CONWAY• JARVIS LLC
Investment Outlook

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Update

Fiscal Policy Changes Appear on the Horizon

It's been an eventful month of April. We saw the government embark on a spending spree while the private sector reveled in a blockbuster Earnings Season. The $1.8 trillion American Families Plan has been announced. It follows the American Rescue and American Infrastructure Plans. The tab? Nearly $6 trillion at first glance. Of that, the latest iteration of government benevolence opened at $1.8 trillion, paid for by tax increases on corporations and as small a number of voters deemed prudent by political strategists. It's likely to be months before the final version is determined through the *traditional* legislative process in Congress. Or, it could be next week if the majority party and administration engage *reconciliation* to make an end run around that process.

We're focused on what is finally enacted because, as history has shown, paying the bill for boosting the money supply can enhance or inhibit expansion of the economy over the long-term. That outcome hinges on the adaptive response by business and those in the private sector. Their response will ultimately determine if these well-intended programs, while friendly to the economy in the short-run, will remain so in the long-run. A radical departure from the current policy structure could prove to be not so market-friendly. That's important to investors and a story that will unfold in the second half of this year.

Speaking of market-friendly, the Earnings Season now underway borders on the spectacular as you might expect when results are compared to the first quarter of 2020 that marked the onset of the pandemic. This week, we saw results from a number of market leaders in the Tech sector (GOOG, AAPL, MSFT, AMZN) exceed expectations while offering optimistic forward-looking guidance. The market's reaction has been mildly bullish, leaving the S&P 500 and NASDAQ flagging in the vicinity of their record highs. One analyst attributed this to investor expectations being so high that there can be few surprises to the upside and why some outstanding results, such as those from Apple, are met with a yawn. We'll call this Peak Optimism. It's not surprising in a year where some predict we might see peak earnings for this cycle. We don't think we're there yet. While there may be Peak Optimism, we believe this cycle could have a lot of runway ahead.

If we learned anything this past year, it's that all market sectors are not equal in the pandemic era. We've seen investor capital *migrate* among sectors *within* the broad market rather than indiscriminately flow into the broad market. Investors navigated through the progression of the virus and the recovery that's followed. The first stop included the stay-at-home-stocks in Tech along with home-improvement companies, then on to the Cyclicals as the recovery took hold, and now on to Travel and Hospitality as the vaccination rate improves and people return to their old routines. So, while we *might* see peak earnings from a few companies this year, that pinnacle remains well into the future for most sectors, especially those that have just begun to emerge from the effects of the pandemic.

This week also brought news of GDP growth at 6.4%. While an impressive step forward, it obscures the fact that *full* recovery remains down the road with 8+ million remaining unemployed from 2019 levels. As the reopening expands, so has pent-up demand for goods and services. So much so that pandemic related disruptions of manufacturing and supply lines have created a shortage of products and their components. The economy has a lot of catching up to do in meeting emergent demand and business investment is critical to that end. Tax policy will have an effect. We'll keep you posted. Stay tuned.