Hamilton Point

Investment Advisors

An Update On The U.S. Economy

September 2021

Opening Thoughts

The economic recovery, resilience & risks

The U.S. economy's recovery continues to surprise to the upside, despite formidable challenges.

The emerging Covid-19 Delta variant may present the biggest challenge yet to our economy. The knock-on effects of the pandemic are significant, and include:

- Widespread labor shortages;
- Supply chain interruptions both domestically and internationally; and
- A dampening of consumer spending.

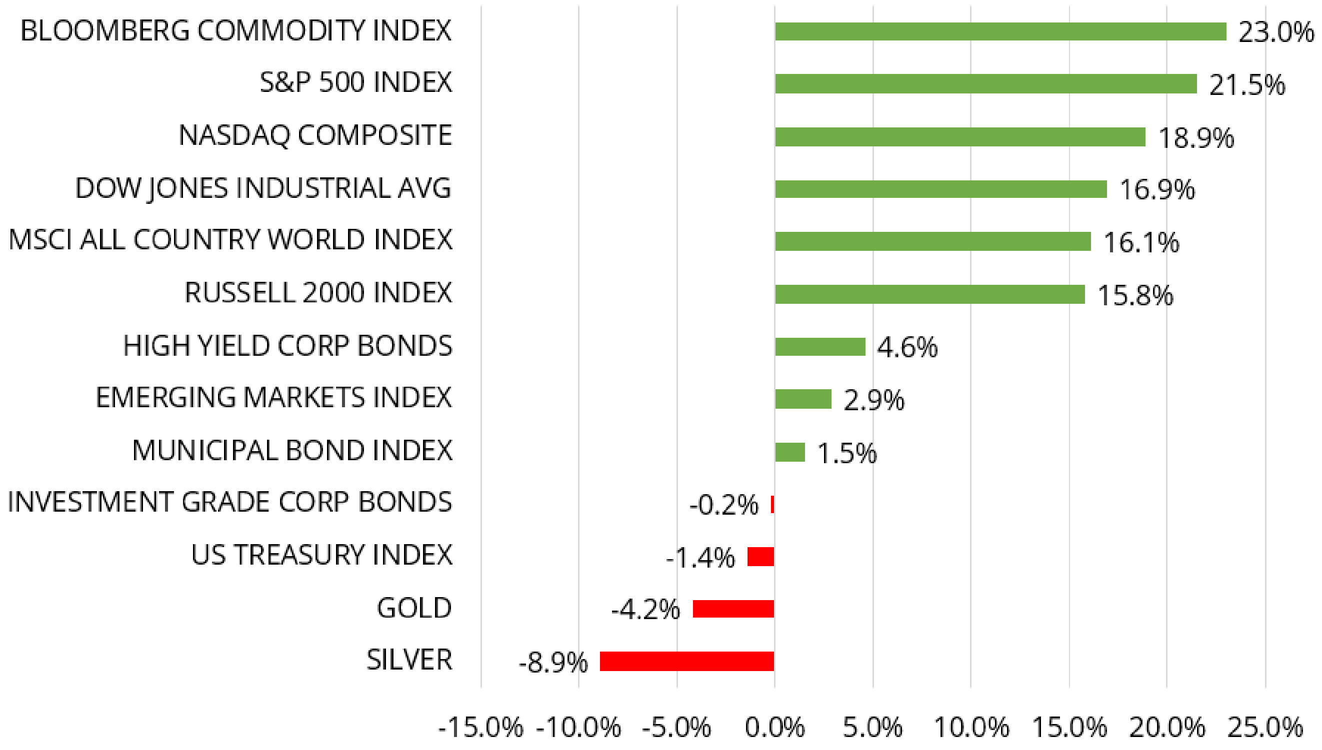
In terms of the financial markets, we maintain our cautiously optimistic stance of the past ~18 months given:

- Monetary policy remains highly accommodative;
- Corporate profits are rising; and
- The alternative to investing (holding cash) pays investors almost zero.

The Scorecard Year To Date

- Few anticipated the surge in equity markets following the sharp rebound in 2020.
- U.S. markets have again outpaced the rest of the world, with the S&P 500 leading the way (+21.5%).
- Low yields and gradually rising interest rates have hampered fixed income returns.

YTD Total Returns (through 8/31/21)



Source: Bloomberg

The Question We Are Asked Most Often:

"Why do stocks keep rising?!"

Among several plausible answers, we find these three most compelling:

