MoneyMatters
MARKET UPDATE

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Cautious Optimism

ROEHL & YI
INVESTMENT ADVISORS, LLC

Cautious Optimism

As Americans begin to emerge from lockdowns and we return to a semblance of normalcy, Roehl & Yi has enthusiasm that the economy will continue its recovery. Successful vaccine distribution, greater demand for travel, and higher rates of consumption will serve the U.S. market well, though certain areas remain for cautious optimism.

Market Recap

Stock Market

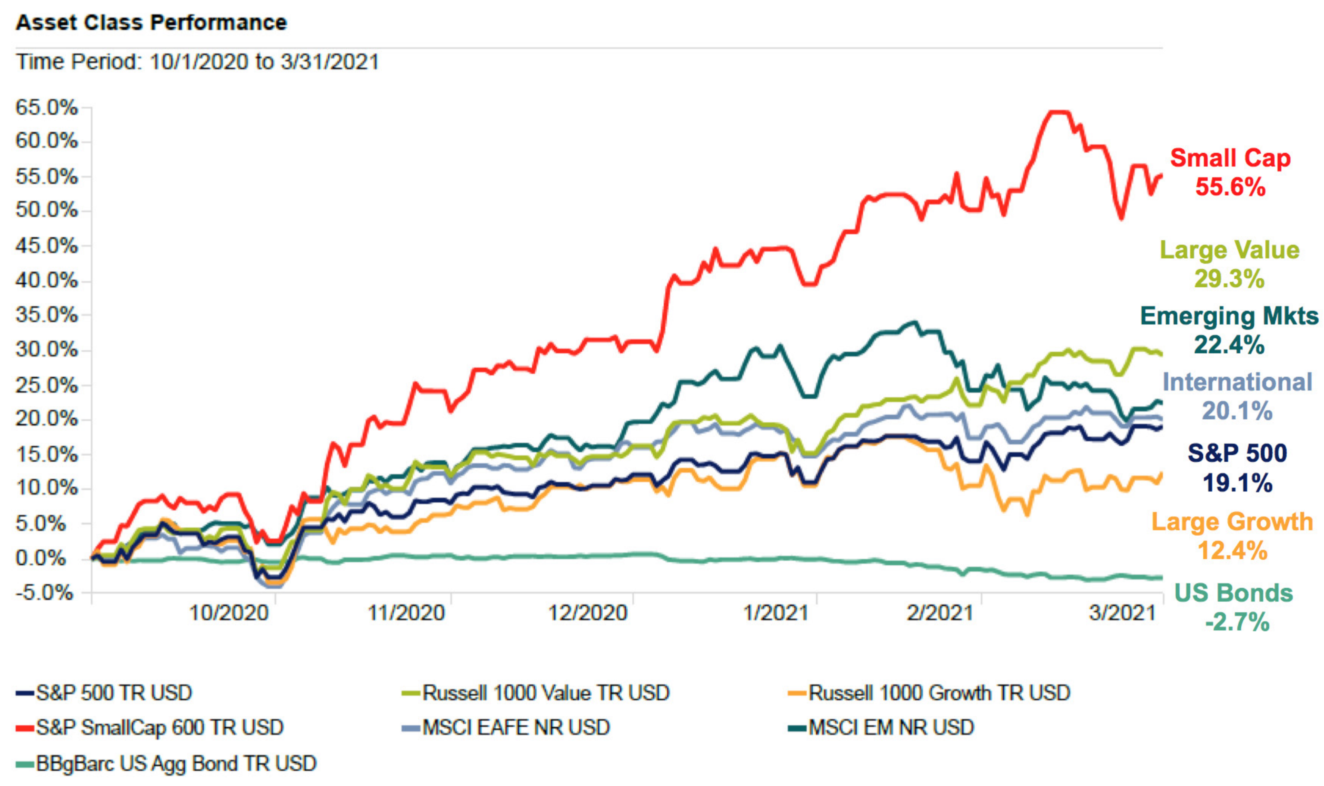
In Spring of 2020, the market dropped nearly 36% in approximately six weeks. The drop, due to government shutdowns over coronavirus fears, came after a 12-month period of historic growth and record-high employment. It proved to be one of the shortest bear markets ever and in a dramatic turn many asset classes hit historic highs by year end.

