

CORONAVIRUS UPDATE

Data continues to improve as the vaccine rollout gains momentum.

Vaccines

- **Total Vaccines Delivered:** 196,000,000.
- **# of People Who Received At Least One Dose:** 98,000,000.
- **# of People Fully Vaccinated:** 55,000,000.
- **% of Population Over 65 Years Old Fully Vaccinated:** 51%.

Cases

- New Cases 7-Day Average: 62,000.
 - Down from 250,000 in January 2021.

Hospitalizations

- 7-Day Average: 33,000.
 - Down from 125,000 in January 2021.

Source: CDC.

MONETARY POLICY

The Fed has established the most accommodative monetary policy environment in United States history.

- **Interest Rates:** The federal funds rate is currently at a range of 0% to 0.25%. Most FOMC members do not expect to raise interest rates until at least 2024.
- **Quantitative Easing Program:** The Fed will continue purchasing at least \$80 billion in Treasuries and \$40 billion in agency MBS per month to help “foster smooth market functioning and accommodative financial conditions.”
- As of now, the Fed has not changed their stance that they are a long way from tightening monetary policy. Our sense is that the Fed will move bit earlier than expected, with their first step being to taper the quantitative easing program later this year. “When will the Fed tighten?” will be one of the most important questions facing financial markets in 2021.

FISCAL STIMULUS

Congress passed the American Rescue Plan worth about \$1.9 trillion (~9% of GDP) in March 2021. This was the third major stimulus package passed in the last year.

- The bill includes additional stimulus checks and unemployment benefits, expansion of the child tax credit, additional aid to state and local governments, and increased funding for vaccine production/distribution.

The Biden Administration will immediately pivot to the “Build Back Better” plan which could cost as much as \$3 trillion and include corresponding tax increases.

- The proposal is still in its infancy and expect new details to emerge over the coming months. As a reminder, the majority in Congress is razor-thin and any bill will need either all Democrats to vote in favor or bipartisan support.

ECONOMIC GROWTH

Economic growth is estimated to materially increase due to the amount of fiscal and monetary stimulus combined with the vaccine rollout and subsequent reopening. The economy will likely surpass its pre-pandemic level in early 2021. Over the past several months, the country has experienced a somewhat uneven recovery with manufacturing and consumer spending surging, while parts of the labor market lag.

Real GDP Estimates:

2021: +6.5%
2022: +3.3%
2023: +2.2%

CORPORATE EARNINGS

S&P 500 earnings are estimated recover and increase in 2021 and 2022 after declining by -14% in 2020.

S&P 500 Earnings Estimates

- 2019 Actual: \$163 (+1%)
- 2020 Estimate: \$140 (-14%)
- 2021: Estimate: \$176 (+25%)
- 2022: Estimate: \$202 (+15%)

Over long time periods, earnings drive stock prices.

VALUATION

Most valuation measures are stretched by historical measures. The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 21.5x.
- 25-Year Average: 16.6x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.