

MARKET COMMENTARY

Q1 2021 COMMENTARY

Economic Summary

In response to the COVID-19 pandemic, incomprehensible amounts of monetary spending and fiscal stimulus have been unleashed in the U.S. and worldwide. Domestically, we have seen the Federal Reserve's (the Fed) balance sheet grow twofold (Chart 1) and budget deficits out of Washington not seen since World War II (Chart 2). Nominal GDP is forecasted to increase 10% this year, as large government and personal spending is expected along with 2-3% inflation. Consensus estimates for S&P 500 operating earnings are expected to increase 26% off 2020 levels, and even that number could be too low.

Individuals are in a unique position, as household net worth is at all-time highs (Chart 3) and savings are the highest they have been in the past 60 years. It's not hard to imagine that when the economy fully opens, we could have explosive growth. Currently, the wildcard is inflation. The trillions of dollars that have been unleashed will be chasing a finite amount of goods and services available in the economy.

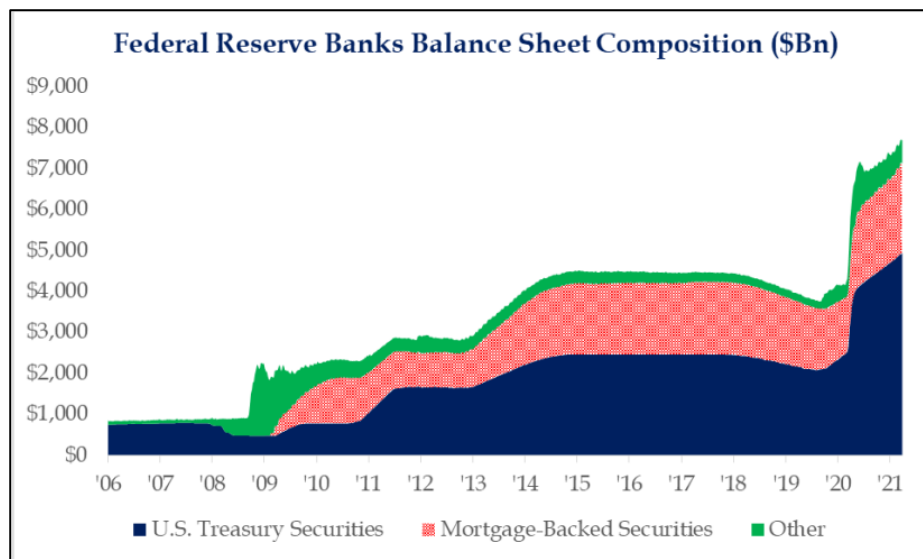


Chart 1

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/5/21

SCHWARTZ INVESTMENT COUNSEL, INC. MARKET COMMENTARY

1ST QUARTER 2021

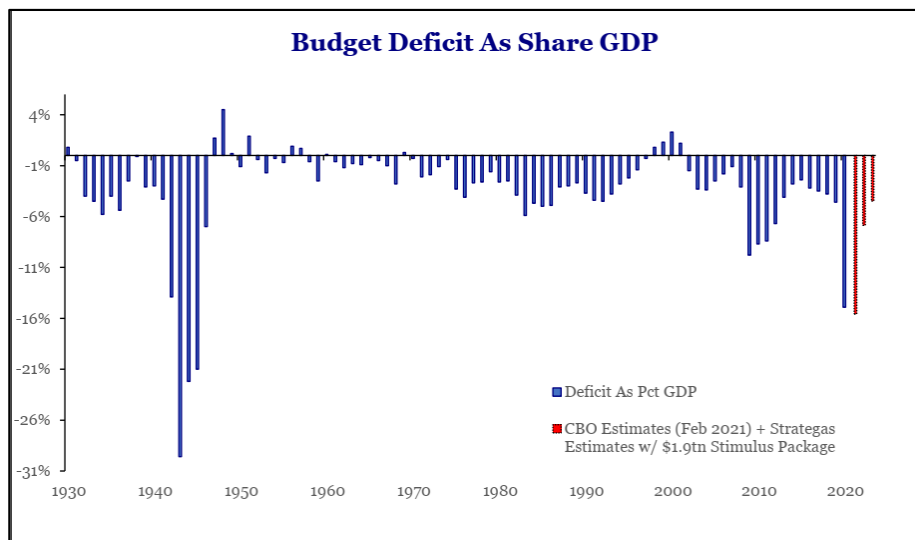


Chart 2

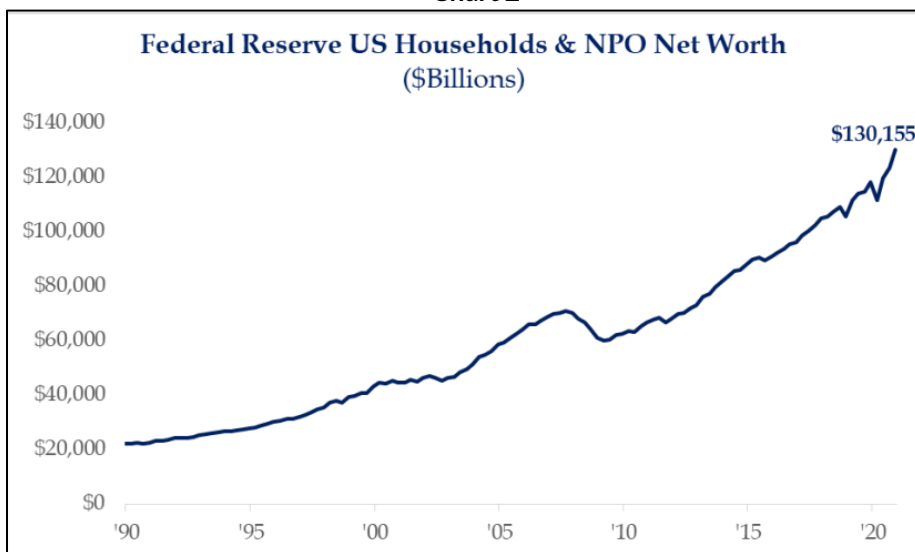


Chart 3

Source for Charts 2-3: Strategas Research Partners, "Quarterly Review in Charts", 4/5/21

Past performance does not guarantee future results.

