



**BlackDiamond  
Financial**

# INVESTMENT INSIGHTS

FIRST QUARTER 2021

## Key Topics

- ◆ Significant Returns Supported by Earnings Recovery
- ◆ Stimulus Spending Expected to Ignite the Economy
- ◆ Value Stocks Outpace Growth Stocks by 10% in Q1





## Significant Returns Supported by Earnings Recovery

Stock investors were rewarded with substantial gains this quarter as projected corporate earnings steadily increased and the vaccine rollout progressed faster than expected to three million doses per day. Investors can now clearly visualize a return to normalcy for the global economy. Additionally, the \$1.9 trillion American Rescue Plan Act passed in March and the increasing likelihood of a massive \$2.0 trillion infrastructure plan later this year further buttressed growth expectations.

As economic growth expectations and interest rates rose this quarter, inflation concerns started to escalate. Over the past decade, inflation has remained at historically low levels, averaging just 1.7% annually compared to an average of 3.9% since 1970. Based on the Treasury Inflation Protected Security market, the expected annual inflation rate over the next ten years remains historically low at 2.4%. The Fed reiterated its stance in March that inflation does not pose an imminent risk, and it will likely not increase short-term interest rates to curb inflation until 2023, when employment is expected to return to pre-pandemic levels. Historically, stocks have performed well during periods of moderate inflation.

Small company stocks were the top-performing equity asset class this quarter with a 12.7% return. Real estate stocks turned around their negative performance in 2020 to notch an 8.8% gain. Large U.S. and international developed stocks returned 6.2% and 3.5%, respectively. Interest rates jumped this quarter, as evidenced by 10-year Treasury yields climbing from 0.93% to 1.72%, resulting in U.S. bond prices declining by 3.4%.

## Comparative Returns

	Annualized Performance				
	Q1 2021	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks <sup>1</sup>	6.2%	56.4%	16.8%	16.3%	13.9%
Small Cap U.S. Stocks <sup>2</sup>	12.7%	94.8%	14.8%	16.4%	11.7%
International Stocks <sup>3</sup>	3.5%	49.4%	6.5%	9.8%	4.9%
Real Estate <sup>4</sup>	8.8%	37.7%	9.5%	5.3%	8.5%
U.S. Bonds <sup>5</sup>	(3.4%)	0.7%	4.7%	3.1%	3.4%

<sup>1</sup> S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy

<sup>2</sup> Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index

<sup>3</sup> MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets

<sup>4</sup> MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks

<sup>5</sup> Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market

## Stimulus Spending Expected to Ignite the Economy

The \$1.9 trillion American Rescue Plan Act was passed largely to extend unemployment benefits, expand social programs and provide \$1,400 stimulus payments to most Americans. This Act brought total government spending in response to Covid-19 to over \$5.6 trillion. In addition, another \$2.0 trillion could soon be appropriated for a new infrastructure bill and other programs.

Relief Package	Date Enacted	Amount (billions)
Coronavirus Preparedness and Response Supplemental Appropriations Act	March 6, 2020	\$ 8
Families First Coronavirus Response Act	March 18, 2020	\$ 225
CARES Act	March 27, 2020	\$ 2,090
PPP and Health Care Enhancement Act	April 24, 2020	\$ 483
Consolidated Appropriations Act	December 28, 2020	\$ 920
American Rescue Plan Act	March 11, 2021	\$ 1,900
<b>Total</b>		<b>\$ 5,626</b>

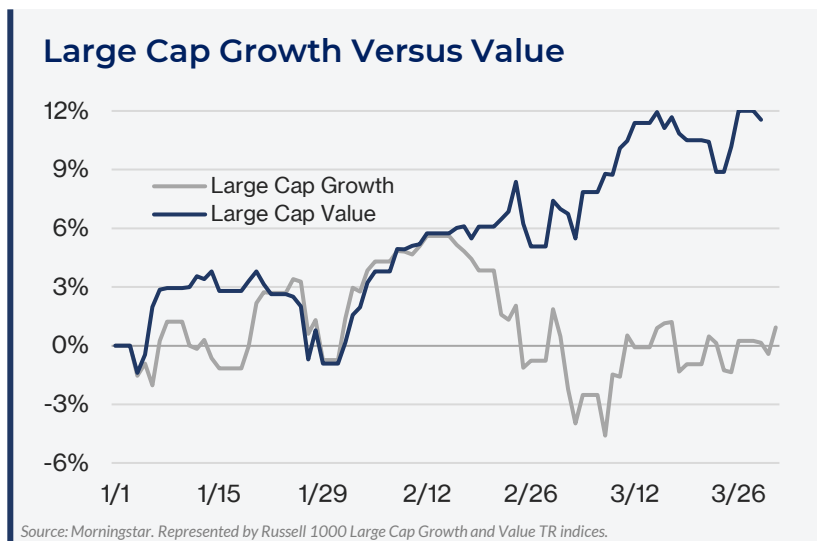
The ultimate long-term impact of these unprecedented spending programs is unknown due to our economy's complex nature. However, the consequences may include rising inflation, higher interest costs, and a reduction in the probability

of a recession over the next several years. Economic activity will undoubtedly accelerate in the second half of 2021. Goldman Sachs has one of the more bullish predictions on Wall Street and expects total 2021 growth to exceed 8%, a growth rate not seen since 1951.

## Value Stocks Outpace Growth Stocks by 10% in Q1

Stocks are often separated into two categories, growth and value. Growth stocks are characterized as fast-growing companies that reinvest earnings back into business operations to fuel future growth. Examples of growth stocks are Tesla, Amazon and Google. On the other hand, value stocks usually grow slowly, generate substantial cash flow and pay dividends like AT&T, Exxon Mobil and Procter & Gamble. Growth and value stocks both tend to rise over time, but returns can differ substantially over various time periods.

Over the very long-term, going back 95 years, value stocks have outperformed growth stocks by about 2% per year, albeit with higher volatility. However, over the last ten years, growth stocks have outperformed value stocks by a staggering 6% per year. The 10% outperformance by value stocks this quarter is interesting, but not indicative of a trend or a reason to modify one's portfolio asset allocations. Predicting a winner between growth and value stocks is likely a 50/50 proposition and impossible to consistently guess over future time periods. Therefore, an equal weighting between value and growth stocks is likely the optimal strategy for most investors.





## ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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