

After a year of pandemic induced restrictions, the U.S. economy is primed to accelerate to levels not seen in decades. Europe may be a few months behind, but parts of Asia are already humming. Inoculations combined with naturally occurring antibodies are bringing population immunity close to the tipping point. Government initiatives through monetary and fiscal policies provided a bridge to span the year-long morass and will continue to fuel the economy into the foreseeable future.

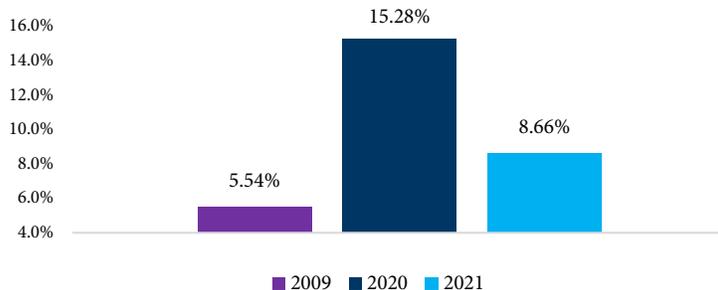
The financial markets spent the last quarter recalibrating to a year that promises enhanced growth opportunities with an anticipated bout of heightened inflation. Bond yields have risen reflecting higher inflation expectations that usually accompany high growth prospects. The S&P 500 has trended up but that masks the sometimes violent swings between both perceived reopening plays and pandemic beneficiaries as well as large capitalization companies versus smaller companies.

Portfolio repositioning impacts were felt in the commodities markets as well with energy products and copper notably rising. Bitcoin and “meme” driven, relatively illiquid stocks, have captured traders’ imaginations but longer term present more risk than reward for the average investor.

From an economic perspective, we have entered uncharted territory. Never has the global economy, let alone the U.S. economy, experienced this much fiscal or monetary stimulus. The Federal Reserve (Fed) continues to increase the money supply by purchasing \$120 billion of bonds monthly. The Fed also reaffirmed their intent to leave short term rates unchanged into 2023 or at least until inflation averages 2% and the economy achieves full employment. This is breaking new ground as the Fed is anticipating signs of inflation as fleeting and not deleterious. In addition, the Fed strayed from its nonpartisan approach by supporting Congress’s fiscal stimulus plans.

Congress took the Fed’s cue and passed the fifth major stimulus package, the American Rescue Plan (ARP) in March. Included in the \$1.9 trillion plan was \$1400 for qualifying individuals, sure to boost savings and spending as spring progresses. On its own the ARP represents about 10% of our annual economic output. All told, fiscal stimulus enacted over the past two years totaled \$5.1 trillion, dwarfing the stimulus enacted in response to the great financial crisis over a decade ago and representing a much larger part of our economy.

**Fiscal Stimulus as a Percentage of U.S. GDP March 2021**

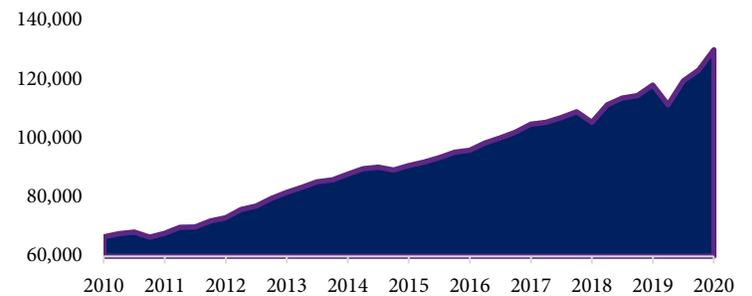


Sources: Bureau of Economic Analysis, Congressional Budget Office

Simultaneous monetary and fiscal packages of these sizes are unprecedented. Even with that, the packages have not alleviated the struggles and suffering of many. Our education system and service industries continue to search for stable ground. The long-term consequences of school closures may be with us for another decade. Many restaurants and small businesses will never reopen. Yet, green shoots have sprouted. Enterprising entrepreneurs have begun to fill the void. Manufacturers are struggling to meet pent up demand. Consumers will likely soak up restaurant and hotel capacity as quickly as it appears.

In the aggregate, measures of consumers’ financial health are remarkable given the travails of the past year. Income is above pre-pandemic levels and savings are elevated due in part to a partially shuttered economy. Savings and rising real estate and equity values have driven consumer net worth up 10% since last year, likely rising to 20% after the ARP funds are distributed.

