



PRIVATE BANKING WEALTH MANAGEMENT

# Global Economic & Investment Update

Presentation to the NH Business & Industry Association

May 13, 2021 – David S. Lynch, CFA – Chief Investment Officer

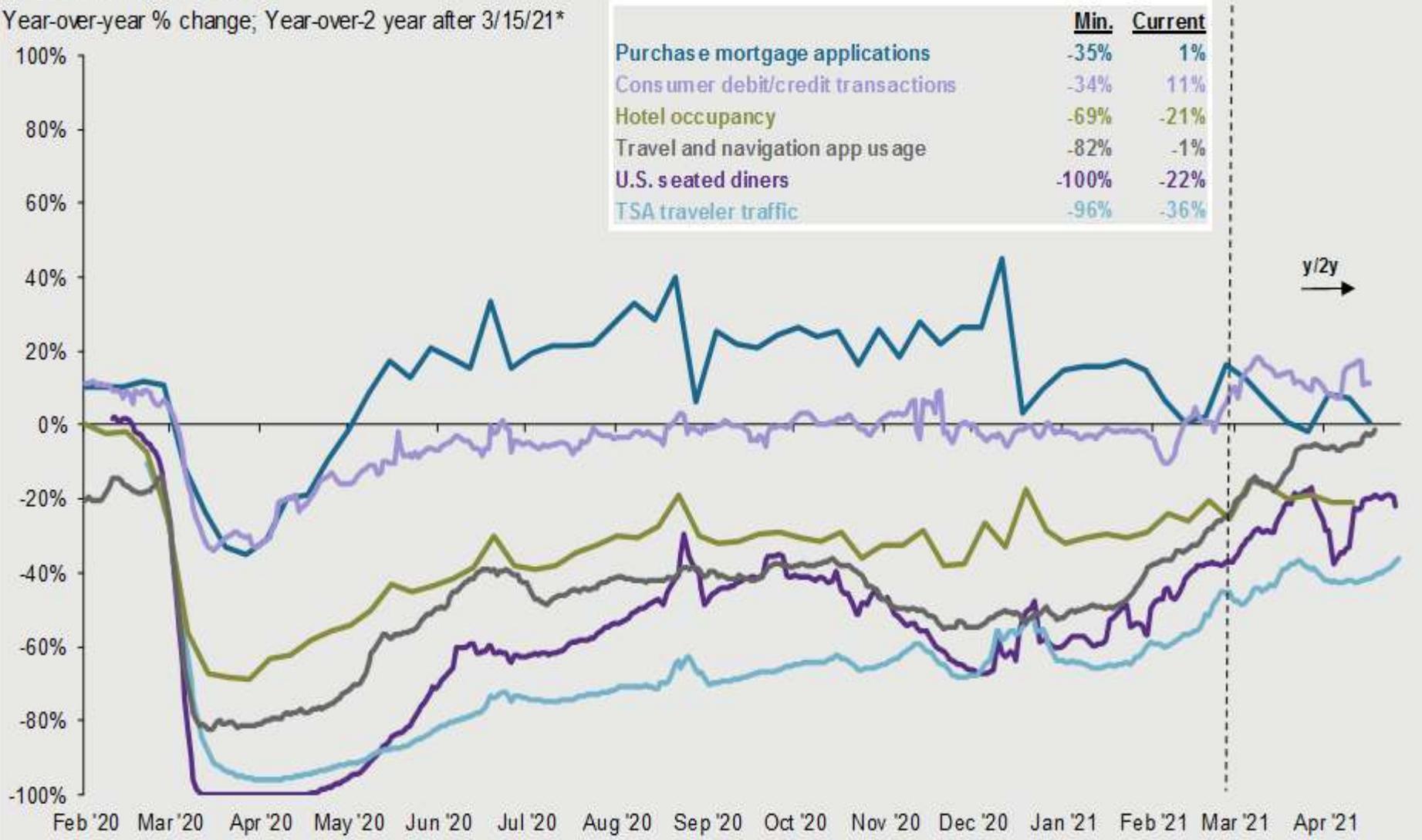


Economic Update  
*How are we doing?*

# Activity Reviving: Pent Up Demand & Excess Savings Ready to be Spent

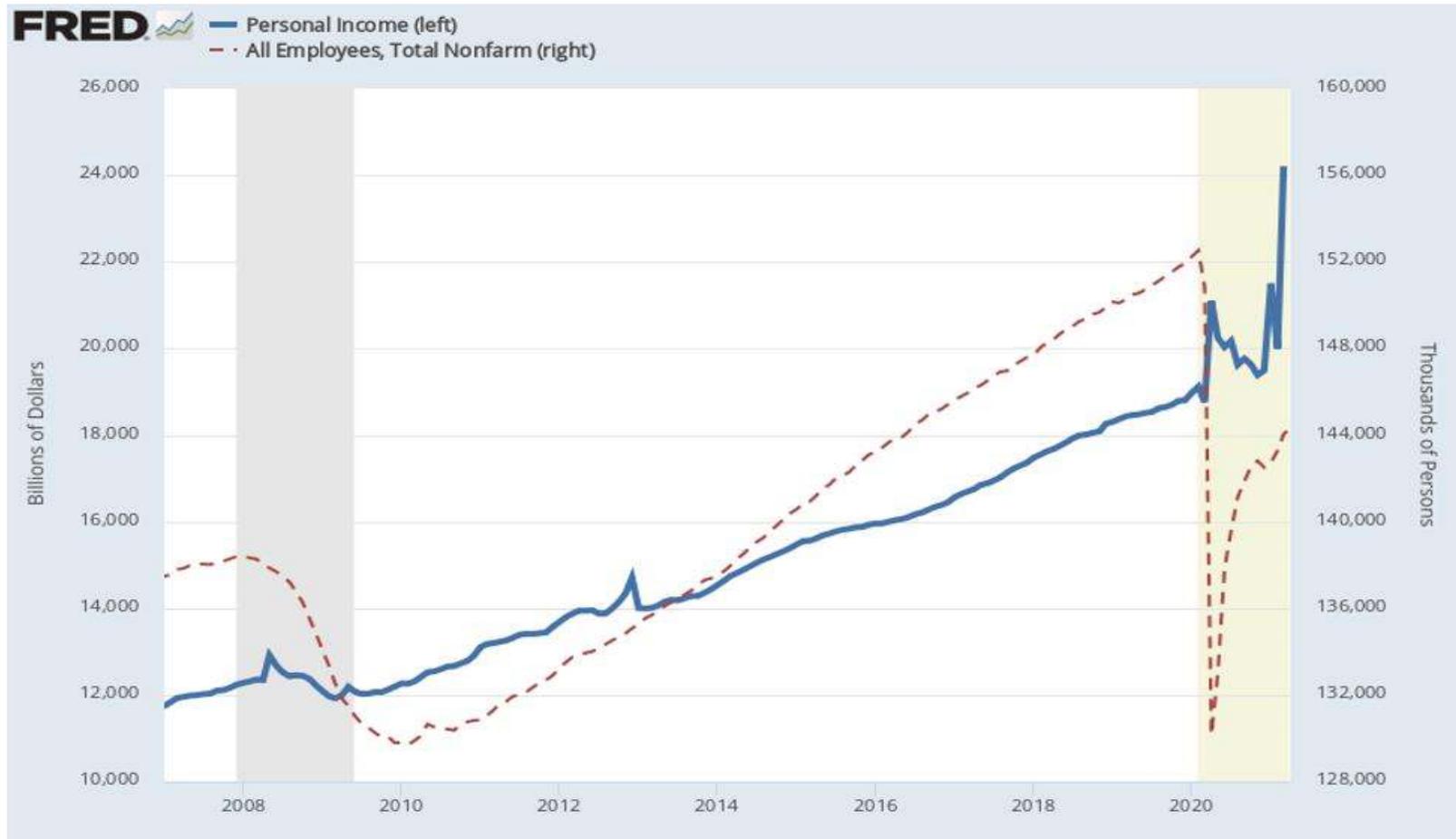
## High-frequency data

Year-over-year % change; Year-over-2 year after 3/15/21\*



Source: JP Morgan Asset Management, 5/11/21