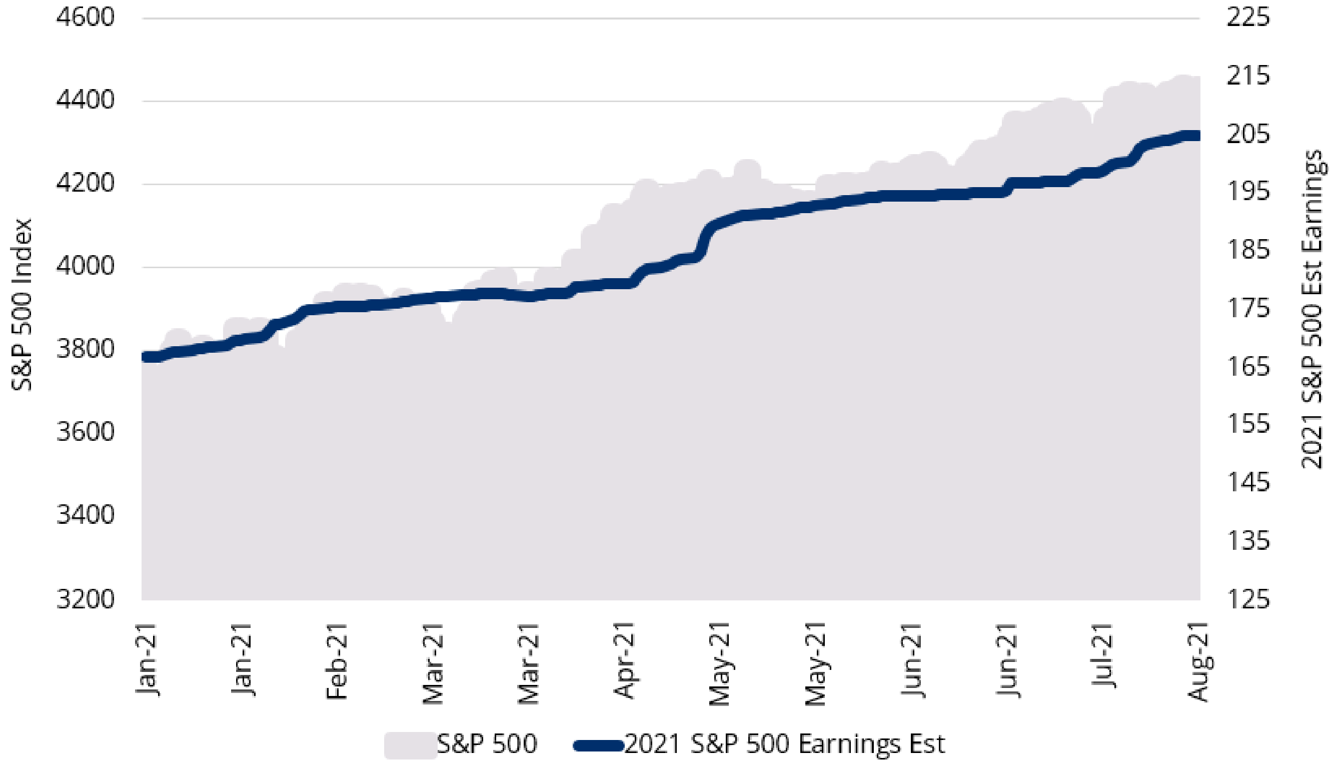
1. Corporate earnings continue to rise;
2. The supply of money is exploding;
3. A primary alternative to investing (saving money in the bank) generates almost no interest income.

Put simply, more is going right for financial markets than wrong.

What's Going Right? Corporate Earnings

- At the start of the year, analysts expected the S&P 500's earnings per share for 2021 would be ~$167 (line).
- Earnings have been much stronger than anticipated. Now estimates for 2021 earnings are ~$205.
- Despite an 21.5% YTD rise for the S&P 500, the price to 2021 earnings (P/E) ratio has declined from 22.5x to 21.6x.

