by DOUG SANDLER, CFA

THE RIVERFRONT WRITING TEAM

REBECCA FELTON
Senior Market Strategist

ROB GLOWNIA, CFA, CFP
Senior Portfolio Manager | Co-Head of Investment Committee

CHRIS KONSTANTINOS, CFA
Chief Investment Strategist | Co-Head of Investment Committee

KEVIN NICHOLSON, CFA
Global Fixed Income Co-CIO

DOUG SANDLER, CFA
Head of Global Strategy

ROD SMYTH
Director of Investments

SUMMARY

- We believe economic data clearly show that 2021 is going to be a banner year for the US economy.
- This will likely lead to greater optimism among consumers who now have the highest saving rate in more than 45 years, in our view.
- Be aware that the strong returns over the last 12-months mean that investors have likely anticipated much of this good news.

04.19.2021

Economic Trifecta Favors Main Street Over Wall Street

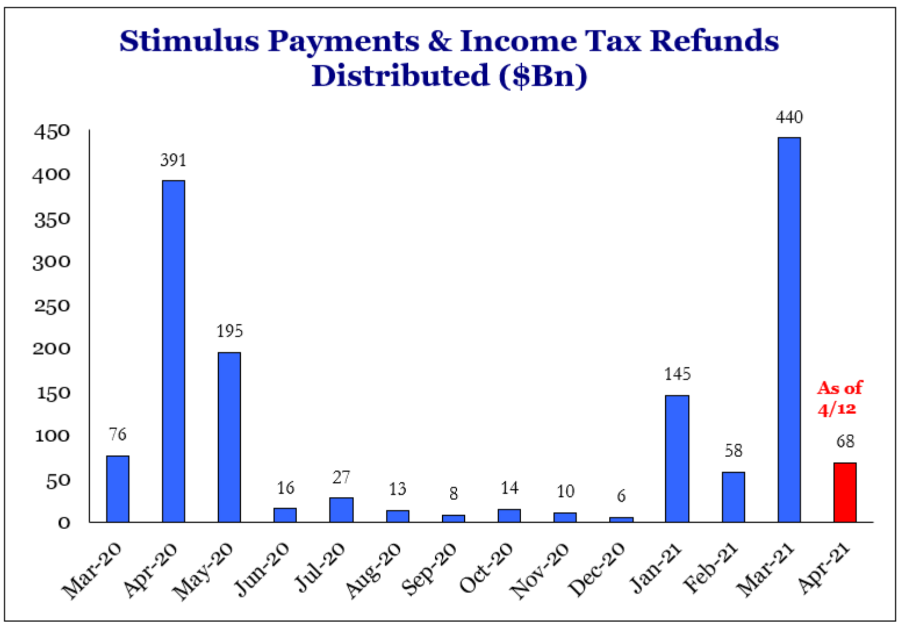
If you travelled on Spring Break you probably felt it…That feeling that economic activity seems ready to burst, like the release of water from a hose after a kink has been removed. This pent-up pressure is a result of an economic trifecta, which we define as three strong tailwinds triangulating on the US economy at roughly the same time.

1. **The re-opening of the economy:** Vaccine distribution in the US has quickly climbed the learning curve and according to the CDC, we are now vaccinating more than 3 million Americans every day. According to Youyang Gu, who uses machine-based learning for making COVID-19 related projections, the US should return to normal (removal of all COVID-19 related restrictions for the majority of US states) by Summer 2021.

2. **High savings rates:** Savings rates are exceptionally high hovering near 15%, the highest level in over 45 years. We believe that this is due to the tremendous economic uncertainty created by COVID-19. It is our view that as the uncertainty recedes high savings rates create the wherewithal for future discretionary spending.

3. **Influx of government payments:** The third tailwind in the trifecta is the fact that a large chunk of the population just received or are about to receive one or more meaningful distributions from the federal government in the form of a stimulus check and/or an income tax refund (Chart 1).

Chart 1: Federal Distributions Likely to Further 'Prime the Pump' of Spending.



