HLM Short Take – July 22, 2021

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In recent months, a theory has emerged among some analysts that earnings growth is peaking. This has led to the underperformance of certain sectors such as cyclicals, small-cap and mid-cap stocks. We believe that although the rate of growth may slow, earnings will surprise to the upside, and this will benefit recent market laggards.

We forecast S&P 500 earnings this year at approximately $205 per share, rising to $240 per share in 2022. If this is indeed the case, then 2022 should bode well for the equity market. With a 20 multiple on next year's earnings the S&P 500 could reach 4800, an 11% increase from current levels.

With the 10-year US Treasury bond yielding around 1.15%, equities remain our favorite asset class. We believe that annualized equity returns will continue to outperform bonds and inflation for at least the next several years. However, persisting risks including increases in COVID cases, potential geopolitical events, and inflation fears continue to dictate caution as we remain committed to capital preservation.

For fixed income, we like floating rate corporate bonds and floating rate preferred stocks. Among equities, we like all market caps and continue to believe that innovative technology areas such as cyber-security, genomics, 5G, cloud computing, artificial intelligence and financial technology should outperform for investors with a multi-year time horizon.

In summary, we believe global economic growth will continue for the foreseeable future and market leadership will rotate from one year to the next. The next several years look very promising to us and we believe patient investors will be well rewarded.

***See next page for important disclosures**

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Disclosures

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than investments that are more diversified.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

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