October 4, 2021

“Every exit is an entry somewhere else”
-Sir Tom Stoppard

After almost two years of living in a pandemic we are about to emerge into the next phase. Thanks to the creation of highly effective vaccines and medical treatments, the likelihood of dying from the virus for those who have been vaccinated is almost nil. We are optimistic that medical technology will be successful treating future variants so we will spend our time in this update focusing on three issues we think bear watching over the coming year.

First, the economy has rebounded well from Covid and the fundamental backdrop remains favorable. Following a decline in GDP of -3.4% in 2020, US GDP is forecast to expand 5.9% in 2021 and 3.8% in 2022. Continuing claims for unemployment benefits declined during 2021 and are now back near pre-Covid levels. Personal consumer expenditures are robust which suggests corporate earnings will remain strong over the coming months. Looking forward into 2022, earnings estimates for the companies comprising the S&P 500 imply 6% growth, following a very strong 50% earnings acceleration in 2021.

Second, the Federal Reserve announced at its last meeting that it plans to wind down its quantitative easing program. The Fed began buying bonds to inject liquidity into the economy following the financial crisis of 2008. When the pandemic hit, the Fed expanded bond purchasing to $120 billion monthly to increase money supply. Given the strengthening economy and higher inflationary pressures the Fed intends to end the program by mid-2022. With less liquidity in the market, rates could begin to normalize resulting in higher bond yields.

Third, it is likely that the corporate tax rate will be raised to reduce the current budget deficit and to fund some social programs currently being debated in Washington DC. Presently, it is unclear what will transpire since negotiations are ongoing related to a $1 trillion infrastructure bill and $3.5 trillion social program bill. However, it is likely that corporate taxes, and personal taxes for wealthier Americans, will increase if government spending accelerates.

These factors create headwinds for the markets in the near term. In our experience businesses run by talented management teams navigate tough environments well. We don’t think it will be different this time, and we continue to believe that the companies owned in your portfolios are well positioned. Market valuations are elevated and could be subject to some compression, but we think the growth profiles and valuations of the stocks we own on your behalf are attractive. Thank you for entrusting us with the management of your money. We look forward to speaking with you.

Sincerely,

JM Sam Nevin, Jr	W. Joseph Ryan III
Managing Partner	Partner