Over the course of 2020, we saw the S&P 500 rise 18.5% from the March lows though the Russell 1,000 large-cap value was up less than 3%. As vaccine distribution commenced in November, the market began a rotation that continued into March of this year with the Dow, Russell 1,000 large-cap value, and Russell 2,000 small-cap value indexes outperforming the S&P 500. (Source: *Morningstar).*

In the first quarter of 2021, the stock market experienced continued growth as investors were willing to absorb more risk and look for new growth opportunities. The S&P 500 tested new highs during the quarter, backed by government stimulus and retail investors continuing their aggressive buying.

This turning tide of value outperforming growth stocks is a reminder of the importance of diversification.

Recent Asset Class Performance



**Source: Morningstar Direct*

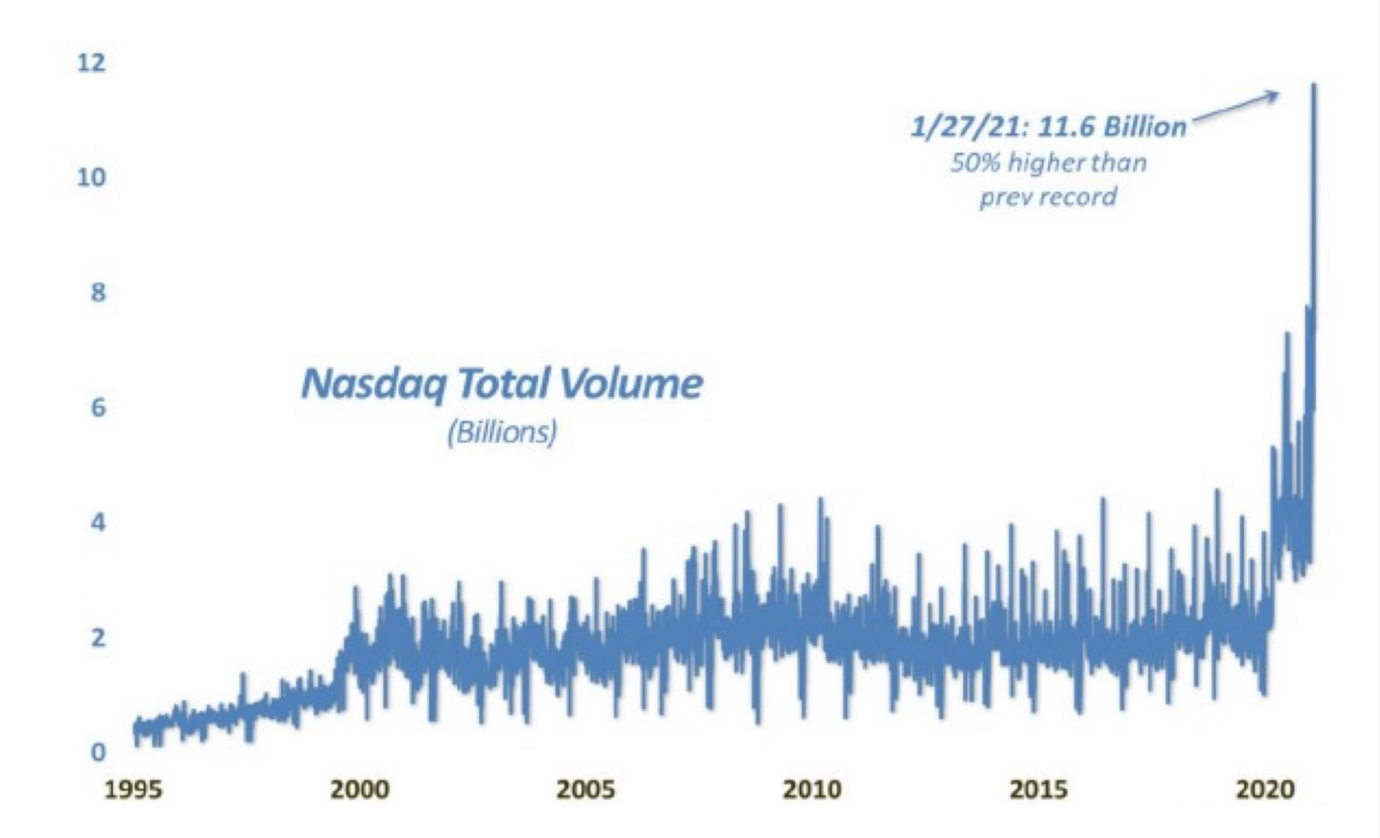
In contrast, the bond market experienced a down quarter ending March 31, 2021. The Bloomberg Barclays Aggregate Bond Index that tracks the general U.S. bond market shows that bonds dropped by -3.37%. This is the steepest quarterly drop since Q3 1981. (Source: *Morningstar).*

