HEFTER, LESHEM, MARGOLIS

CAPITAL MANAGEMENT GROUP

The Hefter Report – March 2021

Since the start of 2021, the closely watched US Treasury 10 year bond yield has risen over 50% from 0.93% to a high of 1.61% before recently settling around 1.44%. Since the low of 0.51% during the height of the pandemic the yield has nearly tripled. This dramatic move sparked considerable volatility across stock and bond markets as investors appeared to become unsettled.

Among the notable observed effects of this move have been a sharp decline in gold prices, a rise in the US dollar, and a rotation from growth to value stocks, to name a few. We believe that the decline in sectors such as technology, communications, and biotech will be short term. We also believe the rise in value to be a positive sign that the economy is recovering and the breadth of the rally in equities is broadening. Overall we see these trends as positive.

Over the 20 year period from 2000 to 2020, US GDP growth averaged 1.7% per year. In comparison, from 1980 to 2000 average annual GDP growth was 3.4% (Source: World Bank). From 2000 to 2020 the S&P 500 annualized return was 5.1% compared with an average annual return of just over 8% for the S&P 500 since its inception in 1926 (Source: Investopedia).

As previously stated we believe that global equities are at the beginning of a new bull market and could see annual returns closer to the historical average than that of the past 20 years. Our expectations for annual US GDP growth are also closer to the 3.4% average for the period between 1980 - 2000 than that of the most recent 20 year period.

The current interest rate level is comparable to the beginning of 2013. In that year rates doubled, reaching 3%. However even though rates rose dramatically the US stock market was up around 33%. This is to say that the current rise in interest rates is not unprecedented and could also bring an increase in stock market indices. We believe this because the reason for the rise in rates is based on an improving economy - we think this is a sign of good things to come.

In the near term technology and other growth stocks could remain under pressure, but we still believe in the long term positive outlook for areas such as genomics, artificial intelligence, financial technology, 5G communications, cyber security, etc. It is hard to imagine that these areas will not continue to see significant growth in the next 5-10 years. So although we are increasing exposure to value stocks in our portfolios, we believe growth will still be the preferred investment theme for the next 5, 10, and 20 year periods.

The advancement of innovative technology can also be a counterweight to inflation. As productivity and efficiency increase, costs and therefore prices can stay lower. Another deflationary factor is the aging population. Older people generally spend less. In his recent book, "*2030 How Today's Biggest Trends Will Collide and Reshape the Future of Everything*," global trends expert and political economics professor at Wharton, Mario Guillen predicts that by 2030 there will be more grandparents than grandchildren. This, he says, is deflationary. So although we believe inflation will increase, we think it will be contained and will not significantly deter this bull market in stocks. *(continued on page 2)*

HLM Capital Management Group
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com

Charlie Margolis, Ben Leshem, Steve Hefter, Micah Nathan
Partners

Guillen also predicts that consumers outside the developed Western world will shape the global economy to a greater degree than ever before. This supports our case for investing internationally, especially in Asia. Another factor to consider in our investment portfolios is his prediction that globally more wealth will soon be held by women than men.

As we navigate these global themes along with the current rise in interest rates, we want to participate in short term market adjustments. But equally if not most importantly we are focused on the next 10 years and where we think the world will be in 2030.

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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.

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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.

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