



GATIE STRATEGIC WEALTH MANAGEMENT

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An Economy in Recovery

The opening prose of Charles Dickens' *A Tale of Two Cities* is a fitting way to wrap up 2020:

It was the best of times, it was the worst of times... it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair.

The hardship of the pandemic followed by the miracle of the vaccine truly made 2020 a year of stark contrasts. Relating to the market, the list of economic extremes we saw regarding unemployment, declining GDP, or the levels of fiscal stimulus continued to hit new records.

Whereas last year will be remembered as the year of the pandemic, 2021 has started off as the year of the recovery. Positive vaccination rates and government stimulus have continued to support a rapid recovery and many signs point to a positive 2021. Virus variants remain a threat to the recovery but at this point the market seems to be downplaying these risks.

Through the end of June, the S&P 500 (widely used measure of the US stock market) was up +15.3% year-to-date and +8.6% in the second quarter. This is on top of double digit gains in 2020. Despite the catastrophic effect the pandemic had on the economy, many businesses were positioned well to benefit in a stay-at-home environment, and some of these tailwinds carried over into 2021.

Growth stocks boomed last year and into 2021 as technology, e-commerce, and communication services (gaming and online streaming) led the market. However, once the vaccine rolled out, we saw a sharp reversal and growth stocks started to struggle in February in favor of value stocks, i.e., energy, airlines, real estate, and banks (Source: JP Morgan Asset Management *Guide to Markets*). The more it looked like economies would fully open, the more "stay at home" stocks declined.

In your portfolios we do not attempt to time these cyclical rotations between growth and value, but instead we rebalance. When one investment style outperforms, we trim and add the weaker performing style increasing our opportunities to buy low and sell high.

Another risk that's making big headlines is inflation. Our communication last month shared our thoughts on this but after some big June numbers, it's worth a recap. In June, the Consumer Price Index was up +5.4% year-over-year. A lot of these price increases came from



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new and used cars and airline tickets. Used car prices increased +10.5% in June alone (Source: U.S. Bureau of Labor Statistics)!

We are seeing a massive uptick in demand for goods and services that accrued during the lock down. Many supply chains shut down and are running into obstacles as they rehire and rebuild. You probably have your own observations of this supply/demand imbalance that range from not being able to get a dinner reservation, difficulty in finding a contractor, or having to wait months for the delivery of a new car, but businesses will eventually catch up and prices should normalize.

In many of your portfolios we have increased exposure to real estate, which performs well in inflationary periods, or we have exposure to commodities, which also benefit as prices rise.

In summary, the economy is recovering well, and so far second quarter corporate earnings are looking strong. As we head into the second half of the year, the biggest threat to the recovery is the virus and our ability to vaccinate people and contain it.

Over the last 41 years, the S&P 500 on average drops -14.3% a year but annual returns were still positive in 31 out of 41 years (Source: JP Morgan Asset Management *Guide to Markets*). This year we haven't seen that kind of volatility yet so while we think it is still a good time to stay invested, we encourage you to prepare for probable market volatility.

As always, please do not hesitate to reach out with any questions or concerns.

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TRUSTED CONTACT

Have you named a Trusted Contact to your accounts? Naming a Trusted Contact is optional, but we strongly encourage it as an additional safeguard for your portfolio. Having a trusted contact person allows D.A. Davidson to act in your interest if we suspect potential financial harm against you through either an outside party or a capacity issue affecting your decisions.

Trusted Contacts are not allowed access to your accounts or account specific information. We only reach out to your Trusted Contact if we are concerned about your health, welfare or to confirm the identity of a legal guardian, executor, or other personal representative.

Please reach out if you'd like to add a Trusted Contact to your account or confirm if you already have someone listed.