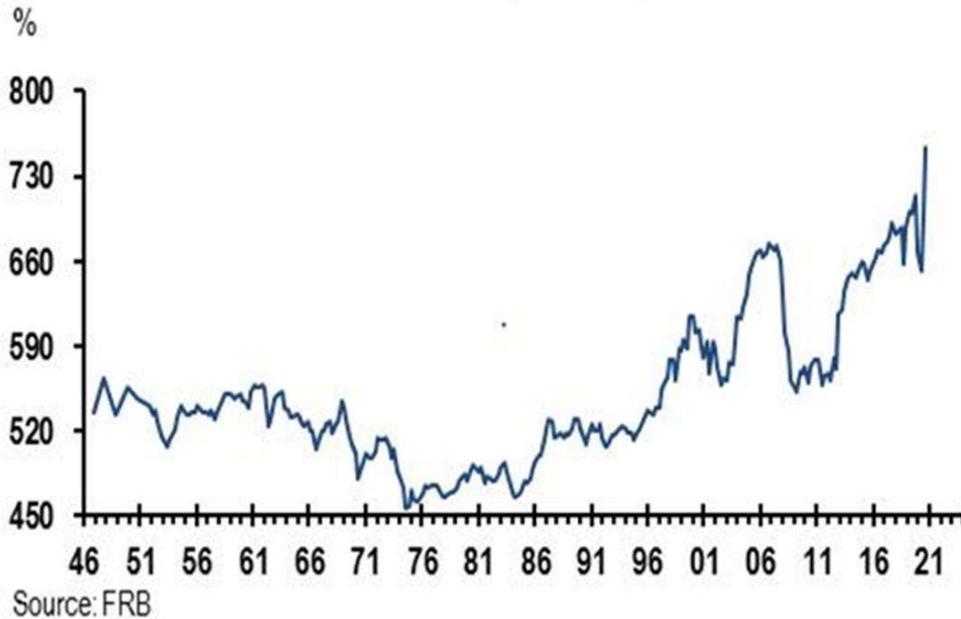
# Personal Income Above Pre-COVID Level



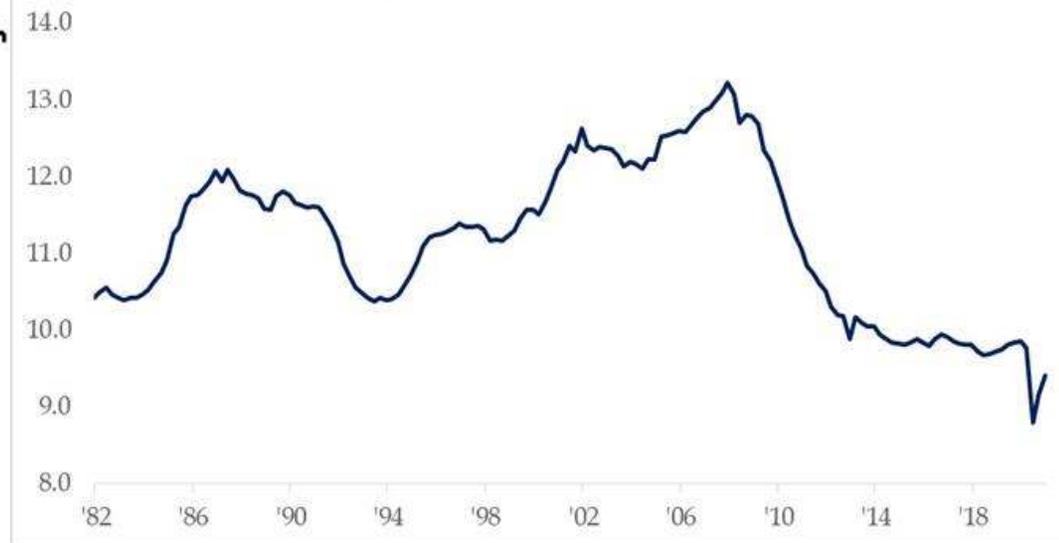
Source: BEA, BLS, St. Louis Fed, 5/11/21

# Wealth Effect: House Appreciation + Portfolio Appreciation = Household Net Worth at All-Time High, Debt Service Low

Household net worth as a % of disposable personal income

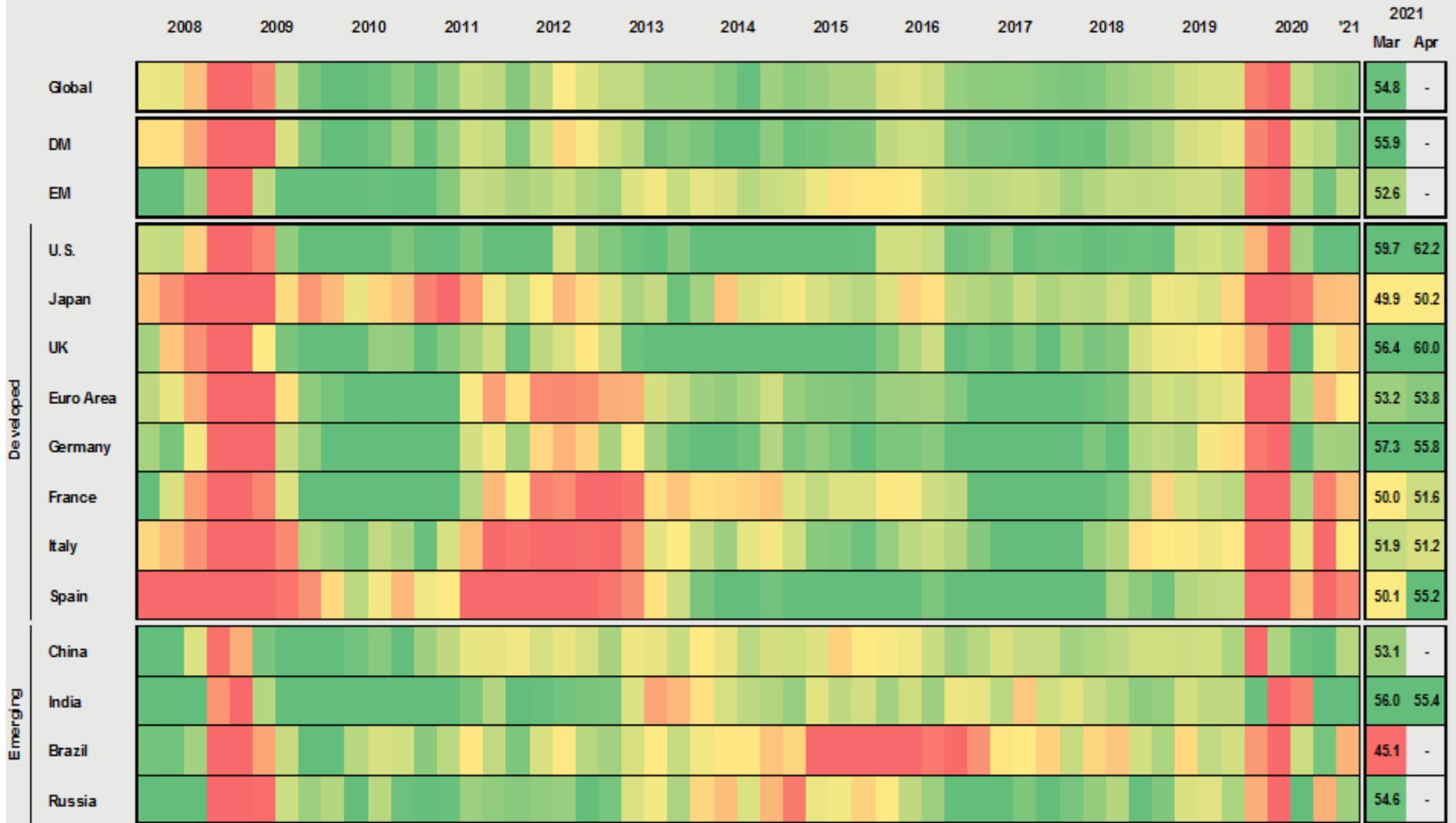


U.S. Household Debt Service Ratio (%)  
(Total Household Debt Payments to Total Disposable Income)



