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Letter from Dan

I am happy to tell you that you can now [watch](#) or read my mid-quarter letter at your convenience! We are glad to give you the choice of your preference!

The state told us that we can get rid of our masks if we are fully vaccinated! Hallelujah! Now hopefully people will continue getting vaccinated to fully squash the virus. While overall new cases are diminishing, Minnesota is still second in the US in new cases per 100,000 of population. We still need to be vigilant.

As the US begins to emerge from being homebound and secluded, life seems different from a year ago. We see how government spending has increased significantly to combat the economic effects of the pandemic and many people feel good to have the extra cash to pay down credit card debt and get ahead. Others fear how we will be able to repay the debt that is growing. New data shows inflation above expectations and markets are reacting with more volatility. Are we at the beginning of a negative time period for stocks?

With that recent market volatility, I do not believe that we are in any big danger of a stock market crash. Yes, the markets are high and things seem uncertain. The Fed thinks that the spike up in inflation will be short lived and the rate will drop by the fall. I agree- especially when you hear that one third of the rise in inflation had directly to do with the rising cost of used cars. Makes you wonder how it is all calculated.

The inflation numbers broadcast last week were not unexpected and have much to do with the reopening economy. I am not sure if the prices of so many things- food, lumber, cars- have gone up because of high demand and short supply, or if simply that people have the money and will pay a higher price for the item. I think new homes fall into that second category. If you step back and take a look at the big picture, we have a very healthy economic background with strong growth, which is a very good sign.

The jobless rate is down to 6.1%, but it may be leveling off. Many job openings are not being filled in the hospitality and industrial areas. Business owners suspect that extended unemployment benefits and fear of illness are keeping workers out of the workforce. The April new payroll report seems to support this when it came in at 266,000, when expectations were 1,000,000- a big miss. Unsure why, but the markets did not react to that news. Shortage of labor hurts the small business owners much more than the big corporations- this may not clear up until the fall.

The tax, spending and deficit debate will continue this year. The big question will be how much support is warranted by the government as the economy opens back up. Government support and a naturally growing economy will inevitably lead to higher interest rates and as we have seen, increasing inflation. The Fed has done its job to keep the short end of the yield curve artificially low to stimulate the economy, however they cannot control the longer dated bond rates. Our Treasuries are still paying a much higher rate than the German Bund, which is still in negative territory, so demand should still exist, helping to keep longer rates lower.

Haven't heard much about China lately? Things have simmered down some, but the basic stance has not changed much. China is still flexing its muscles to try to be the leader of the world. They had a successful Mars landing this past week and are working hard to suppress government opposition from Hong Kong to Xinjiang in the west. The tariffs still remain in place. But the tough words have fallen silent and China is quietly importing massive amounts of corn to feed their hogs, to get bacon on the Chinese tables. Problem not solved, just pushed down the road.

The stock market drop is normal, after a big run up since February. We expect the markets to continue these swings, with the trend still upward if the Fed is successful in keeping the economy growing and long-term inflation in check. A tricky balancing act. Another key will be to get vaccines to developing countries, like India, so that the virus can be controlled before we get variants that would cause a fall surge. I expect that we will need some sort of booster shot sometime down the line. Finally, Congress will try to pass some type of infrastructure package- we will see what emerges.

Thanks again- enjoy the remainder of spring and summer!

Dan



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