S&P 500 Index & 2021 Estimated Earnings

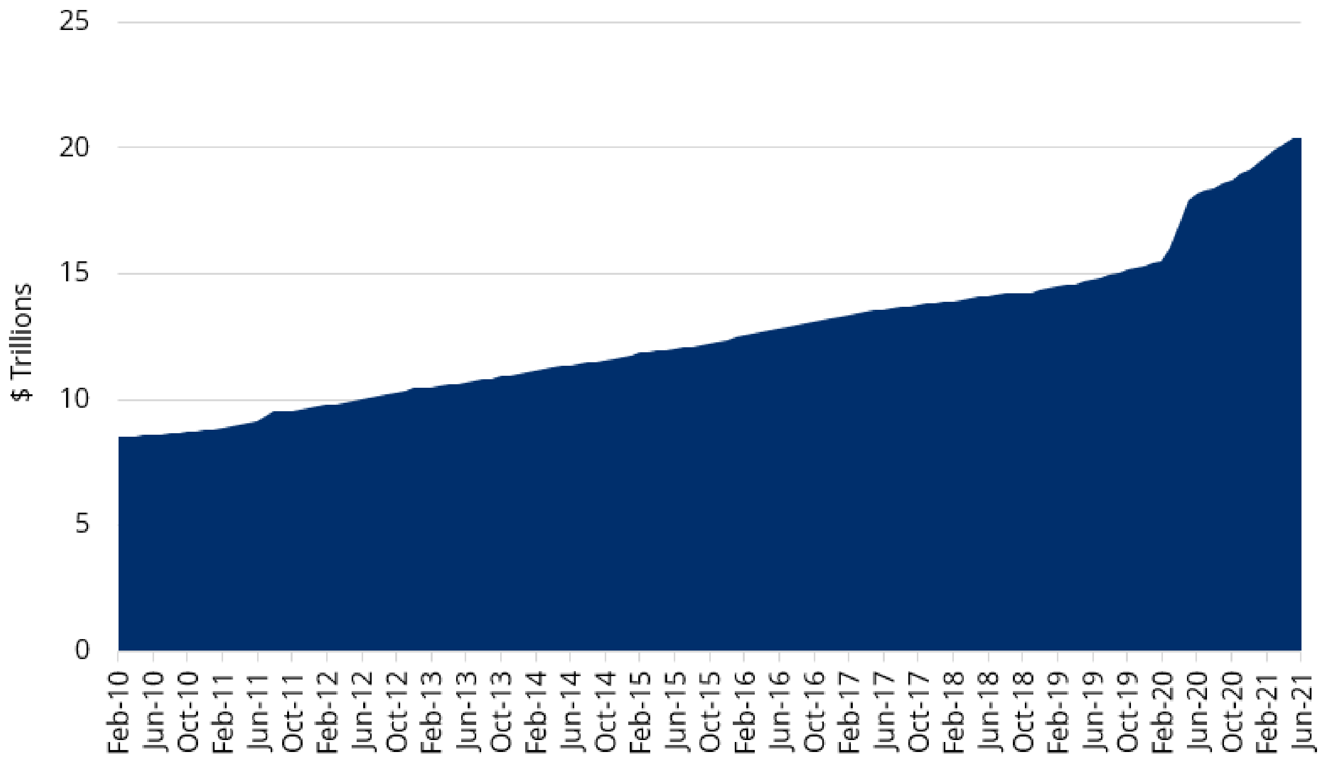


Source: Bloomberg

What's Going Right? The Money Supply

- Prior to the arrival of Covid-19 on U.S. soil, the nation's money supply had grown by 82% over the preceding 10 years (from $8.5T to $15.5T).
- From March 2020 to June 2021, the U.S. money supply has grown by an unprecedented 32% in only 16 months!

U.S. Money Supply

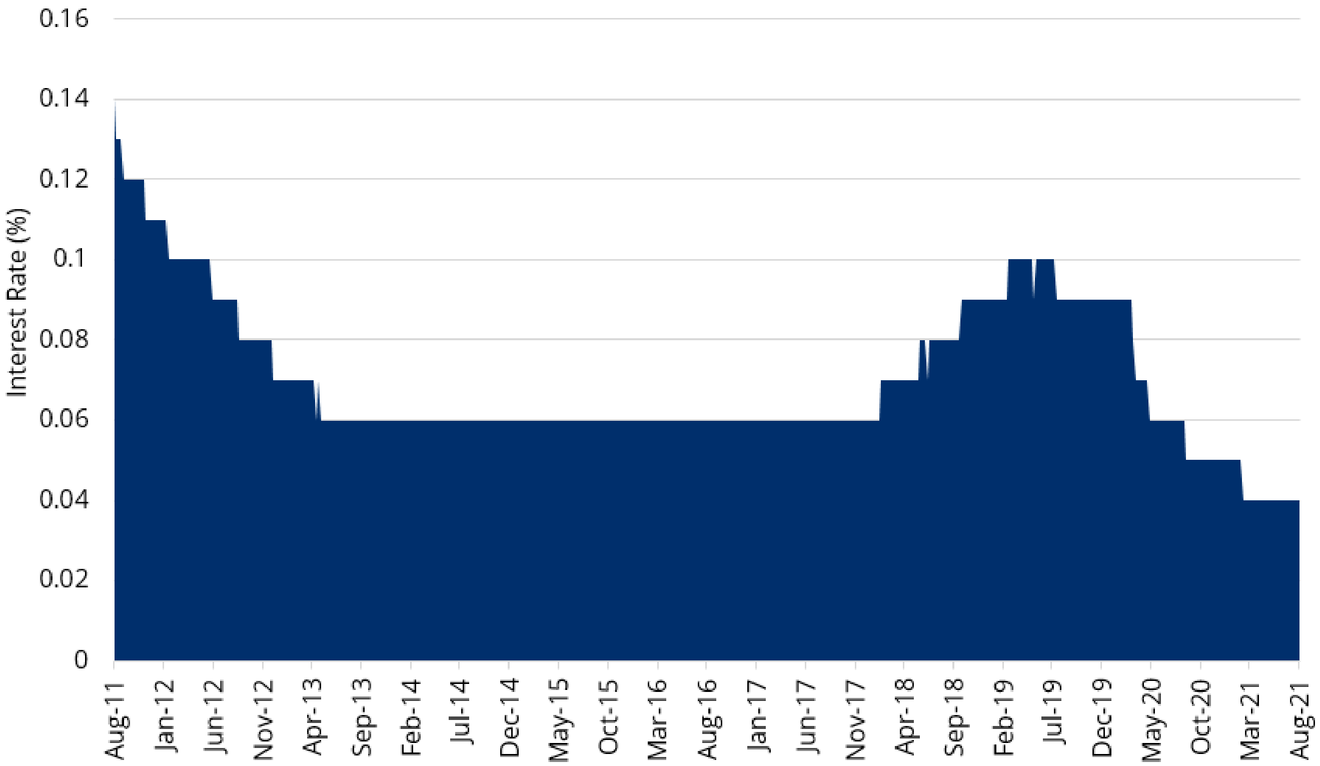


Source: Bloomberg

What's Going Right? Bank Accounts Don't Pay

- The average FDIC non-jumbo checking account pays interest at a 0.04% annual rate.
- Inflation, as measured by the Consumer Price Index (CPI), has topped a 5% annual rate for the past 3 months. Letting money sit in the bank is becoming a more expensive proposition.