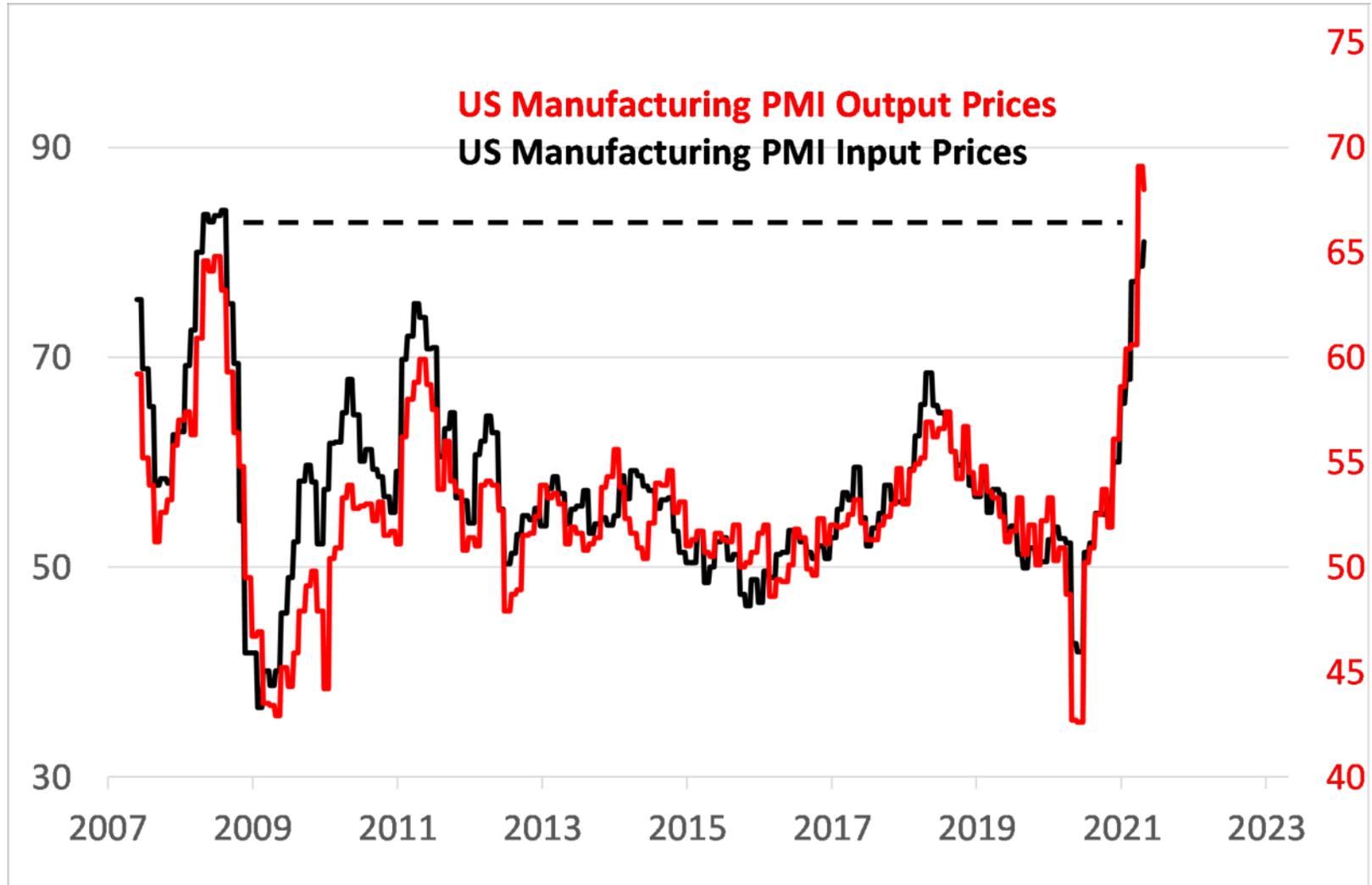
# Widespread Global Recovery

Global Composite Purchasing Managers' Index, quarterly



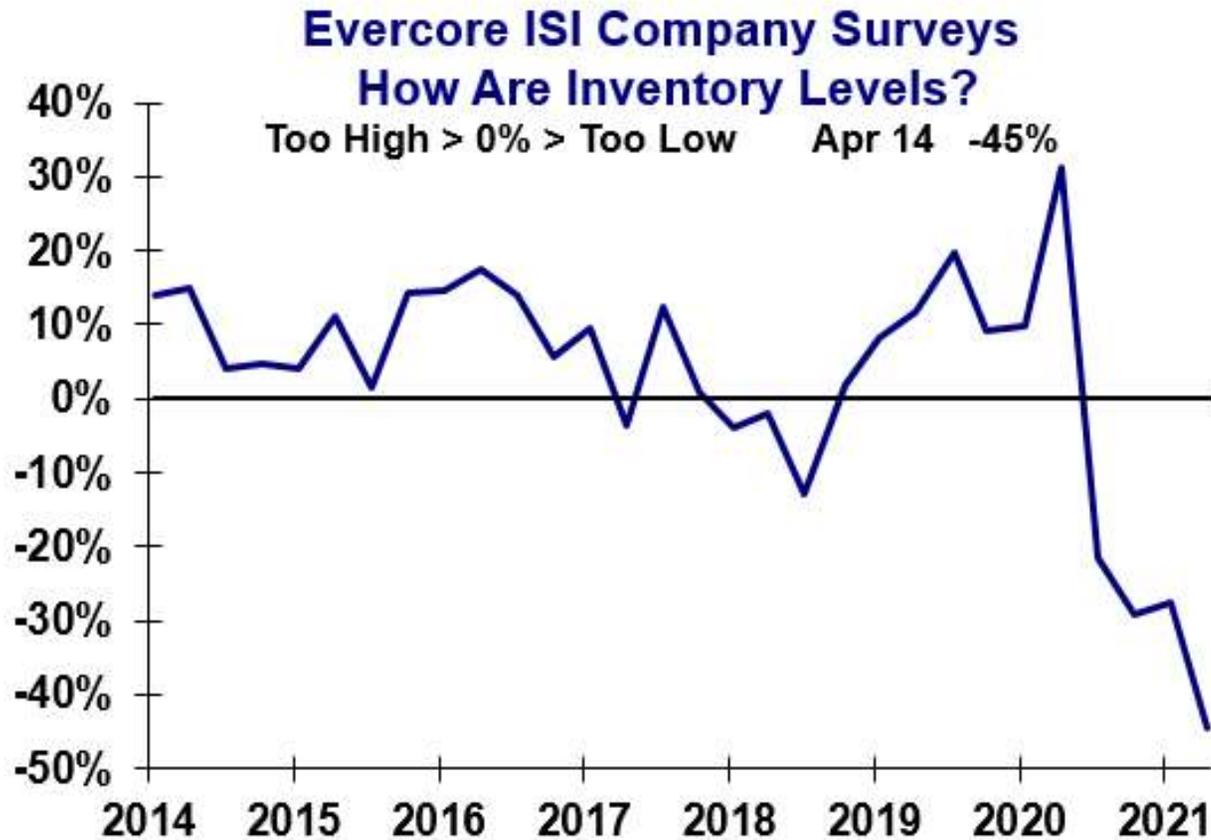
Source: Markit, JP Morgan Asset Management, 5/10/21

# Price Pressures Building & Being Passed On



Source: JP Morgan, 5/5/21

# Businesses are Cleaned Out and Need to Restock



Source: Evercore ISI, 4/14/21

# Broad Commodity Prices Jumping – More to Go?



Source: Bloomberg, 5/12/21

# Hiring is Hard...More Upward Wage Pressure Coming?



Source: Bloomberg, John Authers, 5/11/21

# Net Result = Inflation Warming Up More to Come from Base Effects + Real Price Increases

Year-over-year headline inflation by country and region, quarterly



Source: JP Morgan Asset Management, 5/10/21

# Unprecedented, Friendly Financial Conditions: Low Rates & High Liquidity

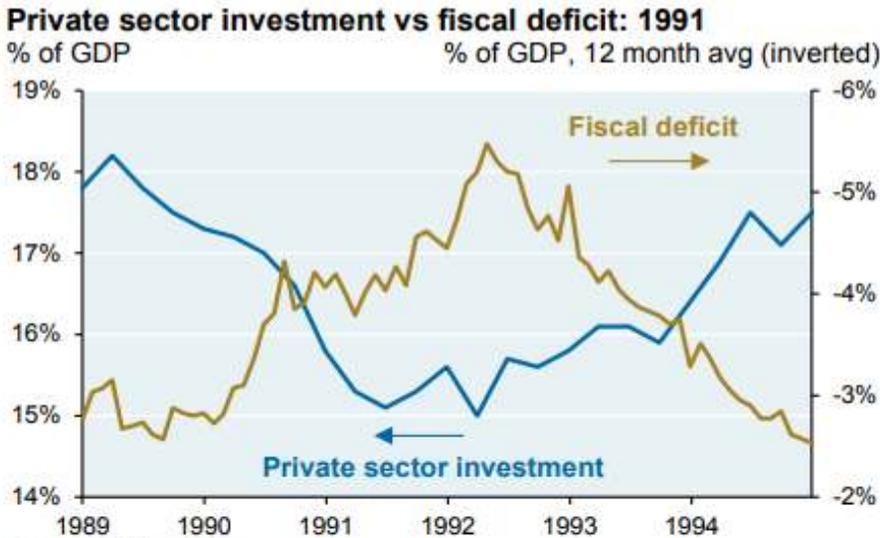
## U.S. financial conditions easiest on record



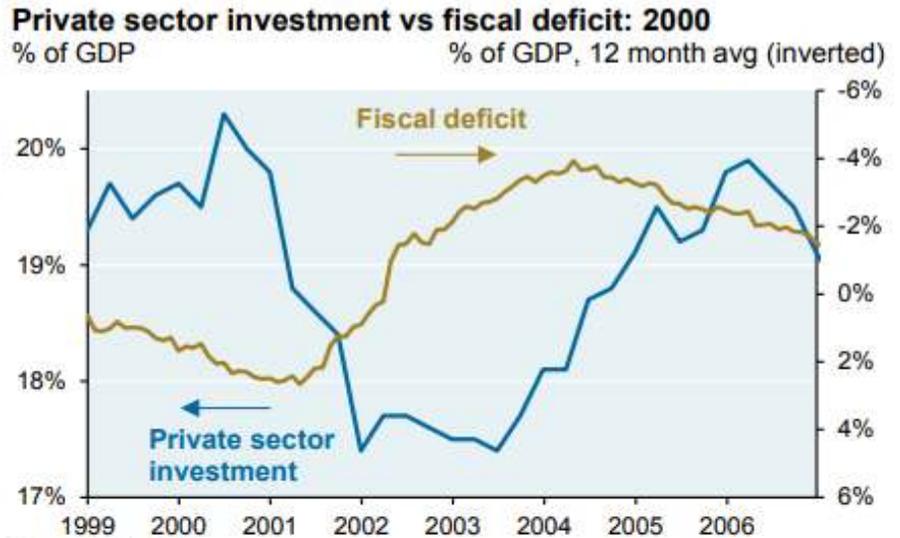
Source: Goldman Sachs Group Inc.

