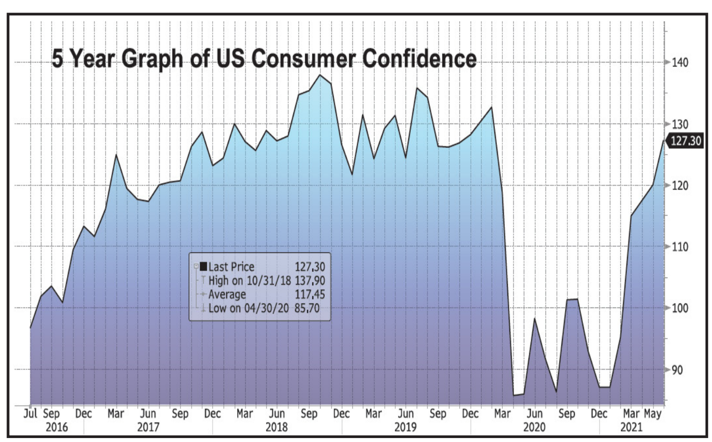


Figure 2 - Source: MACM / Bloomberg Financial
Graph of consumer confidence continuing higher and approaching pre-pandemic all-time highs