FDIC Average Interest Rate on Non-Jumbo Checking Accounts

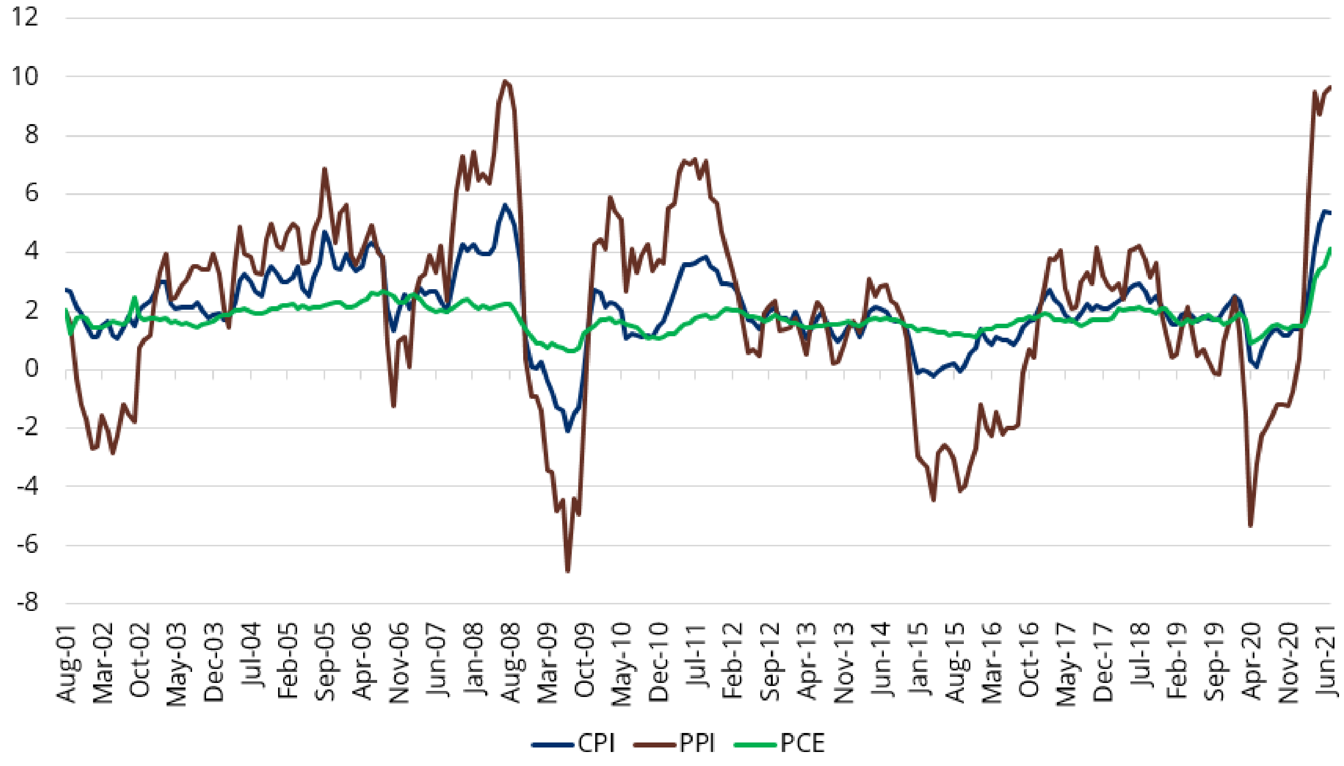


Source: Bloomberg

Potential Risks? Above Trend Inflation

- There is no single metric for gauging inflation in our economy.
- The Consumer Price Index (CPI) tends to garner the most press. The Producer Price Index (PPI) is thought to be the most forward-looking. The Personal Consumption Expenditure Index (PCE) is said to be the inflation metric most relied upon by the Federal Reserve.
- All are running above trend.

