

April 5, 2021



Greetings from Naples, Florida!

Good Friday delivered great news with the announcement of 916,000 new people on payrolls (US Labor Dept.) and noted that new jobs in January and February were better than previously reported. Continuing unemployment claims, peaking last May at a depression level of 22.7 million jobless, have fallen to a recent 3.9 million (4-week continuing claims). The unemployment rate, which peaked April 2020 at 14.8%, now rests at 6%. We're on the path to normalcy and possibly to a flat-out job boom.

Manufacturers are working overtime as recent order data hit the highest figures in 37 years (US ISM). The ISM also reports service orders also stand at long-term records. Supply chain kinks in things like semi-conductor chips that have clogged the system are likely to find relief. Several auto plants have stopped lines and production as they wait for chips and plastics delayed by the Texas freeze, where much of the US plastic is produced. The ports at Long Beach have cargo ships backed up eight days to offload their goods and supplies. Restaurants are reporting shortages of ketchup as they wait for the supply to catch up. All this demand bodes well for US business (GDP) in coming quarters.

Retail sales continue to impress, and consumers are flush with cash as bank deposits stand at \$3 trillion in extra savings over pre-pandemic balances. Consumer debt service levels remain at near-record lows, and banks are flush to lend. This is all quite incredible, and let's not forget those \$1400 "stimmy" checks, which may cause another visible bump in retail, restaurant, and travel.

In just a few weeks, we're going to see corporate America reporting 1st quarter earnings, and I'm expecting a slew of record earnings. So I believe you can hang on, enjoy the ride, as it doesn't get any better than this. What a difference a year can make.

If you're browsing the financial internet or viewing the business networks, you will notice they are still talking about the multi-decade delayed "Value Shift." But I don't think it's a shift from growth to value; it's a typical mean-reversion rally. A mean reversion rally is where the lagging stocks get caught up – your garden variety catch-up rotation. We believe that the established growth companies, with long runways ahead, generating some of the business world's most significant revenues, cash flows, and earnings, remain some of the potentially best shares to hold. The share prices have been moving sideways for several months, building a level foundation for the next launch, and we don't plan on selling out and missing it. We believe whoever reports the biggest jumps in earnings and provides the most positive guidance is going to win. Enjoy the ride, celebrate the return to the extraordinary. Lockdown time is close to over, it's now locked and load time. We want to be fully invested ahead of the coming multiple quarters of what we believe will be record sales, earnings, cash flows, and expected investor returns.



The Dog Walking Allegory

A dog owner is walking his dog home diagonally across a park. He strides steadily along in an approximate straight line. He knows where he's going, and it's reasonably predictable as to when he will arrive. Now let's gaze upon his faithful four-legged friend. The dog tethered on a long leash is going all over the place, left to right, right to left, walking, running, sitting, sniffing in no predictable pattern. His excitable friend is distracted by squirrels, other dogs, other walkers, birds, an endless amount of attractive and distracting scents, and stops for an occasional marking.

Continued

In this allegory, the dog walker is the economy, and the dog is the stock market. The daily stock market news and narrative are not interested in the economy's long-term steady march but instead focus solely upon the dog's crazed, winding path, guessing at the next move. People say they're watching the economy, but they are instead watching the manifestation of hundreds of millions of people's greed and fear in real-time TV shows with handles including Fast or Mad, and lunchtime is Half-Time. Pundits are asked endlessly for market predictions that say a lot about the forecaster and nothing about the future. It's essential to understand the stock market leads the economy, and over the long term, its wild trek is tethered to the economy's smoother path.

So the economy and the dog are tethered together, going to the same place. But their trek is not the same. Sometimes they don't even appear to be walking together, but as thoughtful, enlightened investors, we know they are, and we will watch the dog walker.



CEO, Chief Investment Officer, Senior PIM Portfolio Manager

5811 Pelican Bay Boulevard, Suite 600
Naples, FL 34108
239.264.1000
concierge@edwardsnaples.com
edwardsnaples.com



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