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Investment Strategy Insights

July 12th, 2021

Climbing the Wall of Worry

- From Inflation to Peak Growth Concerns
  - Market concerns around peak growth and inflation should eventually subside as the ongoing recovery continues
- A Fiscal Headwind, But of What Size?
  - The total fiscal package will be less economically stimulative, when compared to previous bills
- Delta Variant: The Next Wave?
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From Inflation to Peak Growth Concerns

- **Inflation Concerns Fading.** Less than a month ago, investors' concerns focused on inflation, following the May Consumer Price Index (CPI) reading of 5% year-over-year, with some warning of persistently high inflation and calling for an immediate response from the Federal Reserve. However, beneath the surface was a declining month-over-month rate of inflation and year-ago base effects that were beginning to fade. The yield on 10-year Treasury Notes, which reflects a combination of inflation expectations and Fed-intentioned monetary tightness, has since declined and now sits near 1.3%.

- **New Concerns Around Peak Growth.** After Q1's tremendous earnings rebound and strong expectations for Q2, investors appear to now be growing weary of peak growth. For Q2, the S&P 500 is expected to post year-over-year revenue growth of ~18.5% and EPS growth of ~65%, mainly led by industrials, energy and materials. However, despite slowing from this unsustainable pace, earnings growth is projected to remain relatively strong, and 2021 EPS should show year-over-year growth of ~18%.

- **Concerns Over-Hyped.** Both the previous inflation concerns and the current peak growth concerns are likely over-extrapolated reflections of near-term trends that will not persist. Markets may remain volatile as they attempt to adjust to the rapidly evolving information flow during the ongoing recovery from the pandemic, but should ultimately settle in on a realization that both growth and inflation will likely settle into a more moderate but generally acceptable rate that should not be disruptive of markets longer term.

Market concerns around peak growth and inflation should eventually subside as the ongoing recovery continues

A Fiscal Headwind, But of What Size?

- **Celebrating National Unity.** President Biden recently announced his support for a bipartisan infrastructure plan, including roughly $1.2 trillion in new spending over 8 years. With that said, since this bill is sized-down and does not include any broad-based tax hikes, Progressives are pushing for a supplemental bill through reconciliation. However, they are facing a very tough road ahead from Moderates, evident in Senate GOP Leader McConnell's comment that, "I don't think we've had a bigger difference of opinion between the two parties."

- **International Unity Over Minimum Tax.** Recently, 130 of the 139 OECD* nations came together in agreement regarding an initiative to overhaul the way multinationals are taxed. However, this will take some time, as major nations still need to internally ratify the international tax hike, expected to be at least 15%. These new OECD rules are expected to take shape in 2023, but each nation will still need to hash out the remaining specifics before October, so that new tax codes can be revised in 2022.

- **Less Stimulative Than Prior.** The ground between Moderates and Progressives is quite wide right now, causing the likelihood of tax code changes to decrease. With this, the total fiscal package will be less stimulative to the economy, when compared to previous bills, due to its long duration and more modest spending. Furthermore, the possibility of tax increases, which could be included in a supplemental reconciliation bill, would only offset the fiscal impact of this sized-down spending.

The total fiscal package will be less economically stimulative, when compared to previous bills

**Organization for Economic Co-operation and Development*

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Delta Variant: The Next Wave?

- **Delta Rising.** COVID-19 case counts are falling across the U.S., but the cases associated with the Delta variant are rising. According to data from the U.S. Center for Disease Control (CDC), the Delta variant now accounts for over 65% of new confirmed COVID-19 cases in the U.S., making it the dominant variant for the foreseeable future. It's rise appears to have been large enough to have essentially halted the decline in COVID-19 cases in the U.S. and has been the cause of a rise in cases in some foreign nations.

- **Virus Protection.** Despite a significant uptick in cases from the rise of the Delta variant in the U.K. and Spain, hospitalization and fatality rates have remained relatively low compared with previous waves. This appears attributable to the high percentage of the vulnerable population in these nations that is now vaccinated and/or immune through prior infection. Such immunity does not seem to halt the spread, but does seem to curb the severity of the disease for those infected. In the U.S., 22 states now have more than 70% of their population immune through vaccination or prior infection, with other states close behind, providing a reasonably strong defense against this new strain.

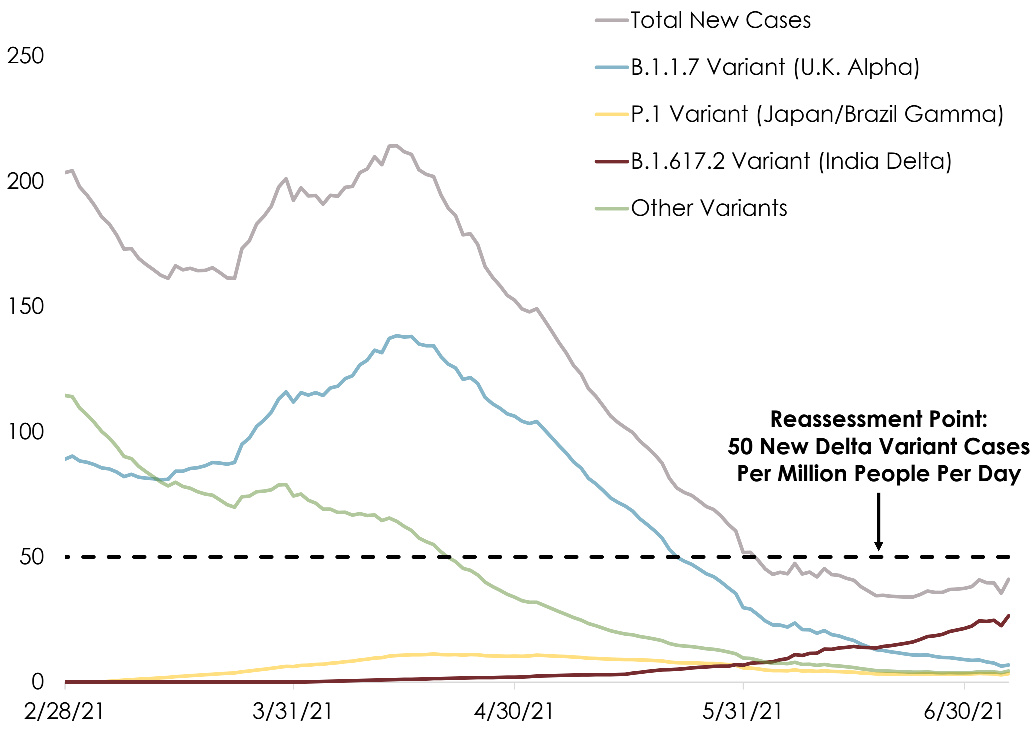
- **Monitor, Monitor, Monitor.** Investors should remain vigilant in monitoring the growth in the Delta variant and the severity of the related cases by tracking hospitalizations and fatalities. Still below 50 new cases per million people per day, the Delta variant has not yet grown to the proliferation of previous waves, but its growth trajectory does not yet appear finished either. The rise of the Delta variant remains an item to watch but has yet to become a point of alarm.

Investors should not be alarmed yet, but should continue to monitor the trajectory of the variant and evidence of its severity

Chart of the Week:

What to Watch: Delta Variant Infection Rate

U.S. COVID-19 Variants: New Cases per Million People (7-Day Avg)



Source: Glenmede, Johns Hopkins University, U.S. Center for Disease Control (CDC) *Data through 7/6/2021*
7-Day Avg is the 7-day moving average of new confirmed cases.

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