BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY, APRIL 2021

We hope you and your family are doing well as life slowly returns to a more normal pace over a year removed from the March 23, 2020 stock market lows, and well into a record-breaking market recovery.

Unlike the lingering Covid virus, the U.S. economic recession was short-lived as U.S. stock markets quickly regained their dramatic losses and continued to climb higher. The economy has rebounded with the aid of stimulus money flooding the nation and a remarkably swift adaptation of technology which enabled many sectors to continue operations remotely. It was amazing how fast we adjusted our lives and became accustomed to Zoom Video, Peloton exercise classes and the like as the new normal.

The government-mandated shutdown sent the stock market into a tailspin and set a record for the fastest drop ever from an all-time high into a bear market territory (-34%). What followed was equally incredible with the impressive stock market rise led by the stay-at-home stocks. However, as the promise of a Covid vaccine quickly progressed, traditional market stalwarts assumed leadership pulling the indices to all-time highs. Now, reopening the economy dominates political and financial news with measures of both promise and concern, amid a post-Covid world. The work-from-home stock 'darlings' of last year have fallen back to somewhat normal valuations as the market is pricing in broader-based economic growth paralleling the 'Roaring Twenties'.

The stock market is certainly a discounting mechanism, normally trading on events and economic conditions that are predicated upon conditions 6 to 9 months ahead. Economic reports have shown steady improvement over the past few months, providing positive sentiment for a recovery. The recent stock market gains likely reflect optimism of improving economic conditions for the remainder of the year. Our Investment Committee believes the U.S. will be in decent shape as the economy stabilizes over the course of the year. However, being pragmatic and cautious by nature, we still have many questions about the viability of quickly returning to pre-Covid economic and employment levels.

Unprecedented stimulus checks, PPP Loans and potential Infrastructure expenditures will certainly be beneficial, but at what cost? In the U.S., millions remain unemployed as companies have streamlined operations to cut costs and will continue operating with smaller staffs in the foreseeable future. The increased money supply coupled with disruptions in numerous supply chains has consequences. Demand-pull inflation is the upward pressure on prices that follows a shortage in supply, a condition that economists describe as "too many dollars chasing too few goods." The Federal Reserve views the current price increases as transitory (Fed jargon for temporary) but it is hard to believe trillions of dollars of stimulus, continuing trade imbalances, and possible infrastructure spending won't greatly impact the inflation rate for years to come.

As we enter first quarter earnings reporting season, expectations are rather high for above average corporate profits due to pent-up demand for the reopening, record savings levels among consumers and corporations ready to deploy cash for capital expenditures The Biden Administration has proposed a multitude of tax changes to fund their wish list of spending programs. A proposed increase in the corporate tax rate will drive profits lower which may pressure stock prices since profits ultimately drive valuations. The possible increases for personal income and capital gains taxes could also impair consumer spending and ultimately impact the equity markets.

Although we have certainly welcomed the astounding stock market gains over the past year, we think this level of growth is unsustainable. Given the magnitude of uncertainty for a continued economic recovery, it is timely that our client portfolios are invested in a balanced stock and bond strategy that mitigates risk and smooths volatility while generating income and appreciation potential. Our investment committee constantly strives to identify financially stable companies with sound business platforms and attractive investment valuations.

Please call us if there is anything you wish to discuss, and we hope you enjoy a beautiful spring.

Best regards,

Scott, John, Dave, Richard & John