Source: Goldman Sachs & Jones Trading, 5/6/21

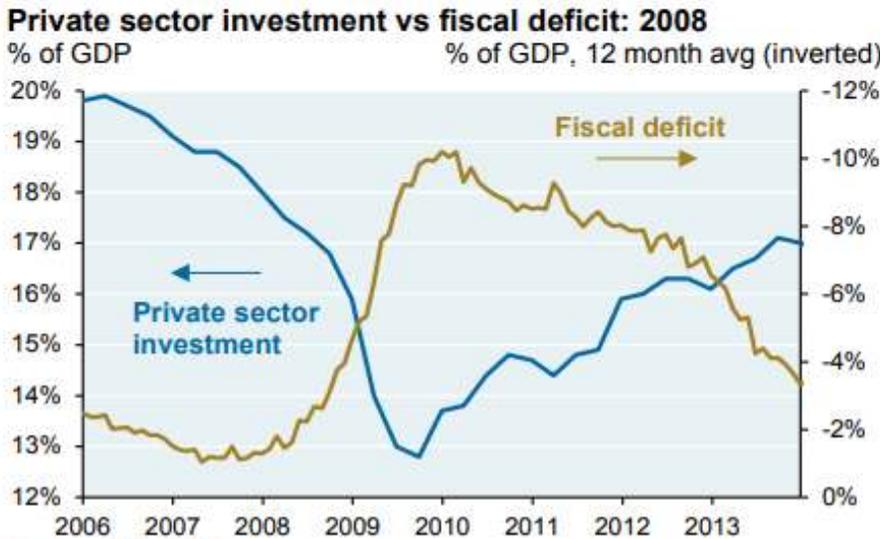
# Unorthodox World $\leftrightarrow$ Unorthodox Policy



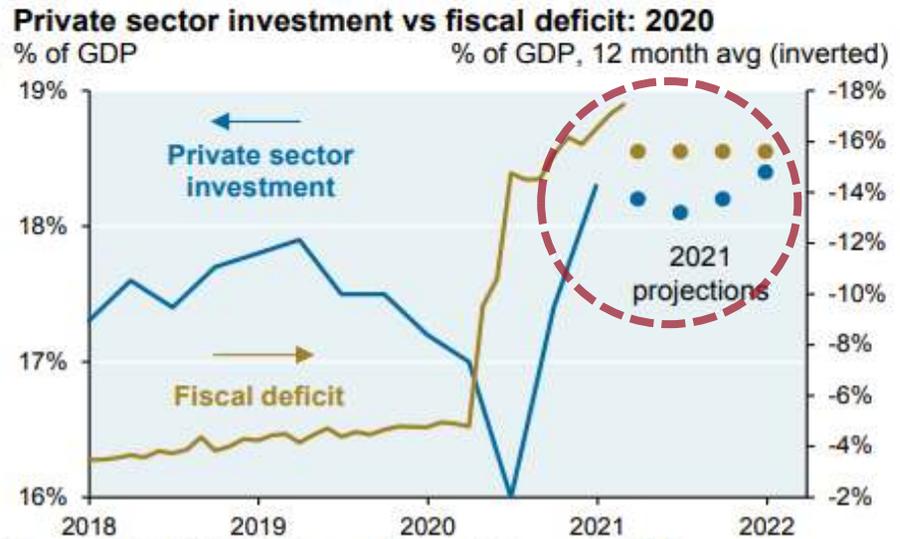
Source: BEA. 2021.



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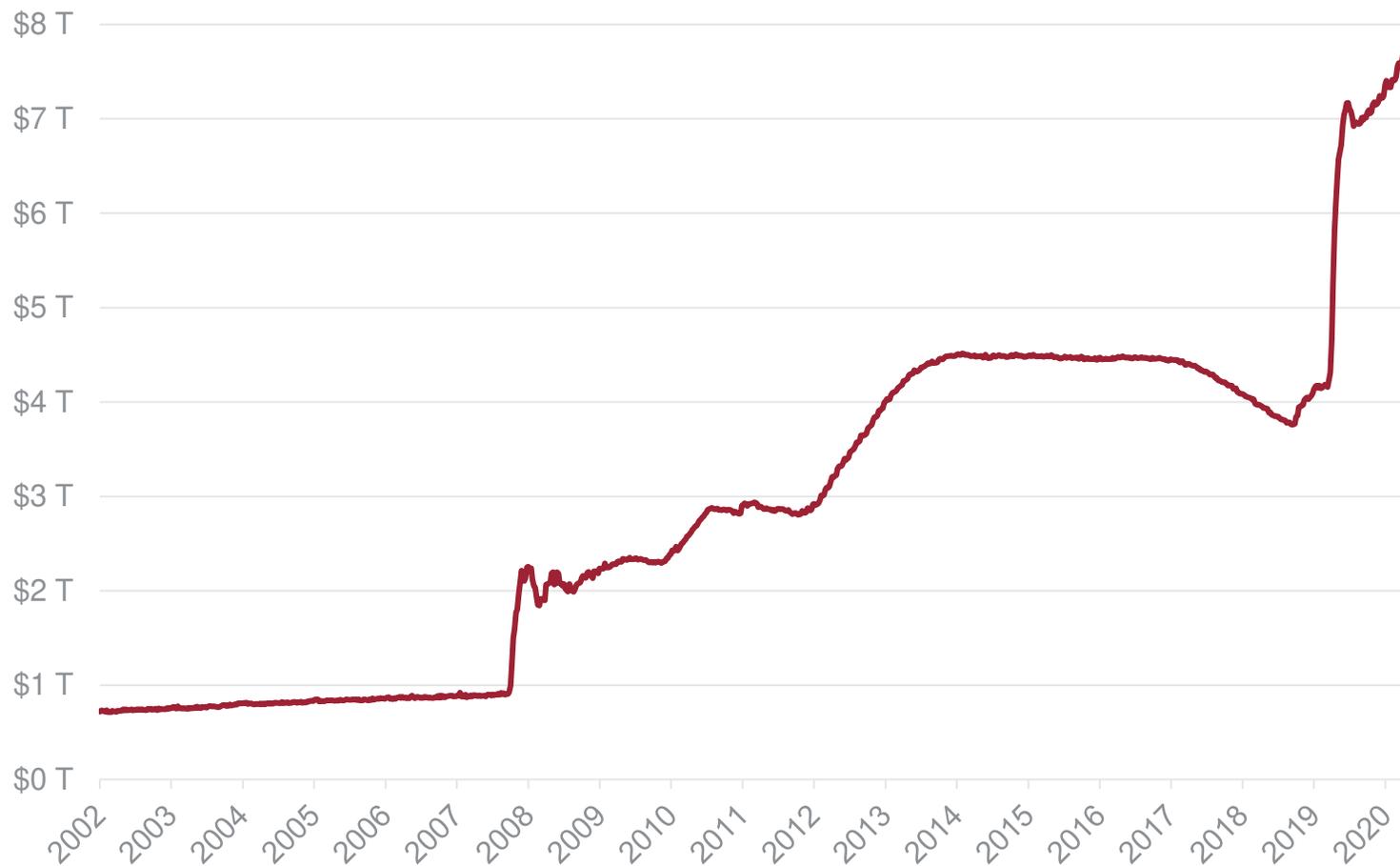


Source: BEA, CRFB, JP Morgan Economic Research. 2021.