Annual % Change in Inflation Indices

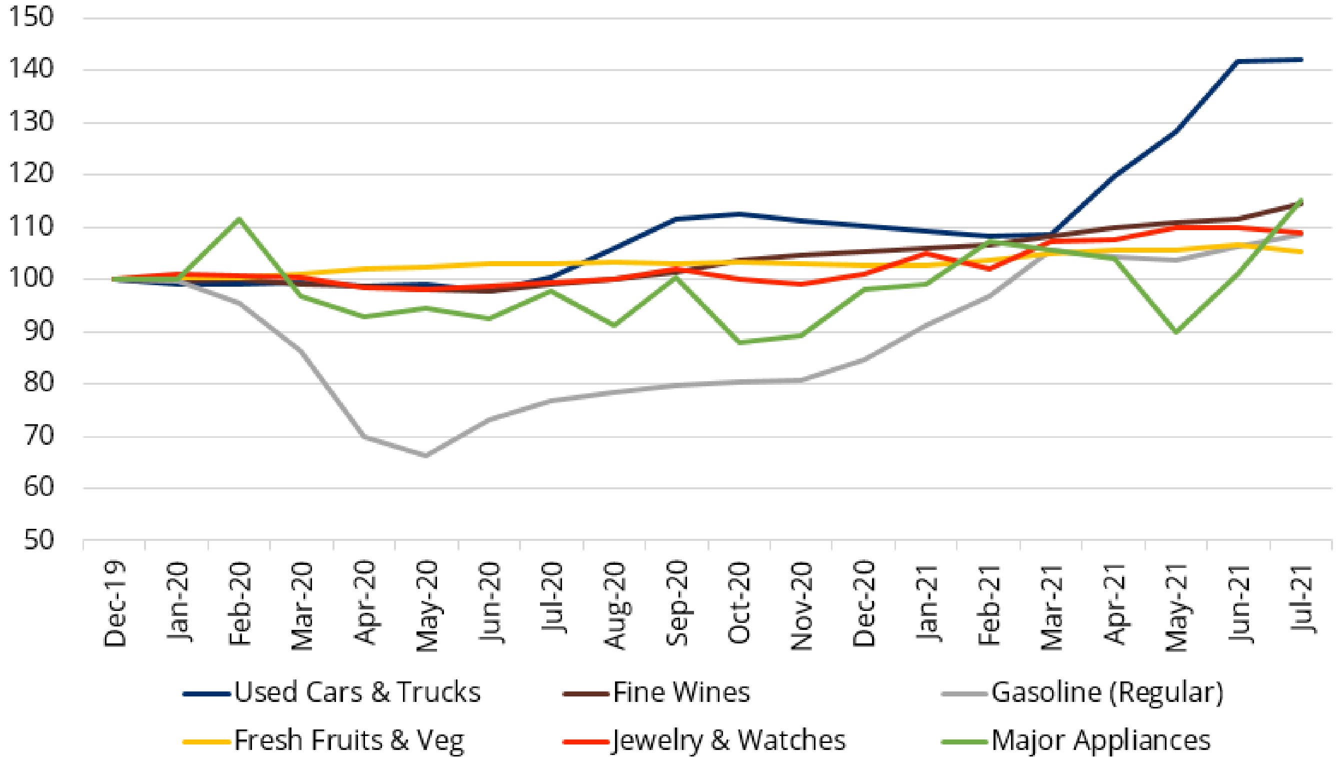


Source: Bloomberg

Potential Risks? Supply/Demand Imbalances

- A jump in consumer demand, coupled with supply chain disruptions, have led to inflation across a wide variety goods.
- Since the beginning of 2020, prices have increased by:
  - Used Cars & Trucks: 42%
  - Fine Wines: 15%
  - Gasoline: 9%
  - Fresh Fruits & Vegetables: 5%
  - Jewelry & Watches: 9%
  - Major Appliances: 15%

Price Indices on the Rise

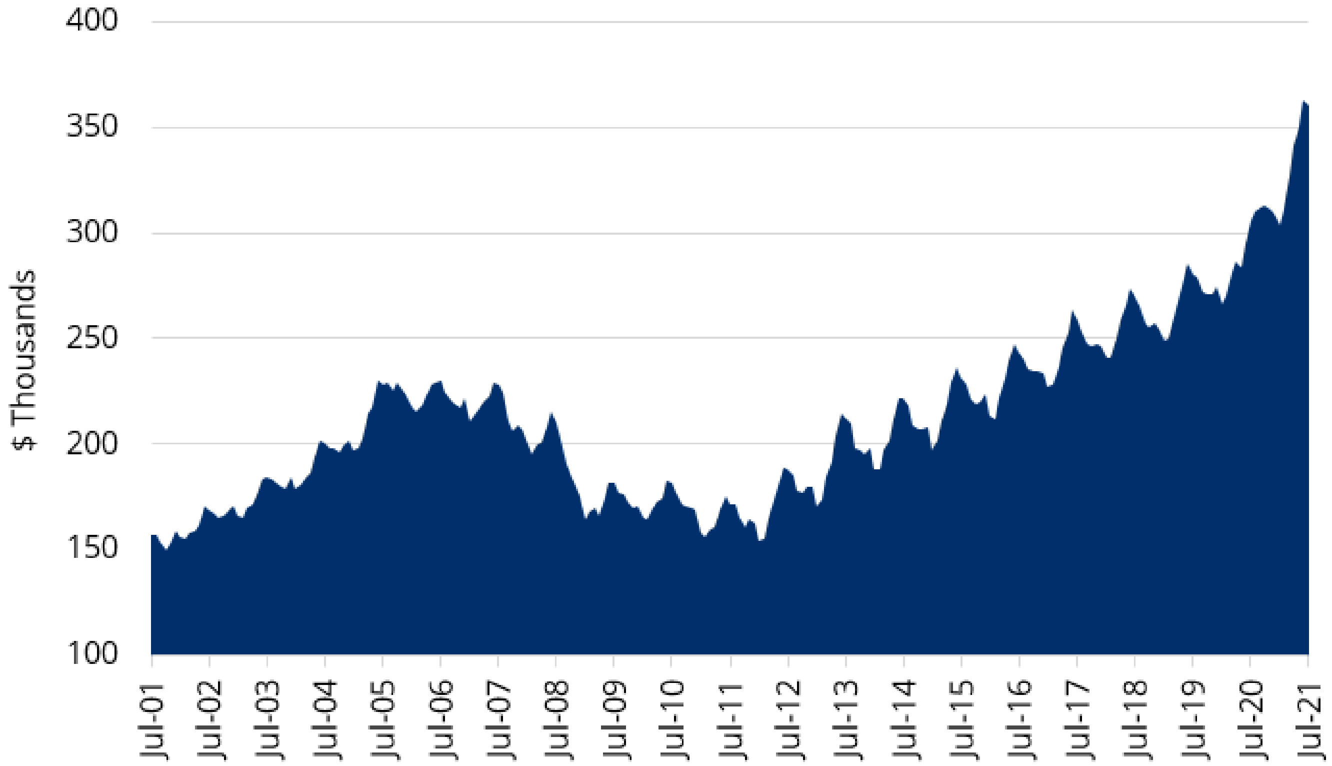


Source: Bloomberg

Potential Risks? Rising Home Prices

- Record stimulus combined with more time spent at home has translated into soaring home values.
- Since the pandemic began in the U.S. in February 2020, the median price of existing homes sold in the U.S. has jumped by ~33%.
- We believe rising home prices are a double-edged sword for the economy – they can bolster the finances of existing homeowners and simultaneously inhibit homeownership and mobility among new buyers.