Although interest rates remain historically low, the 10-year Treasury bond yield rose significantly to 1.7% compared with 0.9% at the start of 2021. (Source: *Wall Street Journal).*

The Speculative Frenzy

With shelter-in-place orders and a lack of televised sports, many people turned to the stock market for entertainment, using apps such as Robinhood for investing and trading. Individual investors opened more than 10 million new brokerage accounts in 2020, JMP Securities estimates, a record. (Source: *Wall Street Journal).* This led to unprecedented trading volume on the NASDAQ.

Speculative Frenzy: Nasdaq Volume Obliterates Record



Source: Martin Capital Partners, The Lyon's Share, Lyon's Fund Management - Data as of January 28, 2021

These new investors flocked to more risk-laden stock market securities such as GameStop, bitcoin, and non-fungible tokens (NFTs). A non-fungible token is a unit of data stored on a digital ledger, called a blockchain, that certifies a digital asset to be unique and therefore not interchangeable.

Warren Buffett likened the millions of inexperienced day traders who entered the stock market in the past year to gamblers and said commission-free brokerages such as Robinhood Financial have promoted a casino-like atmosphere.

This lack of focused strategy in long-term, diligent investing has amplified the recent market volatility.

The Economy

The economy is showing a strong recovery so far in 2021, though some investors are bracing for another wave of COVID-19 infections. The second half of 2021 for the U.S. economy looks promising with the continued distribution of COVID-19 vaccines. This, coupled with better treatments for the virus and safer re-openings, should spur demand for travel – further strengthening the economy.

The labor market and manufacturing, however, are being heavily impacted in two ways, thus leading to a slowdown in the delivery of goods and services and resulting in higher labor and manufacturing costs.

First, businesses in service and manufacturing industries are experiencing a broad labor shortage, partially caused by workers opting to receive government unemployment and stimulus benefits rather than a paycheck. Additionally, uncertain school schedules make full-time employment difficult for parents struggling to balance childcare and work schedules.

And second, as manufacturing was largely shut down in 2020, recent demand has manufacturers scrambling to ramp up operations while putting COVID-19 safety protocols in place. This is exacerbated by supply line issues where needed parts are in short supply or are simply unavailable.

