July 1, 2021

"A problem is a chance for you to do your best."
-Duke Ellington

When we wrote our quarterly update one year ago most regions of the United States remained under some level of lockdown, travel was a faraway dream, and a vaccine to protect people from Covid-19 was only a hope. Today, thanks to very effective and safe vaccines and substantial government stimulus spending, we are benefitting from the unlocking of our economy, strong consumer spending, plunging unemployment, and personal savings near all-time highs. Some regions of the world continue to battle Covid infections, but we are confident that the vaccines that have worked so well in the USA will help other regions emerge from the health crisis. Lest we rest on our laurels, we will spend this update reviewing trends we expect to influence the markets over the next 3-5 years.

Macroeconomic factors, such as declining interest rates, lower corporate tax rates, and decreasing corporate operating costs may be approaching an inflection point. For the last decade all worked together to drive strong earnings growth and expanding profit margins. An accommodative Federal Reserve policy designed to maximize employment while also capping inflation at 2% has generated historically low interest rates. Recently the Fed has modified its policy to generate inflation slightly above its historic target and there is risk that inflation could be more robust. If this occurs, then it is likely the Fed will respond by curtailing its asset purchase program and by raising interest rates. Corporate and some personal tax rates are at risk of rising as Washington debates ways to fund proposed social programs. Raw material and operating costs are increasing as manufacturers and service companies respond to greater demand for goods, services, and workers. Given these factors, it is prudent to plan for some headwinds to corporate profit growth in the coming years.

If the investment landscape shifts to one with higher inflation and tighter liquidity, it will favor businesses possessing the ability to pass along price increases to consumers. Companies generating free cash flow also serve as good hedges against inflation because they have the flexibility to raise dividends while continuing to invest in operations. These characteristics fit well with Ayrshire Capital's strategy of owning businesses that generate strong cash flow run by quality management teams focused on deploying excess cash in shareholder friendly activities. As market conditions evolve, we will continue to focus our research efforts on adding well positioned businesses to client portfolios.

We look forward to speaking with you and thank you for entrusting Ayrshire Capital Management with your money. Have a happy holiday weekend.
Sincerely,

JM Sam Nevin, Jr
Managing Partner

W. Joseph Ryan III
Partner

136 Main Street, Suite 203 ❖ Westport, CT 06880 ❖ www.ayrshirecapital.com ❖ v 203.349.5600 f 203.349.5599

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