U.S. Existing Home Sales Median Price

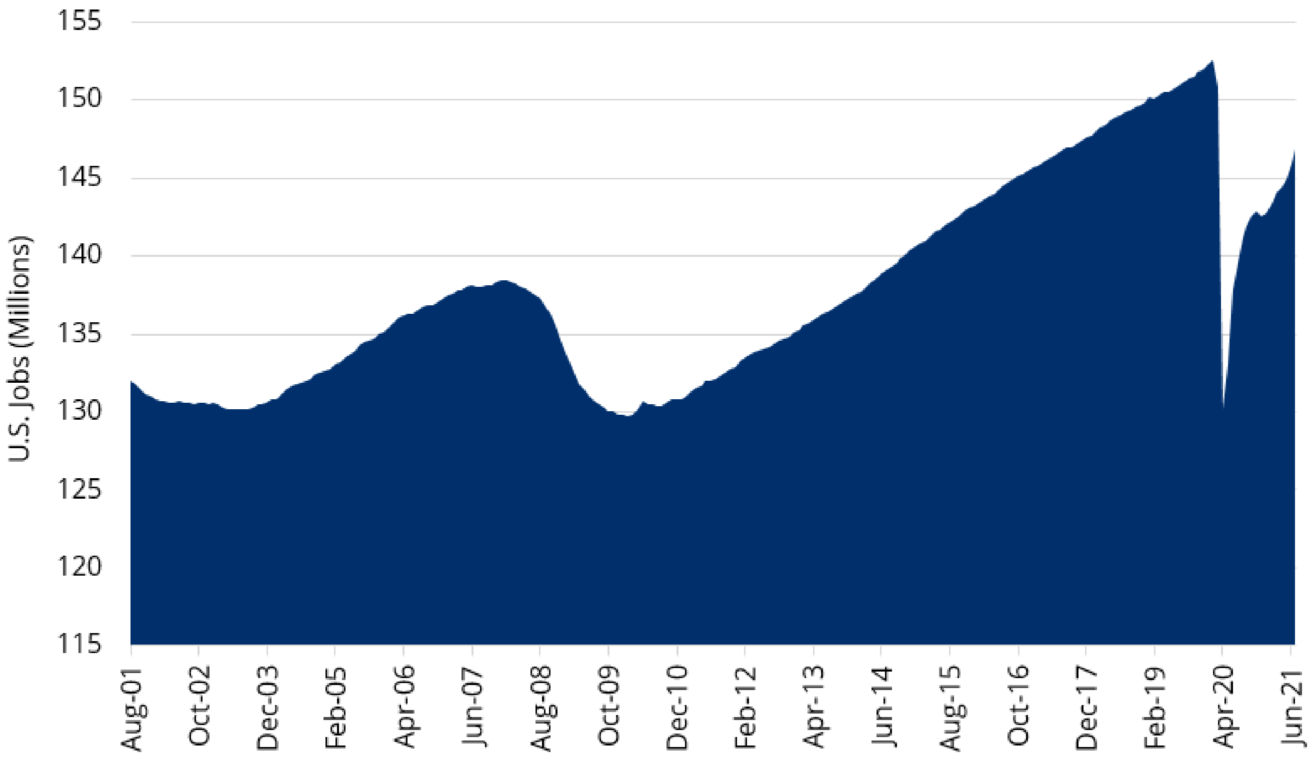


Source: Bloomberg

Potential Risks? Labor Shortage

- Jobs are coming back quickly, with the U.S. economy adding almost 1mm jobs in each of the past two months.
- However, the country is still down ~5mm jobs from its pre-pandemic peak.
- We believe the Fed will remain patient until this gap closes.

U.S. Non-Farm Payrolls (Seasonally-Adjusted)