Source: JP Morgan

# Monetary Stimulus: When Will Tapering Start?

**Federal Reserve Balance Sheet**  
(\$ trillions)

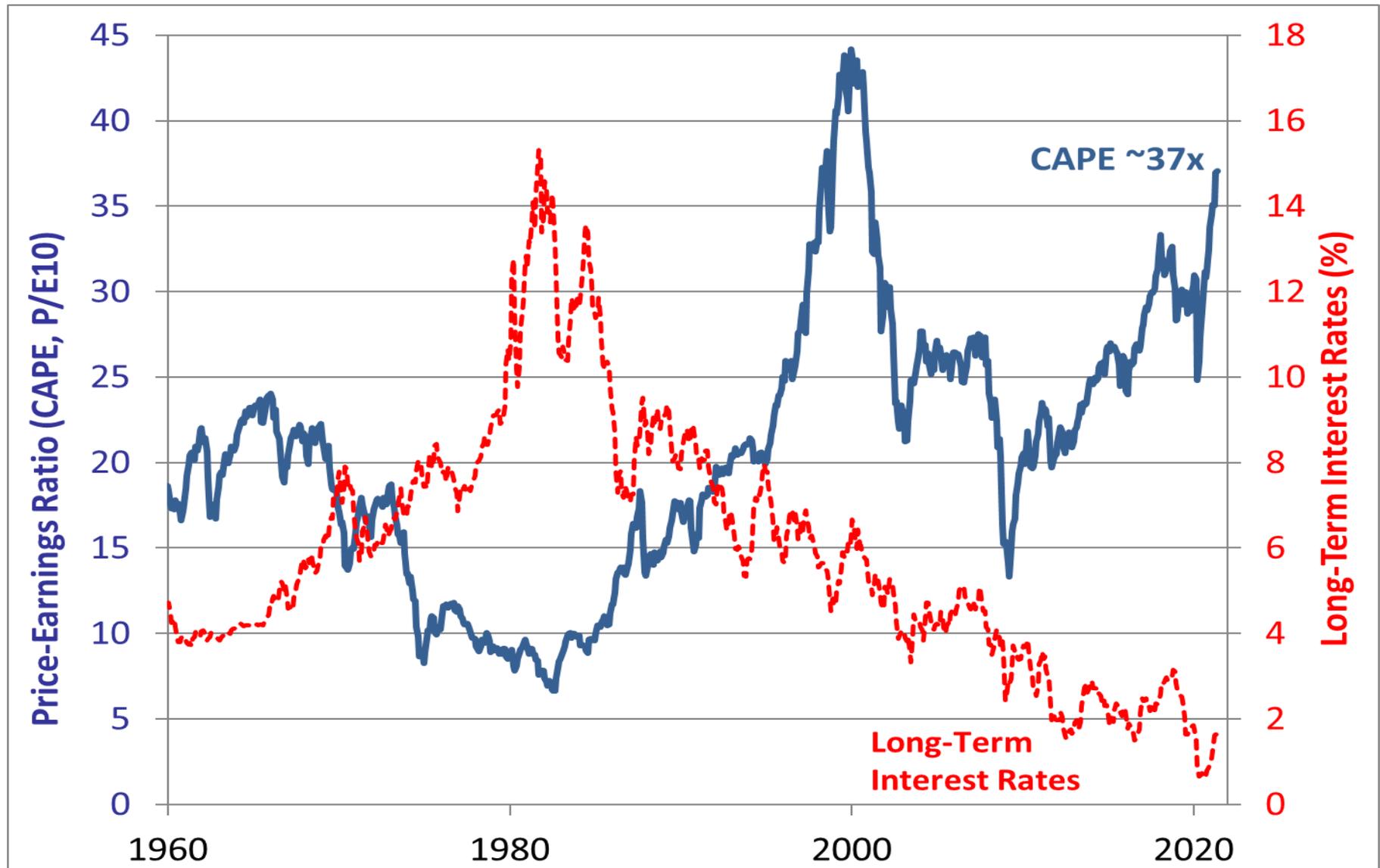


Source: FRED, Federal Reserve Bank of St. Louis; May 11, 2021.



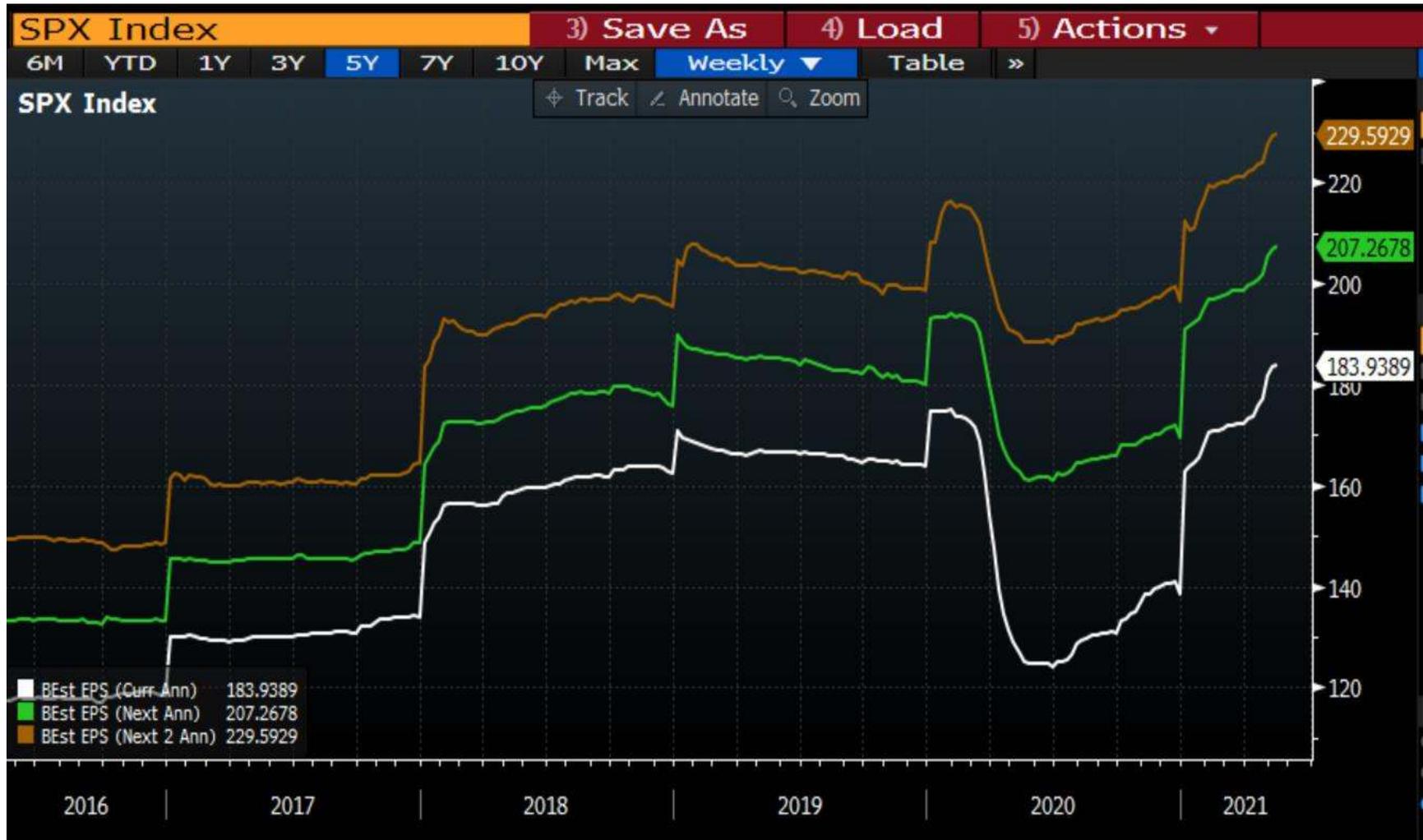
Investment Implications  
*Beware Complacency*