Source: Strategas

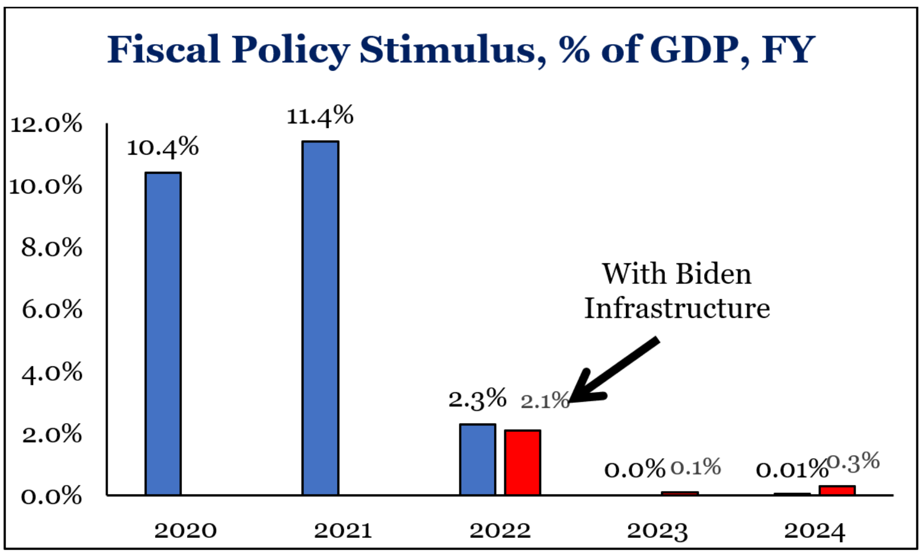
Disclosures: Past performance is no guarantee of future results. Shown for illustrative purposes.

This economic surge should be good for everyone, but it may be more impactful to the average American ('Main Street') than the average investor ('Wall Street'). We see three main differences between Main Street and Wall Street. Over the last 12-months these differences most benefitted Wall Street, over the next 12-months these same differences may work more in Main Street's favor.

1. Wall Street reflects the future, Main Street reflects the present:

Stock market investors typically looks 6 to 12 months into the future. Therefore, we believe that a significant proportion of the stock market's strength over the past 12 months can be accredited to it foreseeing the strong economic period we are about to enter. Extraordinary growth, falling unemployment, and rising wages have been anticipated by Wall Street and thus may already be reflected in stock prices to some degree. The market is beginning to look beyond 2021 and will start reflecting what it sees in 2022. Unfortunately, 2022 is unlikely to be as universally positive as 2021. In fact, 2022 is already harboring its share of bogeymen. Higher taxes, fading stimulus (Chart 2), fears of inflation, shifting Fed policy, and mid-term elections are just a few of those concerns on the horizon we are identifying.

Chart 2: Fiscal Stimulus Fades in 2022



Source: Strategas

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2. Wall Street represents a minority of US companies, Main Street represents the majority:

The prospects for large and small companies can differ significantly, especially during difficult times. Since COVID-19 first impacted the economy over a year ago, the business climate has been far more favorable to companies listed on Wall Street. Wall Street is comprised of large public companies, who have stronger technological platforms and better access to capital. These large companies were also more likely to employ the 'experts' necessary to take advantage of complex government aid programs. Not surprisingly, the average valuation of public companies has risen significantly as investors recognized these advantages.

According to data from the US Census Bureau and Wilshire Associates, public companies represent less than 1% of all US companies. The National Bureau for Economic Research also notes that publicly traded companies account for roughly one-third of US non-farm employment. Therefore, the other 99%+ of US companies and two-thirds of employment come Main Street. Main Street companies are often smaller (many may be sole proprietors), more poorly capitalized, and less technologically advanced. Thus, Main Street companies have disproportionately been impacted by state-mandated shutdowns and less able to shift to 'work from home'. However, as the economy begins to surge from pent-up demand, we believe that the competitive advantages of Wall Street companies will become less compelling, particularly in light of their higher stock prices.

3. Wall Street focuses on earnings and stock prices, Main Street focuses on wages and home prices:

Main Street will appreciate tightening labor markets since they contribute to rising wages. Main Street should also love the fact that the housing market is extremely strong, benefitting from a rise in home ownership and ultra-low interest rates. Wall Street, on the other hand, does not necessarily like rising wages since they negatively impact profit margins and earnings. The potential for higher corporate taxes and a stricter regulatory environment also threatens to pressure earnings in the future. We believe these pressures may be strong enough to offset some of the benefits of a strengthening economy.

Conclusion:

Our view is that both Wall Street and Main Street will be smiling throughout 2021. For this reason, we are modestly overweight stocks in our balanced Advantage portfolios. However, over the next 12-months, Main Street's smile may be slightly wider than Wall Street's, which we think will be a good thing for America.

Going forward, we think investors may want to prepare for lower returns over the next 5-7 years and potentially higher volatility as the stock market may at some point start to look beyond the strong economic period we are entering.