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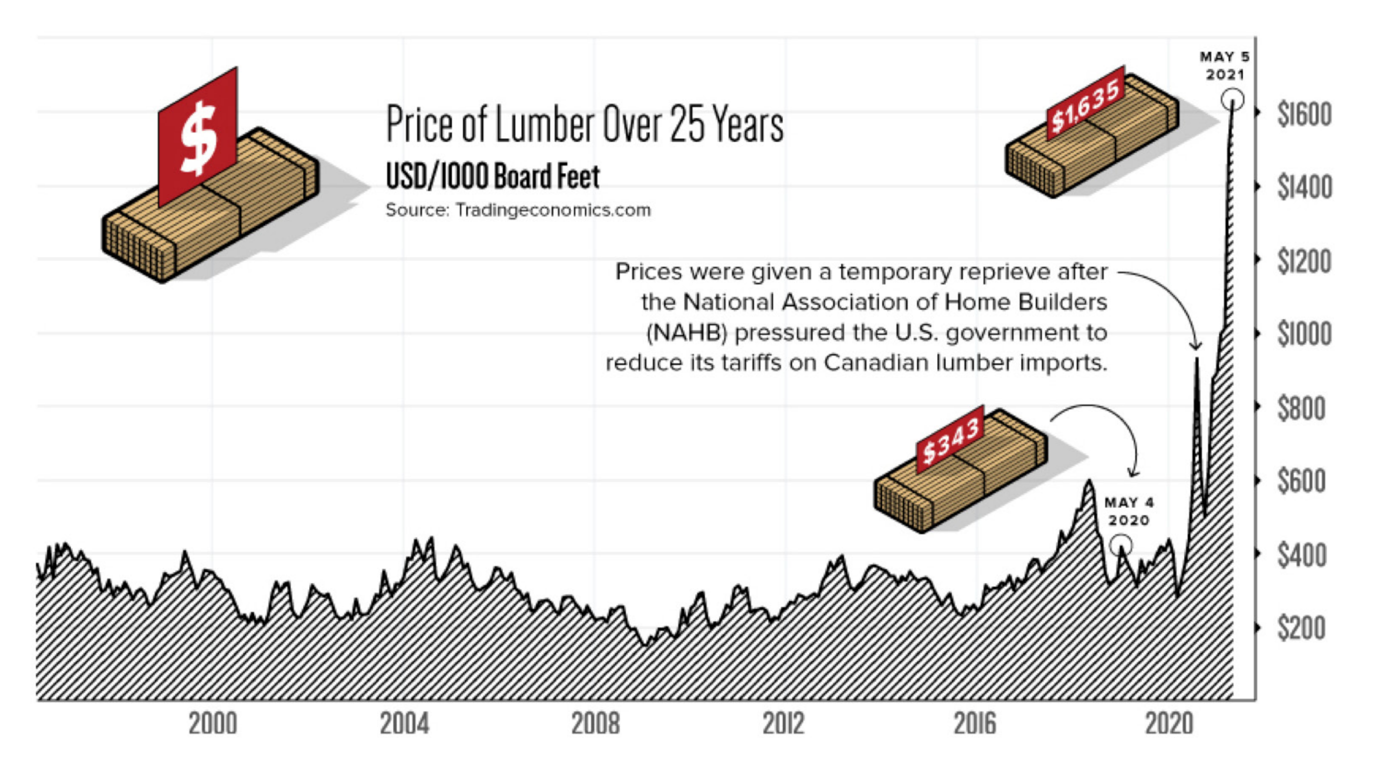
Tail Risk of Inflation

U.S. prices are increasing in several sectors.

For example:

- Ketchup packet prices are up 13% since January 2020. (Source: *Wall Street Journal).*
- Timber prices have skyrocketed. The price of lumber has tripled over the past 12 months and caused the average cost to build a single-family home to rise by $35,872. (Source: *National Association of Home Builders).* This is also a reflection of a strong housing market.

Explosion in Lumber Prices



Source: Visual Capitalist, Tradingeconomics.com - Data as of May 5, 2021

- U.S. gasoline prices rose for 46 consecutive days in Q1 2021. This represents the longest non-stop daily rise in the last 16 years. (Source: *Javier Blas, Twitter).*

The massive stimulus infusions by the Biden Administration and the potential for significantly more is creating inflation fears. Stimulus may offer economic relief and drive demand for spending and consumption, but history has shown government spending can spike inflation.

Final Thoughts

In any investment strategy you must ask yourself: what can go wrong, what is likely to go wrong, and how much am I willing to lose?

At present, markets seem slightly speculative, interest rates are still low but increasing, and the risk of inflation is rising. During periods of uncertainty, and in times of seemingly more risk, cautious optimism is important.

THE R&Y PROMISE

Roehl & Yi has made a commitment to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi and ask that your first phone call is to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health this year.

ROEHL & YI
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For A Personal Wealth of Reasons

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