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REVIEW & COMMENTARY

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What a Difference a Year Makes
1st Quarter 2021 Wrap Up

A year ago, the first quarter ended with a thud with the S&P 500 Index ("S&P 500") down 20%, having hit bottom on March 23 at 2191.2. We were beginning a Covid-19 induced lockdown, economies around the globe were in various stages of shut-down, unemployment here and abroad was rapidly rising. At that time, there were about 165,000 confirmed Covid cases in the U.S. with a death toll of 936.

Today, the S&P 500 passed 4,000 for the first time, having ended the first quarter with a gain of 6.17%. As of March 31, 2021, there have been 30.3 million confirmed Covid cases in the U.S. with the death toll a staggering 551,000. However, economies are in various stages of reopening and employment is rising.

There were many cries to exit equities a year ago. We were not immune from them, lowering equity exposure and raising cash for many accounts. But remaining mostly in markets ended up being the right move. From last year's March bottom to March 31, 2021, the S&P 500 has risen an astounding 81%. Meanwhile, cash paid you nearly nothing over the period while a 10-year U.S. Treasury yielding 0.67% on 3/31/20 has fallen about 8% over the past year as 10-year rates climbed to 1.73% on 3/31/21.

It is worth saying again: What a difference a year makes!

We all know the main reasons for the market and economic rebound included the near-miraculous development and implementation of global vaccine programs followed closely by stupendous monetary easing policies, flooding the globe with cheap money some of which has found its way into equity markets.

Over the past year, there has been a giant shift in market leadership from companies benefitting from a "work from home, stay at home" economy to companies that may benefit from the economy's reopening. Whether this trend continues or if it has gotten ahead of itself is a key dilemma facing investors today.

What will the rest of 2021 bring? At the start of 2021, many people, us included, thought the S&P 500 could reach 4000 by year-end, not through any great intellectual insight but basically by applying a reasonable 20x p/e ratio to estimated 2022 earnings of $200 per share for the S&P 500. Few thought the S&P 500 would reach 4,000 on April 1. It is wise to remember that historically the S&P 500 generally sells for 14x – 16x the coming year's earnings. Today it is 20.7 times. However, that needs to be balanced against the still-low interest rates we have which makes equities probably more attractive than cash or bonds to many investors. Tina (There is no alternative) lives!

We will end with a question that is worth thinking about:

"Over the past year, there has been a giant shift in market leadership from companies benefitting from a "work from home, stay at home" economy to companies that may benefit from the economy's reopening."

What is the riskier investment: The S&P 500 today at 4019.9, selling for 21x estimated 2022 earnings of $193.47 per share and yielding 1.5% but with world economies generally improving and inflation a growing risk? Or was it the S&P 500 a year-ago selling for 2584.6, with estimated earnings of $150.00 for 2021 but coming down rapidly and yielding 2.2% in a world of extreme uncertainty due to the growing Covid pandemic and all the various unknowns that came with it?

We would be interested hearing your answers. As always, we are here to help.