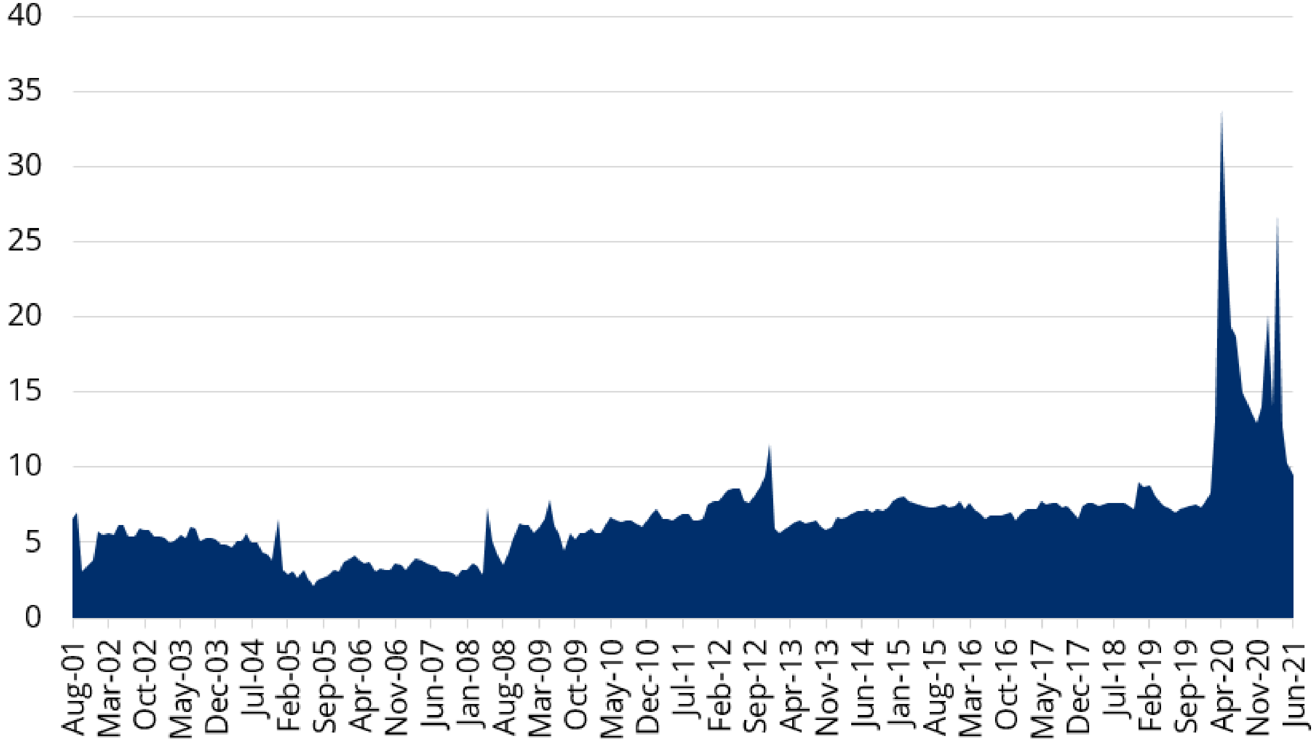


Source: Bloomberg

Potential risks?
A Slow Return to Work

- The U.S. savings rate experienced an unprecedented jump in response to the pandemic.
- Now consumers are spending & the price of almost everything is rising.
- We believe workers are likely using this savings to delay their return to the workforce.

U.S. Savings Rate as a % of Disposable Income

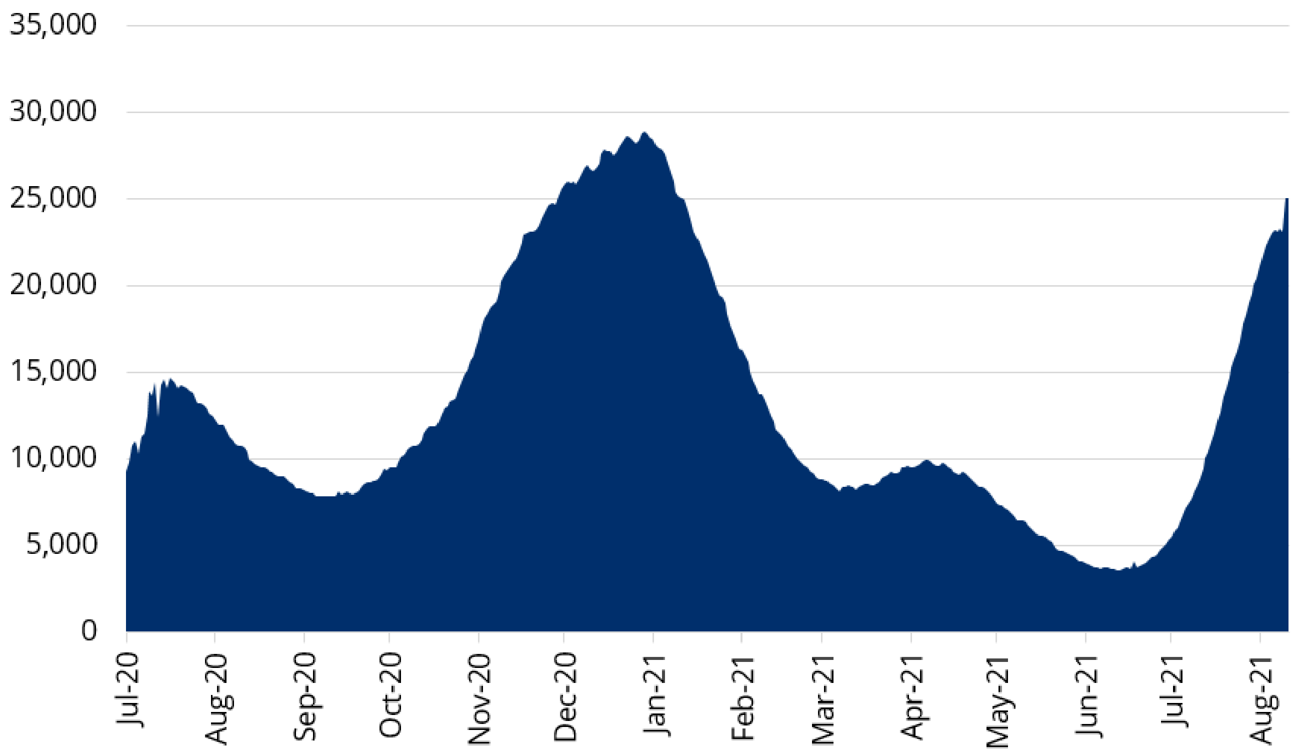


Source: Bloomberg

Potential Risks? The Delta Variant

- Each wave of the pandemic has had its own story.
- Hopefully, this wave – fueled by the Delta variant – will soon crest and begin to fall in coming weeks.

Covid-19 Patients in U.S. Intensive Care Units (ICUs)

