The Bright Report

A periodical brought to you by Bright Wealth Management

BRIGHT
WEALTH MANAGEMENT

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2nd Quarter 2021

The Roaring Twenties

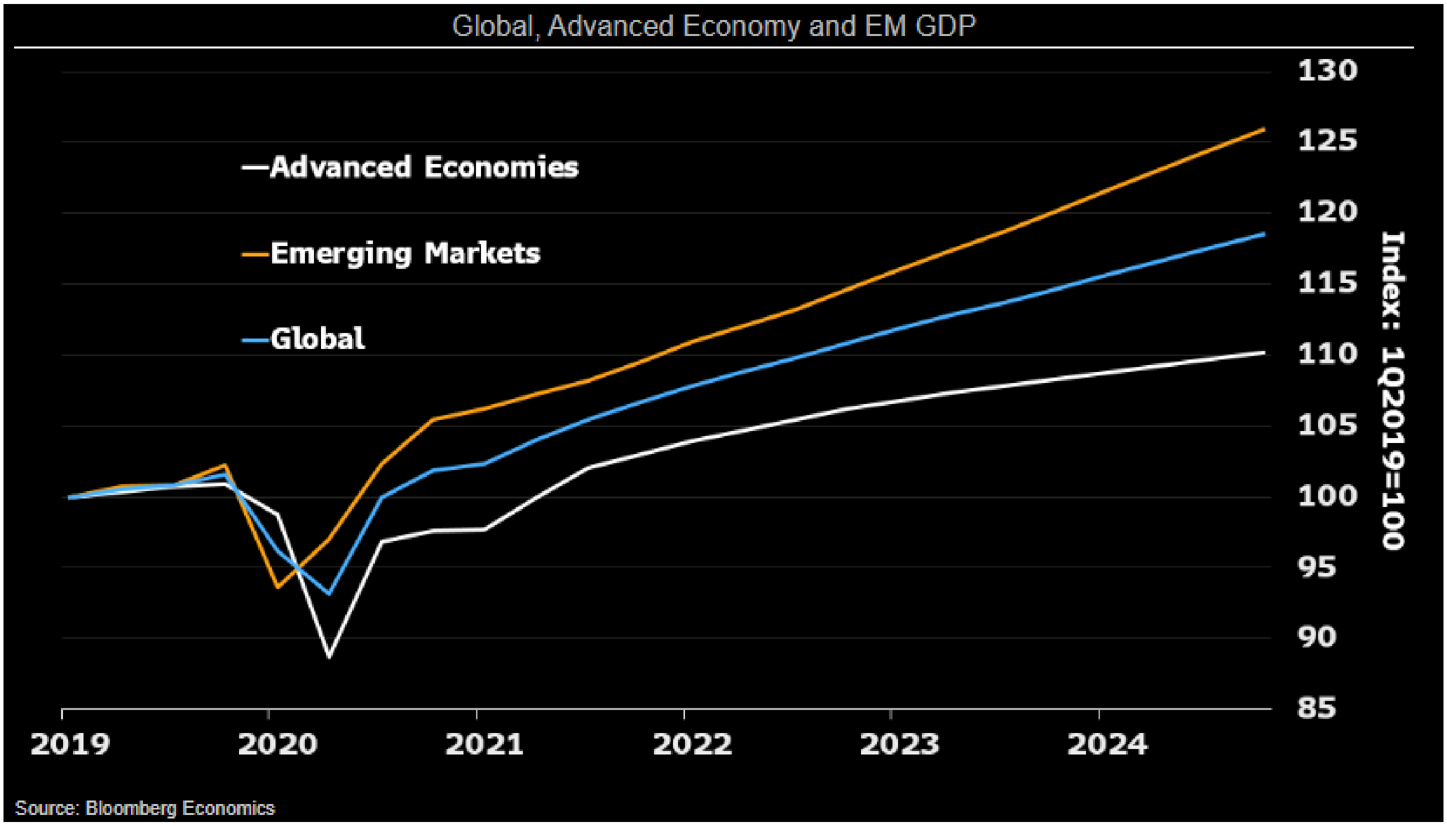
by Mark LaGrone, CFA *Director of Investments*

After a year that has been considered unprecedented by almost every measure imaginable, 2021 has finally arrived and the market is signaling that this year will be different than the last. As vaccinations begin giving businesses and consumers greater confidence in the economy, references to the *"Roaring Twenties"* are not in short supply. We are encouraged by the progress being made as we continue to exit global lockdowns, but it is important to remain realistic and not lose sight of the potential pitfalls that could arise along the way.

During the first quarter, a dramatic increase in rates along with renewed inflation concerns led to market turbulence as investors evaluated how to best position their portfolios for the year ahead. We view the increase in rates and adjustments to the yield curve to be positive developments that reflect a recovering economy that is able to support such an increase. Many companies that benefited from being part of the "Pandemic Trade" began to underperform as investors rotated from growth to value, providing a boost to companies that are expected to benefit from economic expansion and reopening. Our portfolios were beneficiaries of this shift given our general inclination towards value. The economic indicators we monitor have given us the confidence to continue deploying cash as we move back towards our long term target allocations.

Looking ahead, we believe there is potential for a significant economic expansion over the next two to three years that will be unlike anything we have seen in decades. Expectations for Global GDP growth are around 6.9%, which would be the biggest jump in the last 60 years. The United States is expected to contribute significantly to this growth, with U.S. GDP estimates ranging from the Federal Reserve consensus of 6.5% to Wall Street estimates in excess of 7.5%. Just over a year ago, U.S. GDP growth of this scale would have been essentially unthinkable. With record amounts of stimulus, a potential infrastructure bill in the U.S., and societies that are eager to get out and spend money on all the things they have forgone over the last year, we anticipate an exciting year of growth ahead. The biggest concern is one of inflation. If the recovery becomes overheated and prices and wages get out of hand, then the economy and financial markets may begin to stutter. This could force the Federal Reserve to increase rates more quickly than expected, further exacerbating the potential for economic growth. Shortages like those we have seen in semiconductor chips are a concerning sign that could add to inflationary pressures. In addition to inflation, it will also be important to watch corporate and consumer debt activity. As the government begins to reign in the record amount of support it has provided, we will be watching for increased defaults and late payments that could provide clues to any structural weaknesses in our recovery. While we remain optimistic, these are some of the data points we will be monitoring closely to ensure our outlook remains intact.

GDP Forecast



The above graph uses the first quarter of 2019 as the base time period and sets each GDP category to 100 for that period. A base period is the first of a series of time periods in an economic or financial index. It is typically set to an arbitrary level of 100. Clearly indicated in the above graph is a significant drop and subsequent rebound in GDP during 2020, with consensus expectations for continued growth of GDP through 2024.

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