# Relatively Expensive Market – Moderate Expectations



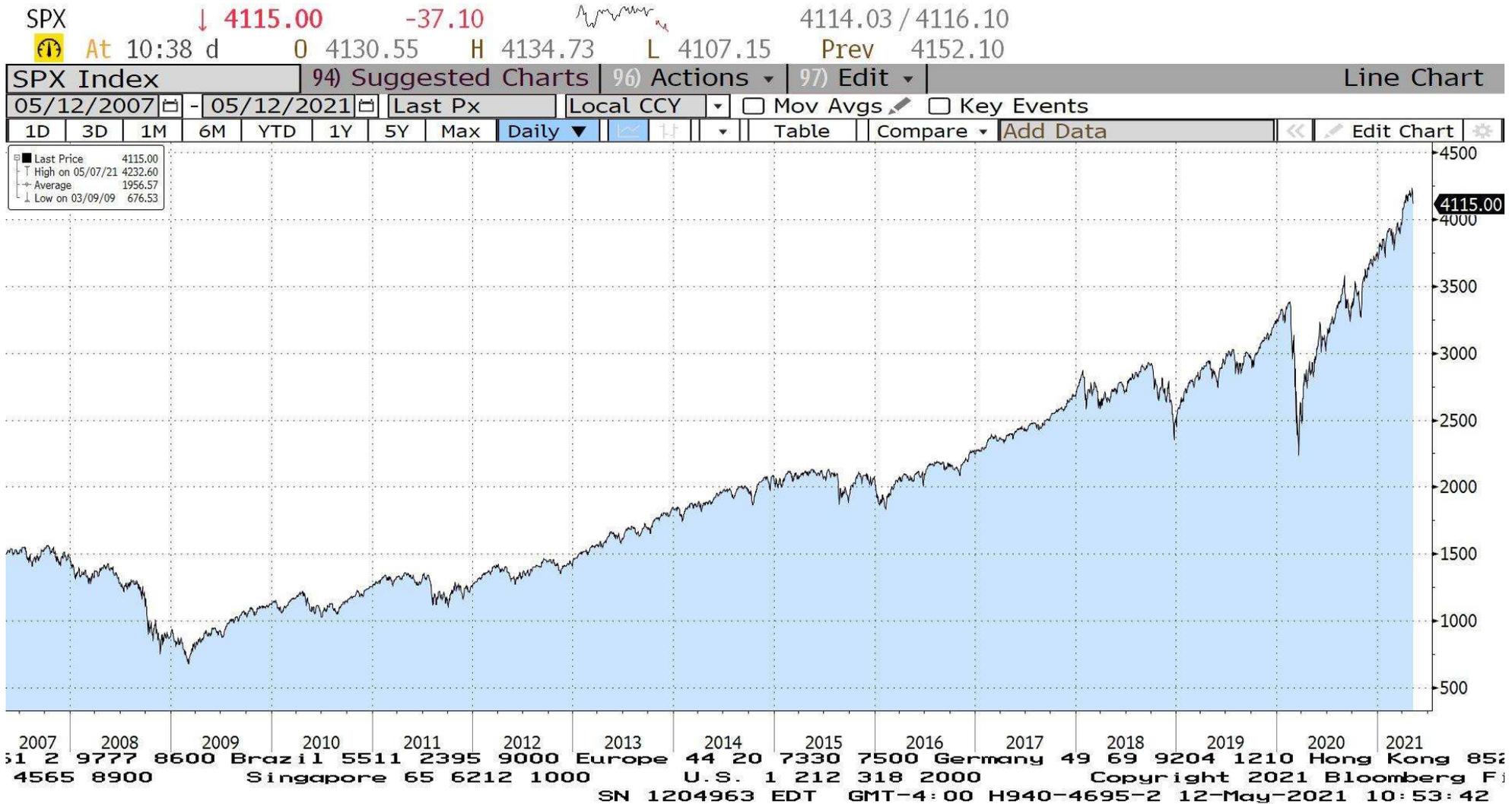
Source: <http://www.econ.yale.edu/~shiller/data.htm>, 5/5/21

# S&P 500 Earnings Estimates Making a Rapid Recovery



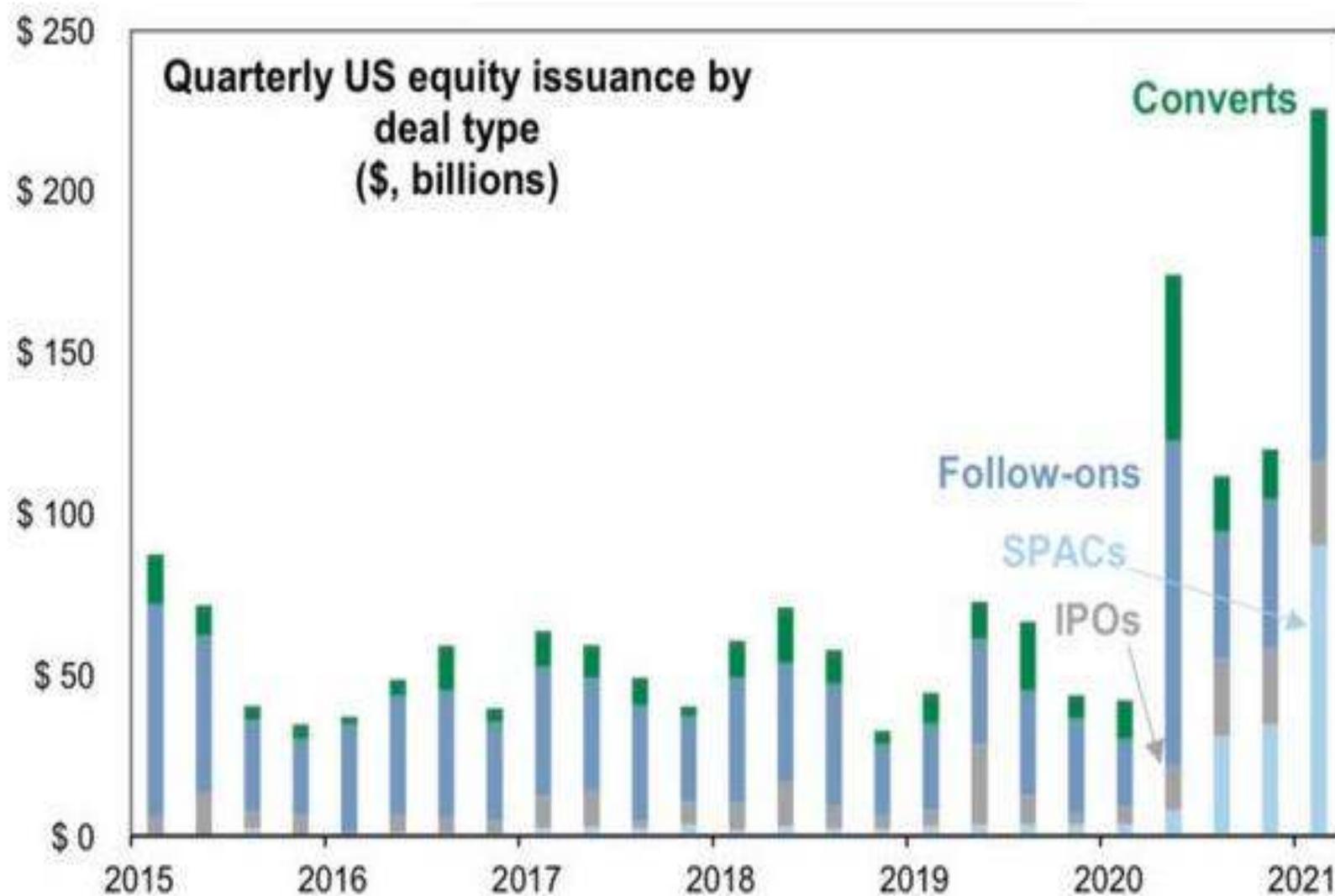
Source: Bloomberg, 5/11/21

# Stocks Hit New Highs: Steeply Sloped Rally



Source: Bloomberg, 5/12/21

## Robust Equity Issuance: Typically Not Done At “Cheap” Levels (for the investor)



Source: Jones Trading, 4/4/21

# Not Everyone Is Profitable

## Percent Of Non-Earning Companies

	Current Reading	Long-Term Average	Highest Reading Since 1990
Russell 1000 Growth	25.0%	10.3%	33.5%
Russell 1000	25.3%	11.4%	28.4%
Russell 1000 Value	24.2%	12.5%	37.0%
Russell 2000 Growth	53.8%	28.5%	54.8%
Russell 2000	47.7%	26.8%	48.6%
Russell 2000 Value	44.6%	24.3%	46.2%

