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Is it Over Yet?

Global Markets and Regions

	1st QTR	2021 YTD
US	5.40%	5.40%
Developed Europe	4.10%	4.10%
Asia	2.30%	2.30%
Emerging Markets	3.23%	3.23%

US Markets

	1st QTR	2021 YTD
Dow 30	8.30%	8.30%
Large Cap Cos.	4.45%	4.45%
Mid. Cap Cos.	13.78%	13.78%
Small Cap Cos.	18.68%	18.68%
Bonds	-3.04%	-3.04%

The official Covid response by global governments was “15 days to slow the spread”. Fifteen days has become a full year. Covid looks like it is here to stay, at least in one form or another. The virus will continue to behave like a virus, even though the worst effects are fading. But the shutdowns appear to be coming to an end. The full economy, after $5 trillion in government spending, is starting to open up after the deepest recession in modern history.

Recession recovery expectations never truly dropped during the Covid recession. Everyone knew it would eventually end. This was primarily because the government threw everything they could at it. Stimulus checks, financial support to banks and mortgage lenders and PPP loans to businesses has resulted in the worst recession without “consequences”. Now it is coming to an end and government is still pouring on the support.

All the bad metrics of Covid are dropping dramatically. New cases are appearing, but hospitalizations and deaths are falling with vaccine rollouts and Covid exposure immunity reaching levels of “herd immunity”. Everyone seems to be ready to get back to “normal”. Half the country is open by government decree or was barely closed in the first place. The closed portion of the country is opening up. Every pandemic in the history of the planet eventually receded. From the Black Death of the ancient world and Middle Ages to modern era Spanish and Asian flus, pandemics end. So what happens next?

The economy as measured by Gross Domestic Product (GDP) has been rising vertically since cratering last spring. This would have happened naturally, but the recovery was super-charged by unprecedented government support in the form of stimulus and Federal Reserve policies.

There were lockdown winners and losers. Some sectors and industries were better able to adapt to conditions than others. Obvious losers were service sector industries, which are now starting to join the recovery. Travel and leisure related businesses such airlines, hotels and restaurants can now see light at the end of the tunnel. The Transportation Security Administration (TSA) airport screening statistics are showing that people are starting to "move around the country" again. Jobs and employment numbers have almost fully recovered from the depths of the Covid recession. Consumer confidence has risen consistently and sharply. Stimulus checks, PPP loans and extended unemployment benefits have helped the workforce maintain spending abilities and bolster savings. They are primed and ready to spend. The service sectors are about to return to the game.

Corporate earnings have recovered from the deep first and second quarter 2020 declines. The next few quarters are projected to show growth well above long-term trends. First quarter 2021 earnings are expected to be robust with, corporate management guidance of future growth optimistic. Earnings ultimately drive stock prices. The Federal Reserve is committed to keep interest rates low for the foreseeable future in order to support that growth.

So what do we need to be concerned with? Inflation is one item on the list. The massive stimulus polices have the financial system awash in money. We've seen commodity prices and housing costs start to rise. Congress is on the verge of implementing a $2 trillion "infrastructure" spending plan. The potential for economic distortions from misallocated spending is always a concern. Higher taxes are being proposed in order to pay for this increased spending. Higher taxes are generally an impediment to growth. This time we are being told it will be different. We'll see.

Geopolitical issues have not gone away. China has been a long-term economic rival, often in ways that are not always beneficial to US and global interests. Intellectual property theft, hacking, destabilizing political and economic disputes such as those with Hong Kong, Taiwan, India, Australia, Japan and other countries continue as points of conflict. Manufacturing cooperation, the importation of US agricultural products and an interest in maintaining a healthy global economy are a plus, but balancing trade and national interests is an ongoing process.

Markets have generally been supportive and pleased with current trends. Corrections and pullbacks are always part of the investor landscape. Expect more of them in the future. Let's hope they don't morph into another Covid-like hell from which we are currently emerging.