The Stock Market

A rotation into value and small cap stocks appears to be at hand, as the Russell 1000 Value outperformed the Russell 1000 Growth by over 10% (Chart 4), and the Russell 2000 more than doubled the return of the S&P 500 (Chart 5). Heavier sector weights in energy and financials, along with an underweight in information technology were primary sources of outperformance in the Russell 1000 Value Index.

Stocks are up significantly from their lows in March of last year, while corporate earnings have and are expected to continue to grow. Additionally, interest rates are still extremely low in a historical context, and despite the steep runup in price, stocks still look attractive compared to bonds (Chart 6).

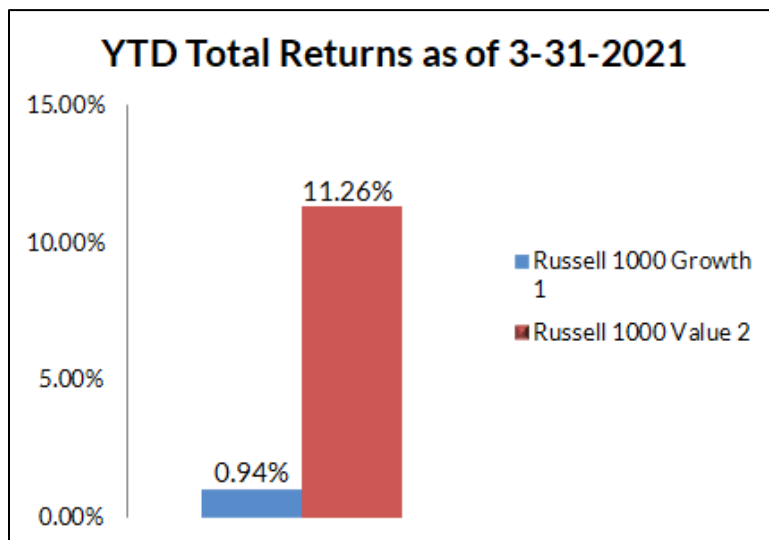


Chart 4
 Source: Morningstar Direct

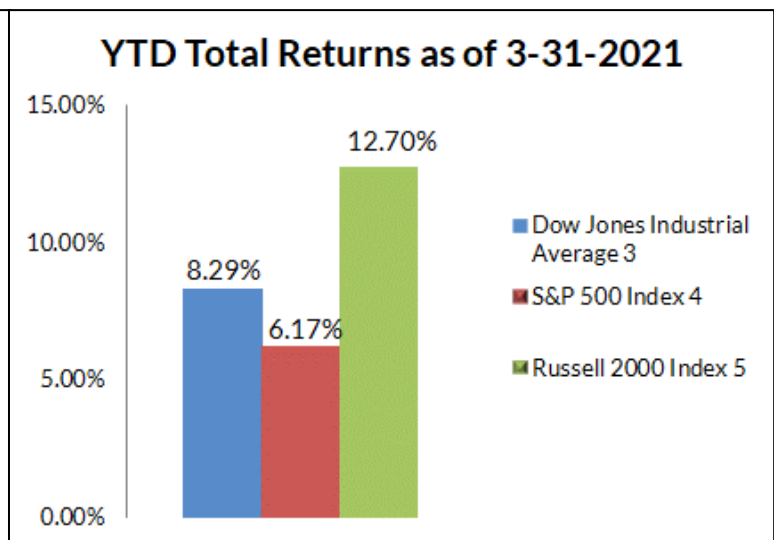


Chart 5
 Source: Morningstar Direct

¹The Russell 1000[®] Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000[®] companies with higher price-to-book ratios and higher forecasted growth values. ²The Russell 1000[®] Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. ³The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. ⁴The S&P 500[®] Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. ⁵ The Russell 2000[®] Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000[®] Index. You cannot invest directly in an index.

Past performance does not guarantee future results.

The Bond Market

The Federal Reserve (the Fed) is committed to keeping short-term interest rates near zero and quantitative easing (QE) running at \$120 billion per-month until unemployment is low, and inflation is above 2%. Of growing concern is whether the Fed will be able to thread the needle between choking off growth by tightening rates too soon or causing runaway inflation by acting too late. Based on Fed rhetoric, Chairman Powell is inclined to let inflation run higher before acting. This has caused market participants to reassess the risk of monetary and fiscal policy that has pumped trillions into the economy. In just three months, the 10-year U.S. Treasury Note rose from 0.9% to 1.7% by quarter-end (Chart 7), nearly a twofold increase in yield! Corporate bonds performed in line with Treasuries, as credit spreads remained relatively unchanged throughout the quarter. While spreads on the aggregate are near historic lows, opportunity still exists on an individual security basis.



Chart 6

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/5/21



Chart 7

Source: Strategas Research Partners, "Quarterly Review in Charts", 4/5/21

Past performance does not guarantee future results.