Abner Herrman & Brock
asset management

October 2021

Rising Up

Despite the continued struggle to contain the Covid-19 virus, the U.S. economy has fared well relative to other countries coming out of the global pandemic. During 2020, U.S. GDP declined 3.4%, less than any other G7 nation. Additionally, U.S. GDP growth for 2021 is expected to be 6%, which is higher than any other G7 nation except one. U.S. corporate earnings have rebounded significantly from the depths of the pandemic. Earnings for S&P 500 companies are expected to be up 46% this year, and projected to grow 10% next year. While the U.S. recovery has been remarkable, some questions remain about sustaining economic growth without support from the federal government. Both fiscal and monetary policies may be changing as a result of the economy transitioning from the pandemic.

The Federal Reserve has pursued an accommodative monetary policy since before the pandemic, to help bolster economic growth and attempt to stimulate inflation to their target rate of 2%. During the pandemic, the Federal Reserve lowered short-term interest rates to zero percent and significantly expanded their asset purchase program (Quantitative Easing) to support the economy. With the employment picture improving, and the inflation rate reaching 5% albeit potentially transitory, yet well above the Fed's long-term target of 2%, the Federal Reserve has indicated their intention to reduce their support and taper their quantitative easing program. There is still some uncertainty surrounding these actions with Fed governors in disagreement over when to begin tapering and when to start increasing interest rates. The decision will most likely be made on the basis of how the current inflation is interpreted. Are the current rates of inflation transitory, caused by supply chain issues during the pandemic, which should resolve itself shortly, or is it a longer term phenomena? There is distinct controversy over the "right" answer, nevertheless, inflation coupled with upcoming employment data will have a material effect on the direction of monetary policy.

As the Fed debates monetary policy changes, Congress is debating changes to fiscal policy. While both Democrats and Republicans feel that an upgrade to American infrastructure is needed, there is much disagreement over the size and scope of the spending package. It hasn't yet been determined whether this will be a $1.2 trillion dollar package that has already passed the Senate, or a much larger $3.5 trillion dollar reconciliation package that is currently under debate. In either event, more spending will be part of the future and we expect this funding will provide continued life support to the U.S. economy.

Abner Herrman & Brock
asset management

October 2021

While uncertainty in the market lingers around fiscal and monetary policy, AHB has taken proactive steps to protect client accounts and position them optimally, no matter the macroeconomic environment. On the equity side of client portfolios, we have taken decisive action to balance portfolios evenly between value and growth companies. During the year, we have added growth companies in the Information Technology and Communication Services sectors as well as value companies in the Energy and Financial Services sectors. The balance of value and growth will provide client portfolios downside protection from the uncertainty of not only the impact of new changes in fiscal and monetary policy but also the potential consequences of higher interest rates and inflation as a result of these changes. The portfolio has been constructed with companies that will be able to take advantage of the expected economic environment of higher GDP growth coupled with slightly higher inflation and interest rates over the next couple of years.

Fixed income client portfolios offer the potential for increased yield when the Fed begins to raise interest rates. Given there is a lack of consensus among voting members of the Fed over what actions to take, we continue to believe that an active laddered maturity portfolio is the proper way to structure fixed income portfolios. A laddered approach provides client portfolios with continuous maturities that will potentially optimize reinvestment at the higher available interest rates. More importantly, the client bond portfolios are able to take advantage of increasing rates in a manner that bond mutual funds or fixed income index funds are unable to provide.

The U.S. economy is recovering well from the depths of the pandemic and corporations are reaping the benefits with strong profit growth well above pre-pandemic levels. We remain vigilant in monitoring the economic landscape and continue to seek to take advantage of opportunities as they present themselves in both the equity and fixed income markets.

Wishing good health and prosperity to you and your families,

-AHB Investment Team

Harborside 5 · 185 Hudson Street · Suite 1640 · Jersey City, NJ · 07311 · info@ahbi.com · www.ahbi.com