KINGSVIEW
INVESTMENT MANAGEMENT

PORTFOLIO MANAGER INSIGHTS

WEEKLY INVESTOR COMMENTARY | MARCH 31, 2021

Investment Committee

The S&P 500 and Dow both reached new all-time highs last Friday. Year-to-date, the stock market has continued to grind higher despite short-term worries around the pandemic, a retail trading frenzy, the Fed, inflation, tech stocks, the Suez Canal and more. Even as we write this, there are new questions around forced block trades from a failed hedge fund and the potential ripples across the market. It is in times like these that investors ought to focus on the long-term trends rather than the day-to-day headlines vying for their attention.

It may surprise some investors to learn that this is the 35th time the market has achieved a record level since the recovery began just one year ago. That may seem unbelievable except that, by definition, the stock market often spends most of its time at or near all-time highs as it rises during bull markets. This has certainly been the case since 2013 when the S&P 500 recovered from the global financial crisis.

Additionally, despite bouts of market turbulence this year, the biggest decline in the S&P 500 has only been 4%. This may feel unusually small to some investors given how large the move in interest rates and certain sectors, such as tech, have been. Fortunately, the rotation benefitting areas originally hit hard by the pandemic, including energy, materials, and industrials, has offset poor performance in high-profile sectors. Still, it is important to remember that the annual decline at some point each year tends to be closer to 15% on average, before recovering and ending on a positive note.

This is not to say that the stock market will rise indefinitely or in a straight line - it surely will not. Instead, it is that there is often a gap between what we believe may matter and what actually does. It is not the fact that the market reaches all-time highs that causes it to pull back. What matters more than what stocks have done recently are the underlying trends that affect profits, valuations, and long-run investor expectations. The ultimate impact on investor portfolios depends on whether they stick to their plans.

THE STOCK MARKET CONTINUES TO REACH NEW HIGHS DESPITE SHORT-TERM CONCERNS

KEY TAKEAWAY:

1. **The stock market reached new all-time highs recently - the 35th time they have done so over the past year. This should not surprise experienced investors since the underlying economic trends are favorable.**

Thus, this early phase of the market cycle requires investors to carefully balance two factors. First, the economy continues to recover which is driving markets higher. It likely makes sense to stay invested as the new business cycle evolves and to stick to long-term asset allocations. There will no doubt be more hiccups around inflation, monetary policy, the U.S. dollar and more as this develops. However, history has shown that stocks tend to rise over long periods of time as the world improves.

Second, even as they stick to their financial plans, investors ought to remain disciplined and avoid complacency, especially while valuation levels are elevated. At the moment, the broad market trades at a price multiple of 22 times next-twelve-month earnings - near its historic peak of 24.5x during the dot-com bubble. Of course, this is due to the collapse in earnings during the pandemic lockdowns. If earnings can fully recover and achieve new levels by the end of 2021, as many expect, this ratio could slowly fall to more attractive levels.

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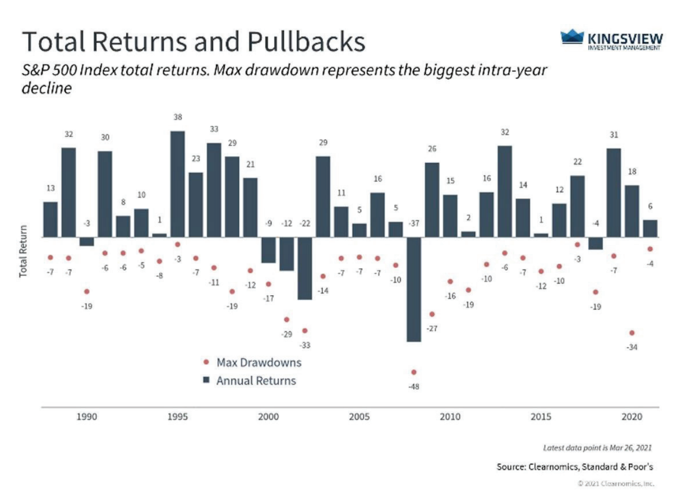
The same is true when assessing the valuations across sectors and styles. Tech-related industries and growth stocks are still relatively expensive after their bull runs last year. While some of these investments can still make sense, it may be necessary to re-evaluate these holdings and consider portfolio adjustments. This is an area in which having a trusted advisor is crucial, since the goal is often to make tilts to well-thought-out asset allocations, not to abandon them altogether.

THE LARGEST PULL BACK THIS YEAR HAS ONLY BEEN 4%



KEY TAKEAWAYS:

1. **Although many of the episodes that have grabbed investor attention have felt volatile, the largest intra-year decline has only been about 4% this year.**
2. **Markets have swung in both directions, however, the S&P 500 is still positive for the year.**

THE MARKET AND CERTAIN SECTORS ARE NOT CHEAP

KEY TAKEAWAYS:

1. **Despite positive markets, investors ought to remain disciplined. Valuations across the market are still elevated and are close to historic peaks.**
2. **These could moderate over time as the economy and corporate profits improve. Now is the best time to evaluate asset allocations as the cycle evolves.**

Thus, investors face a balancing act between taking advantage of the business cycle and staying disciplined. While this is a difficult balance to strike amid constant distractions, history has shown that those who are able to do so have a better chance at achieving their financial goals.

Investors should stick to their asset allocations and consider tilts in order to help them stay invested. Although there will no doubt be more market-moving headlines the rest of the year, the underlying long-term trends are positive.