A HEALTHY ROTATION?

A review of the notable percentage gainers in the equity market year-to-date shows many of the current "leaders" are last year's laggards, while many of the 2020 beneficiaries of the shutdown have lagged this year – so far………

A few examples of their year-to-date performance:

- Apple: down 2.13%
- Visa: down 6.4%
- Walmart: down 4%
- Google (Alphabet): down ¾%
- Netflix: break-even
- Zoom: up this year, but off 30% from its 2020 high
- Most Health care shares are notably lower

Amongst the big double-digit winners so far in 2021: Energy, Base metals, Airlines and even cruise ships.

So the question: is this a healthy (as the pundits are oft to call it) rotation into lagging sectors? Are new leaders driven by an improving economy, or is this the start of a more protracted consolidation, as in, time the new leaders also stagnate, because, as always, different pundits worry about the lofty price levels and rapid gains of many shares.

Overall, it was a smallish losing week for North American markets, with the standout "**up sector**" being energy, as ice storms in Texas shut down oil production. Asian markets were also notable for being on the winners side. Regular readers know I believe non-US markets, especially Asian, could be the big winners in 2021 and they are off to an encouraging start. <u>Also notable, the benchmark 10-year Treasury yields climbed above 1.35% Friday to the highest in nearly a year</u>, as input prices for the Purchasing Managers Manufacturing Index reached the highest level since April 2011.

I must keep repeating, that barring a devastating third or fourth wave of Covid-19, consumer inflation over the next year or two is going to be much higher than economists expect. The so-called "**Revenge Spending"** is going to be huge and that will bring on corresponding price increases.

And talking of inflation: Treasury Secretary Janet Yellen told CNBC, "I think the price of doing too little is much higher than the price of doing something big. We think that the benefits will far outweigh the costs in the longer run."

Asked whether the surge of federal spending could prompt a sustained rise in inflation, Yellen responded that it was a risk, but added that inflation has been very low for many years and the Fed could always mitigate that risk by raising rates. *And I say, 'much easier said than done'; rapid rate increases could of course derail an epidemic ravaged economy*.

Also worth remembering, she went on to state, the White House will likely propose a second economic recovery package later this year and the proposal would also include tax increases on corporations and wealthy Americans that would "phase in slowly over time."