April 1, 2021

"Let us not look back in anger, nor forward in fear, but around in awareness"
-James Grover Thurber

During the first quarter of 2021 the equity and bond markets have been preparing for the post-covid economy. The US GDP, which contracted 3.5% in 2020, is forecast to expand by over 8% in 2021 as business activity recovers. The federal government has injected over $5 trillion into the economy through various programs, including direct payments to consumers. This week, President Biden has introduced the first part of another $3 trillion in government spending targeted at infrastructure, education, work force development, and climate change initiatives. The result will be more federal money flowing into a recovering economy which is likely to push GDP growth higher.

In the equity markets, deep value, small cap, and cyclical stocks have led. Many of these stocks have experienced multiyear underperformance and are now being revalued to reflect stronger cyclical growth. While we own some businesses that have benefited, such as some of our industrial and financial stock investments, we think longer term performance still favors businesses benefitting from secular growth tailwinds.

The yield on the ten-year treasury has risen year-to-date from 0.91% to 1.72% in anticipation of faster economic growth and as inflationary pressures are beginning to build. Raw material prices, shipping costs, and energy prices have all risen along with the economic outlook.   Chairman Powell, in his most recent testimony to Congress, indicated the Federal Reserve believes inflationary pressures are transitory so the Fed will remain accommodative. Should the Fed be wrong, there is a risk bond yields will move higher.

Currently, the forward price/earnings valuation for the S&P 500 is approximately 20x. This is toward the higher end of the historic range. If businesses report better than expected results, stocks could move higher. However, there is also the risk that as interest rates rise, stocks become less appealing and the valuations contract. These factors create a push-pull scenario for the stock market that is likely to result in greater volatility and lower returns over the near term. We believe the companies we own in client accounts are well positioned to navigate this environment and we will be looking for opportunities to add more quality businesses generating solid free cash flow to the portfolio.

Thank you for entrusting Ayrshire Capital Management with the management of your investments. We look forward to speaking with you in the coming quarter.

Sincerely,

JM Sam Nevin, Jr
Managing Partner

W. Joseph Ryan III
Partner

Social Media Disclaimer:
"Likes" should not be considered a positive reflection of the investment advisory services offered by Ayrshire Capital. Visitors must avoid posting positive reviews of their experiences with Ayrshire Capital or its services; as such testimonials are prohibited under state and federal securities laws and may not reflect the experience of all clients of Ayrshire Capital.