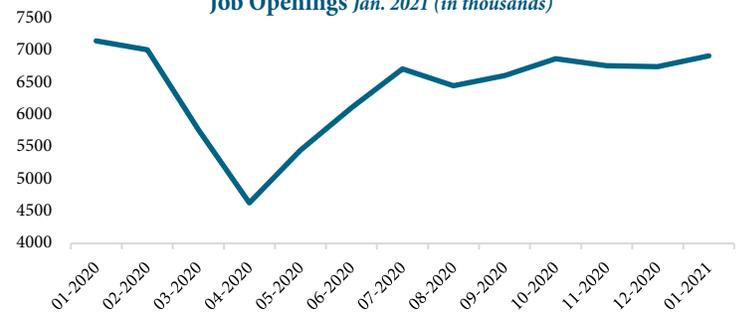
**U.S. Household Net Worth March 2021 (in billions\$)**



Source: Board of Governors of the Federal Reserve System, Households and Nonprofit Organizations; Net Worth, retrieved from FRED, Federal Reserve Bank of St. Louis

Government programs have proven successful as a stopgap, but a sustained expansion needs a better labor market. Notably, Wal-Mart and Amazon have raised wages and continued to hire. Yet our economy is still 10 million jobs short of pre-pandemic levels. There is progress though, job openings have begun to improve, reflecting the reopening of our service led economy.

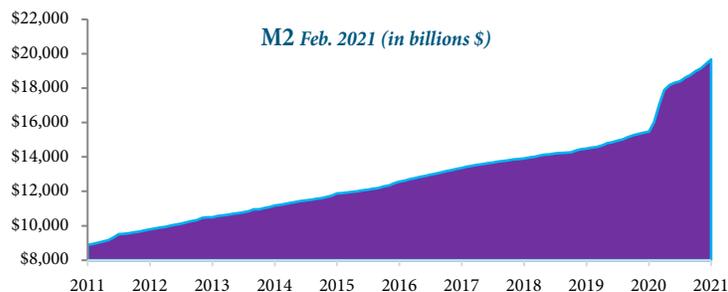
**Job Openings Jan. 2021 (in thousands)**



Source: U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm, retrieved from FRED, Federal Reserve Bank of St. Louis

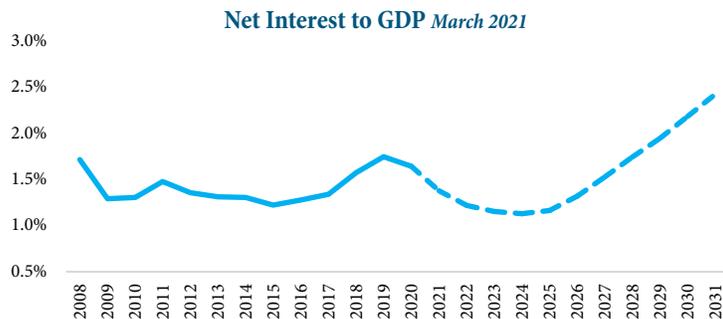
This material is for information purposes only. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are, unless otherwise stated, Congress Asset Management’s own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. The value of investments and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not a guide to the future.

The U.S. economy is clearly expanding at an accelerating rate, in our view, with little chance of retreat. Europe is trailing by at least a month. The intermediate term threat is not COVID, but is instead inflation. Inflation is a monetary phenomenon that has been a non-event for decades. Now, the Fed has succeeded in growing the monetary base, which has risen 25% over the past year, and is willing to let the economy run hot and inflation high. In addition, consumer and business demand for goods is very strong. Supply shortages are ubiquitous from semiconductors to automobiles to paper goods. Retailers are increasingly competing more on product availability than price. Supply chain challenges are unlikely to be resolved quickly and were further inflamed with the recent grounding of the Ever Given container ship in the Suez Canal.



Source: Board of Governors of the Federal Reserve System, M2 Money Stock, retrieved from FRED, Federal Reserve Bank of St. Louis

As the immediacy of the pandemic stresses ease later this year, investor attention is likely to focus on the financial aftermath – what we do about our ever-increasing public debt. Our debt level is now larger than the size of our economy, an arbitrary level but one rarely breached in peace time. The debt burden is mitigated by the current low interest rate environment. Interest on public debt stands at 1% of gross domestic product but will trend towards about 3% in the next decade. Interest rates fluctuate, however and we are likely to see higher long term rates next year, not lower.



Sources: Bureau of Economic Analysis, Congressional Budget Office

The political path of least resistance for ensuring proper debt service is tax increases. We anticipate the tax discussion to take center stage concurrent with the next infrastructure package and that some increases are inevitable. The degree and form of tax increases matters a great deal. A bipartisan plan would likely do a better job of managing the impact of higher taxes on future growth. As in all tax discussions, substance will matter more than rhetoric.

After the astounding stock market recovery from the March 23, 2020 pandemic lows, investors are understandably nervous. Market rotations have been violent as higher interest rates and broadening growth opportunities have deflated some pockets of speculative froth. Over time, however, the stock market reacts to corporate earnings. The economy is providing a solid base for earnings to grow, supporting stocks albeit with more mundane returns than those experienced over the past year. Bonds will likely tread water as market interest rates trend slowly upward.

**Investment Oversight Committee**  
**Daniel A. Lagan, CFA, President & CIO**

**April 2021**

This material is for information purposes only. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are, unless otherwise stated, Congress Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. The value of investments and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not a guide to the future.



**CONGRESS ASSET**  
**MANAGEMENT COMPANY**

2 Seaport Lane Boston MA 02210 800.234.4516 www.congressasset.com