

Heacock & Jones Financial Services, Inc.

Market Commentary - June 2021

Following are the year to date results of the major market indexes:

	<u>YTD</u>
Dow Jones Industrial Average	12.73%
Standard & Poor's 500	15.25%
NASDAQ Composite	12.54%
Wilshire 5000	14.49%
MSCI EAFE (International Index)	7.33%
Barclays Aggregate Bond Index	- 1.60%

Since the onset of the pandemic, six Government Stimulus funding programs created \$7.2 trillion of spending adding to \$21 trillion in Government debt. Additionally, the American Jobs Plan bill initially proposed spending \$2.25 trillion on infrastructure over 10 years. Construction and Engineering stocks celebrated the news. On June 4th, the GOP's counter proposal was substantially lower at \$330 billion. By June 18th, Caterpillar and Deere's stock prices sank more than 15% from their peak.

The catalyst fueling much of the stock market exuberance has been tied to stimulus funding programs. Reopening commerce also contributed to the surge in economic activity, effectively boosting profits and stock prices. Wall Street's reaction has been to let the party roll on and enjoy the ride.

However, there are some speed bumps approaching. These include:

- a) Price wars. When low cost foreign imports could not be delivered into the states, the higher priced U.S. produced goods contributed to higher inflation. Now that the ports are re-opening, price wars could begin as the foreign companies try to regain market share, which will result in lower prices and lower corporate profits.
- b) In May, the Consumer Price Index rose 5.0%. Higher prices have caused businesses and consumers to postpone construction plans. An impediment to growth.
- c) Following recessions, the Federal Reserve provides low cost funding to Banks so they can in turn lend to businesses and consumers whom in turn spend and reinvest, effectively stimulating growth. Today however, bank loans as a percentage of bank deposits have fallen sharply to their lowest level in more than 50 years, clearly showing Bank's reluctance to lend money. An impediment to growth.

While stimulus funding and reopening of economies provide support for higher stock prices for typically 6 to 9 months, absence these catalysts the pace will slow. The last stimulus funding program, American Rescue Plan was passed on March 11, 2021.

Paul Heacock, CFA

"Gratitude is the healthiest of all human emotions. The more you express gratitude for what you have, the more likely you will have even more to express gratitude for."

— Zig Ziglar