Source: Strategas, 5/10/21

# Some Excesses Being Sorted Out



Source: Bloomberg, 5/12/21

# Growth vs. Value: Value Recovers More Ground



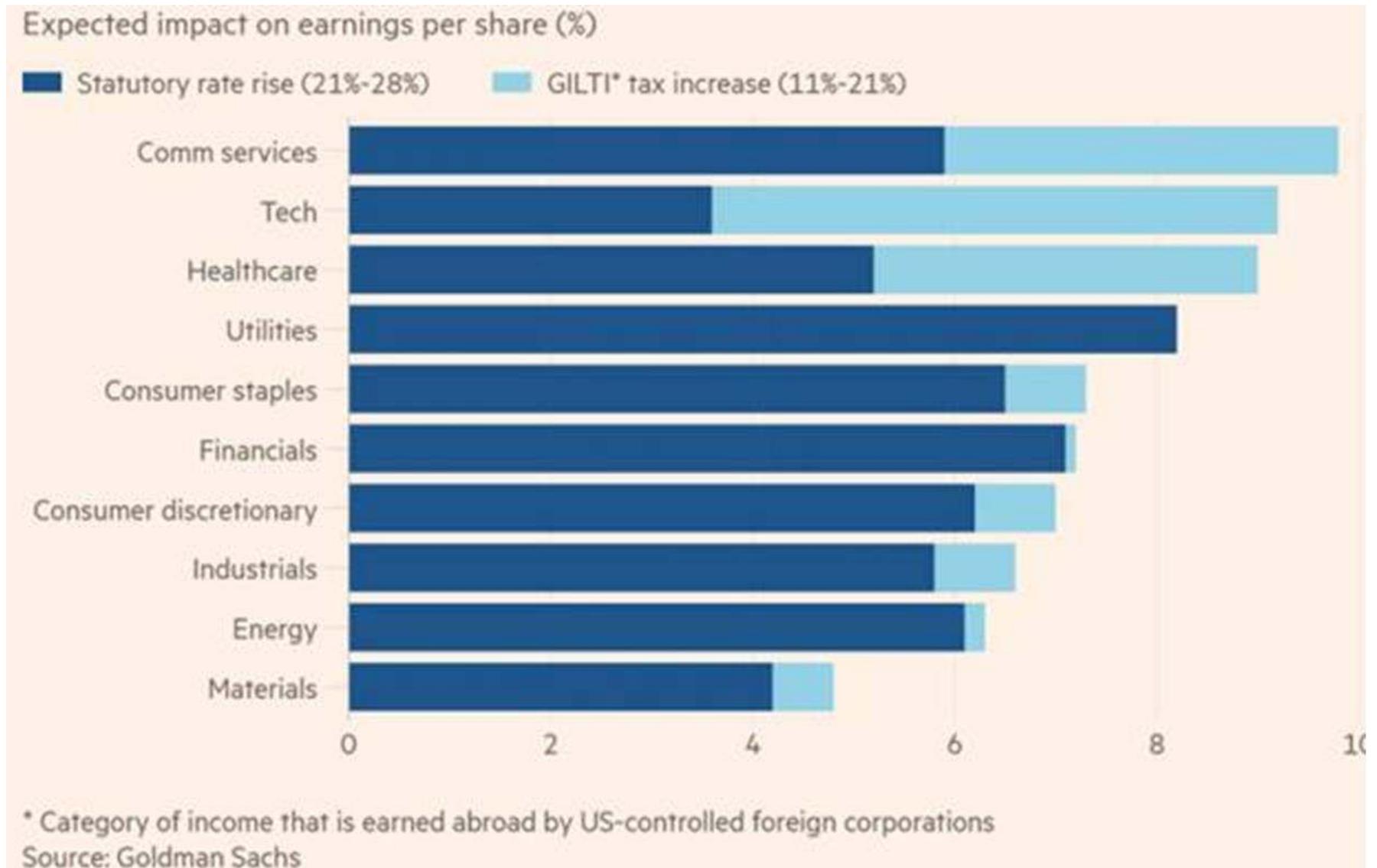
Source: Bloomberg, 5/12/21

# Even Profitable Companies Have a “Downside”: Become Tax and Regulatory Targets, (globally)



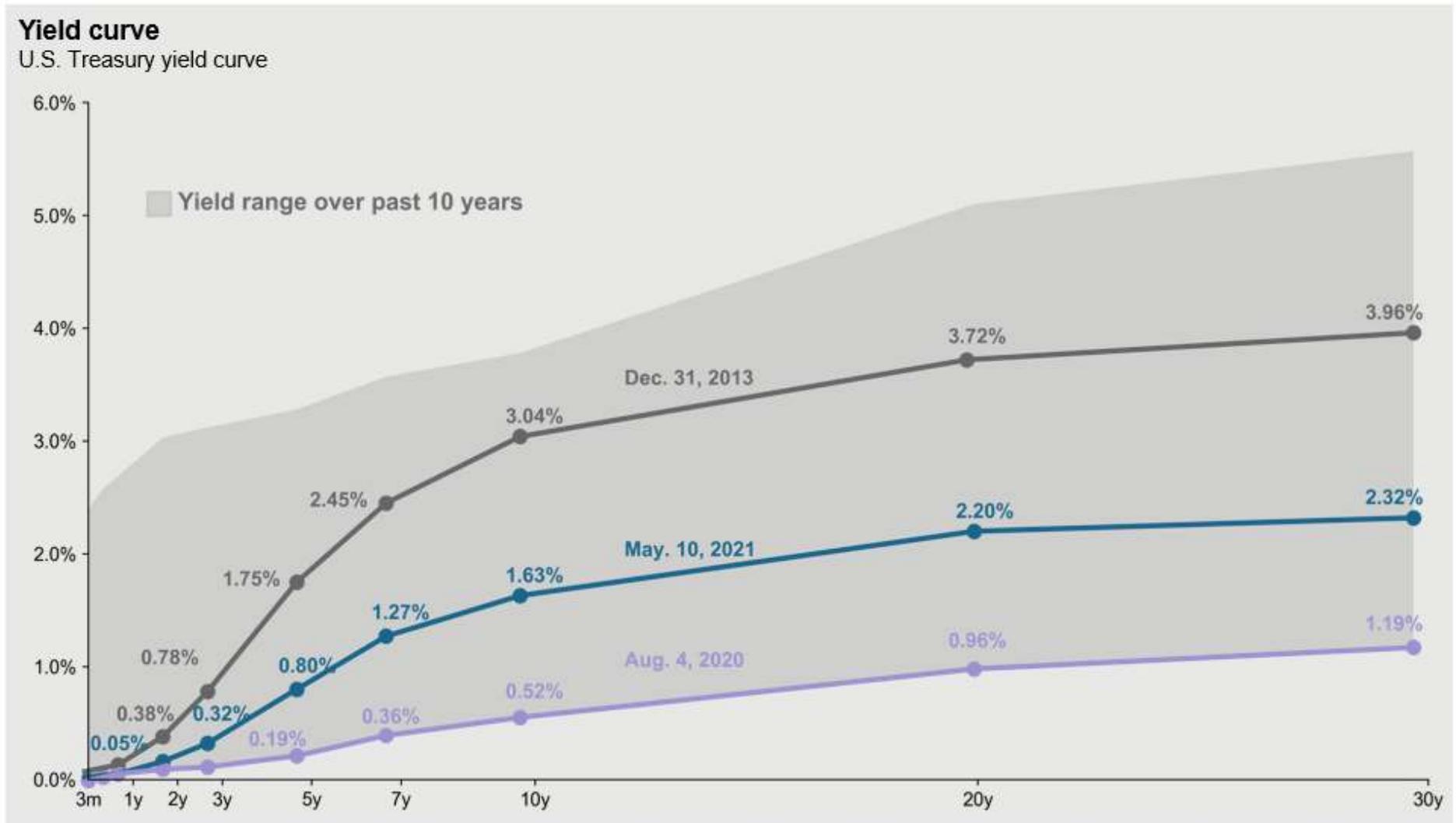
Source: Strategas, 5/10/21

# Higher Corporate Taxes Would Dampen Earnings Growth



Source: Goldman Sachs, 4/7/21

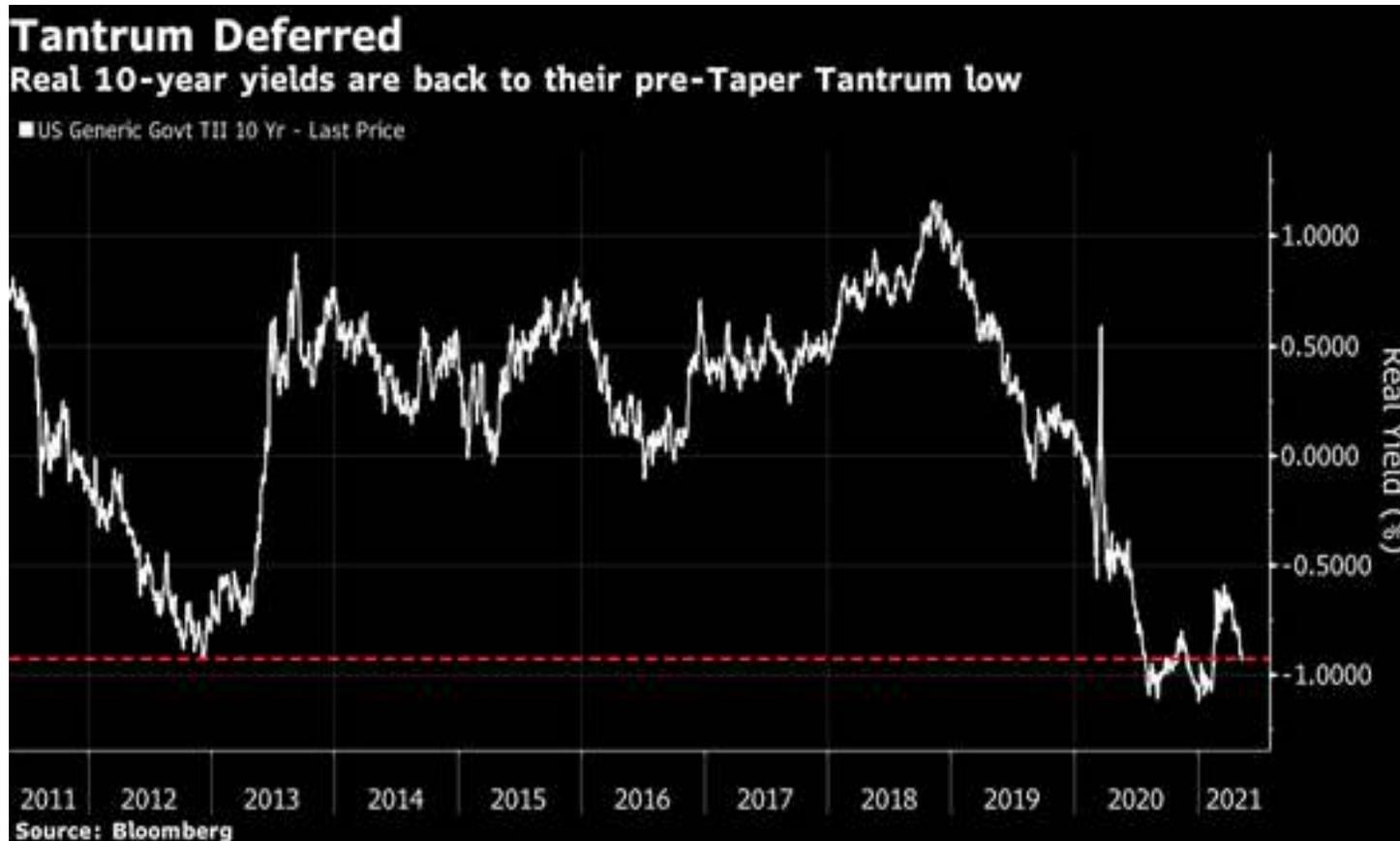
# Remember, Rate Hikes Come Last... ...Steepening & Tapering Come First