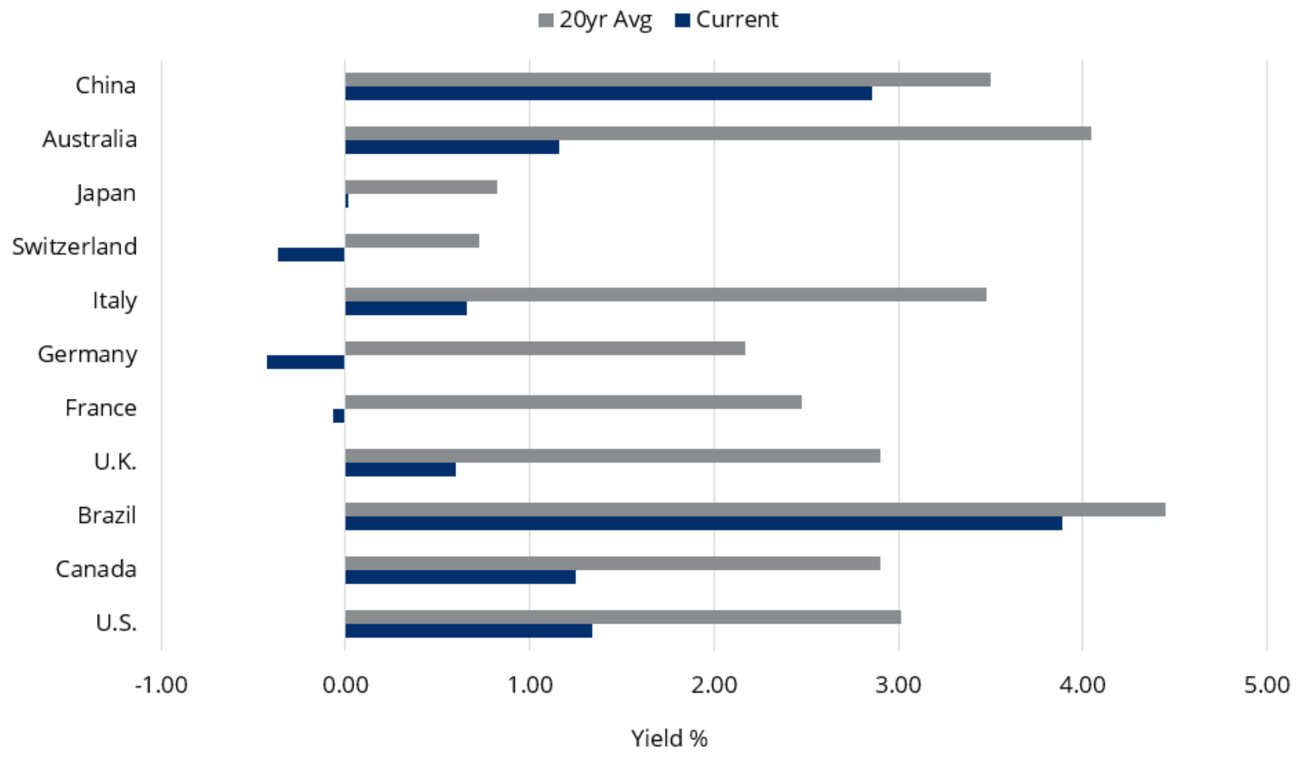


Source: Bloomberg

Looking Ahead: Low Yields Continue to Push Investors to Stocks, Real Estate, Etc.

- Yields remain low around the world & trade well below their 20-year averages.
- Several economies still have 10-year debt that trades below 0%, while yields above 3% remain extremely rare.

10 Year Sovereign Bond Yields



Source: Bloomberg

Looking Ahead: Growth Estimates Continue to Rise

- Economists' estimates for GDP growth next year continue to rise.
- We believe some of this growth is likely due to labor/supply chain shortages causing demand to be "bottled-up" and extend into the future.
- In our view, rising GDP estimates will ultimately lead to rising sales/earnings estimates for corporations.

Economists' Estimates of 2022 GDP Growth (%)

	Current Forecast	Forecast 3 Months Ago	Forecast 6 Months Ago	Forecast 1 Year Ago
U.S.	4.3%	4.1%	3.7%	2.8%
Eurozone	4.4%	4.2%	4.1%	2.3%
Emerging Markets	5.2%	5.2%	5.1%	5.3%

Source: Bloomberg

Closing Thoughts

The economic recovery, resilience & risks

For many, staying invested in a rising market is more challenging than staying invested in a falling market.

We acknowledge the risks, which are considerable, inherent in this market. Toppy valuations, inflation, speculative activity, and pandemic-related aftershocks all could prompt a downturn in the market.

That being said, we believe there are a number of factors that support a continued rally in the markets, including low interest rates, rising corporate profits, and lifting global growth expectations.

Emotion may drive investors to make large-scale moves in dramatic sell-offs and rallies. We believe steady hands and methodical rebalancing to long-term targets is a better approach.

The Author

K.C. Nelson
Chief investment officer
knelson@hamiltonpoint.com

100 Europa Drive, Suite 425
Chapel Hill, NC 27517
(919) 636-3765

As Chief Investment Officer, K.C. heads Hamilton Point's Investment Committee and is responsible for directing investment strategy across client portfolios. By observing current market conditions, monitoring portfolio risk exposures, and evaluating the suitability of existing and potential investment options, K.C. works to optimize the firm's holdings to achieve attractive long-term results for clients. Over the course of his career, K.C. has built and managed multi-billion-dollar funds that focus on fixed income and alternative investment strategies. His views on the markets have been regularly reflected on CNBC, Bloomberg, the Wall Street Journal and the Financial Times.

Outside of the office, K.C. volunteers as a youth sports coach and teaches yoga in the Chapel Hill community. In addition, he serves on the Duke Children's Hospital National Leadership Council.

Disclosures

The opinions expressed herein are those solely of Hamilton Point Investment Advisors, LLC ("Hamilton Point"). The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Forward looking statements cannot be guaranteed. Hamilton Point reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Past performance is not indicative of future results.

Hamilton Point is an independent investment adviser registered with the U.S. Securities and Exchange Commission, though such registration does not imply a certain level of skill or training. More information about Hamilton Point, including its investment strategies, advisory fees and objectives can be found in Hamilton Point's Form ADV Part 2, which is available upon request or at the Investment Adviser Public Disclosure website. Hamilton Point's principal place of business is in the State of North Carolina. HP-21-104