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.  
Guide to the Markets – U.S. Data are as of May 10, 2021.

# Another Taper Tantrum?

## Deferred but not Eliminated as a Risk



Source: Bloomberg, John Authers, 5/11/21

# Credit Spreads Low, All-in Yields Low: Be Patient & Selective

BICLB10Y 198.29

As Of 05/11/21

US Corporate BAA 10 Year Spread

BICLB10Y Index 94 Suggested Charts 96 Actions 97 Edit Line Chart

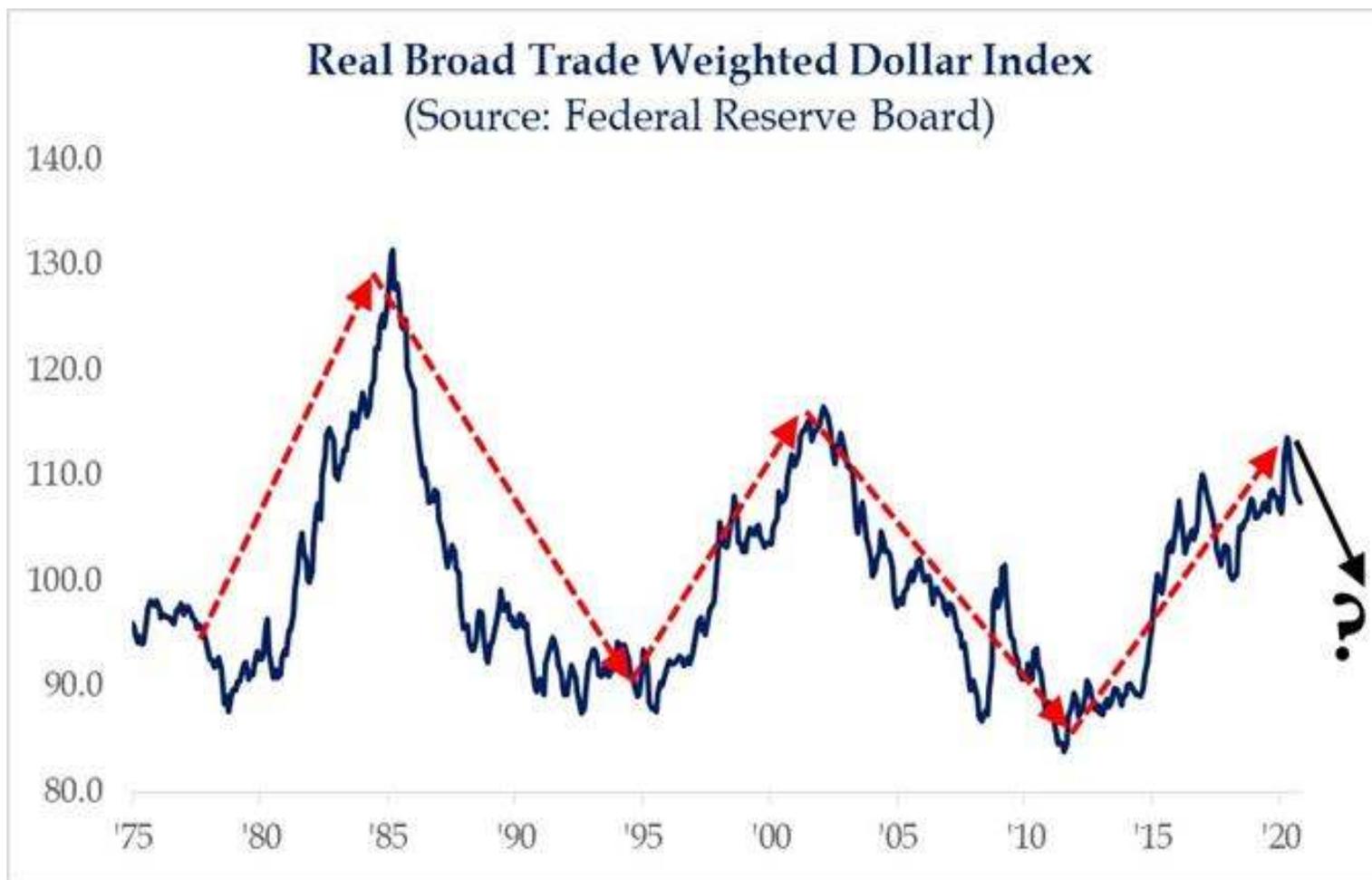
05/11/2007 - 05/11/2021 Mid Px Local CCY Mov Avgs Key Events

1D 3D 1M 6M YTD 1Y 5Y Max Daily Table Compare Add Data Edit Chart



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# US Dollar Starting to Turn Weaker?



Source: Strategas, 5/11/21

# General Portfolio Positioning

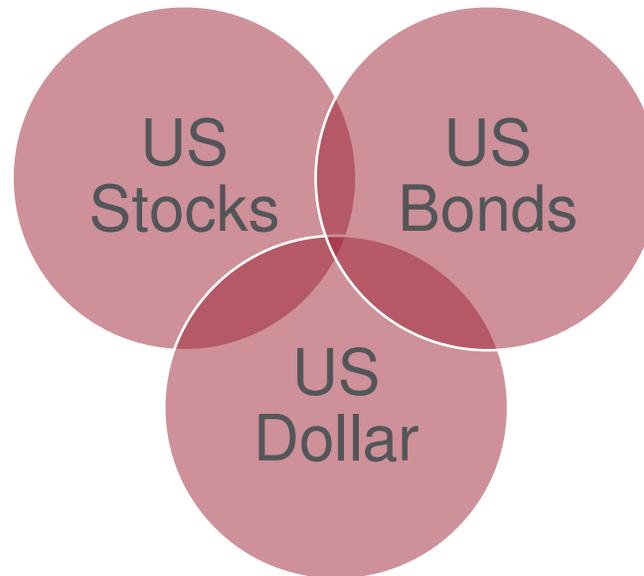
Can the Fed stop overheating and keep inflation from getting out of control? Sure.  
Can the Fed do all of that without disrupting markets? Not so sure.

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Be prepared and diversified for "hard landing" scenarios.

Finding a stable and self-supporting economic balance will be a process of over and under correcting, both in terms of mood and market valuation.

- Stay liquid, Stay nimble, Keep some dry powder cash
- Neutral equities
  - Earnings booming, but not always being rewarded with further upside
  - Add international equities
- Underweight bonds
  - Be wary of duration
  - Favor selective high grade, low duration credit exposure
- Add commodities, hard assets and non-financial assets
- Consider alternatives that capture relative value or capital inefficiencies

# The End of the Triple Play?



Most US-based investment portfolios have benefitted from being structurally overweight three things at once:

1. US stocks (tech and innovation exposure)
2. US bonds (secular decline in rates and globally competitive yields)
3. US dollar (reserve currency)

It is hard to hold up all three of those things as the “best” in the world simultaneously over the long term – something needs to give.

One or more of this trio will likely need to be sacrificed by policy choice, or market forces, or both, as a relief valve to the excesses and distortions that have been pumped into the system over the last series of crises, and never completely reconciled.

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