Gore Capital Management

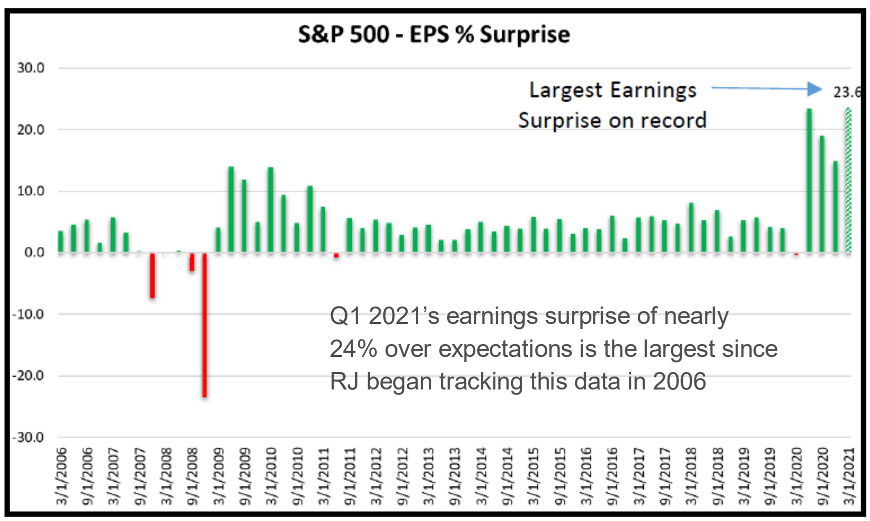
Our only client is you.

The combination of warmer weather, vaccination, and business reopenings really seems to be magnifying the welcoming feeling of spring this year. The economy and capital markets are following the same trend, with consumer activity exploding as things start to return to normal, a trend we hope continues in earnest. As usual, we'll give you a brief rundown of what's been occurring in the markets over the past quarter, as well as some perspective on where things may be headed over the remainder of the year.

To earnings first. Corporate results have been stellar, even more so than analysts have been expecting. As of May 6th, nearly 90% of S&P 500 constituents have reported results for Q1 2021. Year over year, earnings per share (EPS) have grown approximately 45% this quarter, with 86% beating analysts' expectations. According to Factset, this is the best percentage of positive earnings surprises since the company started tracking this data back in 2008. (all data from Factset, 4/30/21 and Raymond James, 5/6/21) Looking at earnings in terms of actual dollars instead of percentages, blended EPS for the S&P 500 were $163.12 in 2019. In 2020, earnings fell to $140.46. Projections for full-year 2021 EPS range from about $175 up to $200, depending on who you ask, an increase of anywhere between 7% and 22% over 2019's figures. These are no doubt ambitious projections, but if we continue to see rising vaccination rates and declining COVID case counts, it's entirely possible that these forecasts turn into reality. (all data from Factset, 4/30/21 and Raymond James, 5/6/21)

Earnings strength is absolutely critical to market returns. As we have said a few times in recent newsletters, the S&P's valuation multiple (as measured by the price-to-earnings or P/E ratio) was stretched rather considerably as we entered 2021. The results we've gotten this quarter, plus the projections we're seeing for the remainder of the year, suggest that the S&P's current level might be justified. Forward P/E has fallen from about 27 to about 22, still elevated compared to history, but not entirely unfounded when considering economic conditions as a whole. Low interest rates in particular tend to raise valuations as investors shift their attention to dividend-paying stocks instead of low-yielding bonds.

All of this is not to say we believe the market will continue its meteoric rise with aplomb, and in fact we're starting to see stocks stagnate a bit despite the record earnings results. The tech sector, last year's favorite group of COVID beneficiaries, has reported phenomenal earnings growth of 41% over Q1 2020, but tech stocks have fallen an average of



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Market Statistics	YTD (as of 4/31/2021)	2020	3-Year Annl.	5-Year Annl.
S&P 500	11.68%	17.75%	18.00%	16.73%
Dow Jones Ind. Avg.	11.12%	8.98%	13.74%	15.66%
Russell 2000 (Small Cap)	14.98%	19.50%	14.78%	16.02%
MSCI EAFE (Foreign)	6.59%	7.82%	6.27%	8.87%
MSCI ACWI (Global)	9.14%	16.25%	13.32%	13.85%
MSCI Emerg. Mkts. Equity	4.83%	18.31%	7.51%	12.50%
Barclay's Aggregate Bond	-2.61%	7.51%	5.19%	3.19%
S&P GSCI Gold (Spot)	-6.72%	24.42%	10.25%	6.50%

Source: Morningstar

2.8% over the 3-day period following earnings reports. Ouch. Why is this happening? Well, it could actually be *because* of the market's meteoric rise over the last 6 months or so. To use a NASCAR analogy, every car has to make pit stops throughout a race for tires and fuel. While those pit stops may slow down the cars in the short run, the extra fuel and fresh tires give the cars longevity to complete the race. In an overly simplistic sense, the market does the same thing, especially after periods of significant price increase. Pauses (sometimes known as "consolidation" in Wall Street lingo) and intra-year pullbacks of 5-10% are a normal part of the market's cycle. In fact, "the S&P 500 typically experiences more than three 5% pullbacks, on average, in a given year" (Raymond James, 2/25/21). Pullbacks give stocks a chance for earnings (the "E" in the P/E ratio) to catch up with prices, shake out weak hands, and offer patient investors opportunities to accumulate more shares of strong companies at lower prices. Consistent with this, we are optimistic that 2021 can be a good year for stocks, but we also fully expect it to contain a few periods of normal volatility.

Moving onto the broader economy, forecasts for full year 2021 GDP growth are climbing quickly. In fact, the current consensus estimate is growth of 6.4% versus an estimate of 3.9% at the beginning of this year. If the forecast proves correct, this will be the best year for economic growth in the United States since the mid-1980s. (data from Raymond James, 5/10/21)

Broad-Based Economic Recovery

1. **Retail Sales** Rise at the Fastest Pace (32% YoY) on Record
2. **Disposable Personal Income** Rises 32% YoY to Record High of $22 trillion
3. The **Unemployment Rate** Falls at the Sharpest 12-Month Rate on Record
4. **Housing Prices** Rise at the Fastest Rate (11.9%) Since 2014
5. **ISM Manufacturing** Rises to the Highest Level Since 1983
6. **CEO Confidence** Rises to the Highest Level in 40 Years

From Raymond James "Wall Street vs Main Street" webinar, 5/10/21

Perhaps the biggest concern on investors' minds other than the pandemic is inflation. With all of the stimulus packages and record stock market levels, widespread inflation must be around the corner, right? We've all noticed our grocery bills rise, as one example. Inflation is a complex subject and we don't pretend to be economists, but we'll address two factors that are worth considering. First is wage growth. RJ Chief Economist Scott Brown believes wage growth was artificially high last year as lower-paid jobs (restaurants and the like) were suspended or eliminated while higher paid workers didn't skip a beat. As restaurants and other hospitality businesses reopen and those jobs come back, he believes wage pressures will decline back towards pre-COVID levels. Second is supply chain dynamics. COVID wreaked havoc on supply chains across the economy, prompting prices of certain goods to rise (or skyrocket in some cases). Supply shortages are usually temporary issues, however, because business take the necessary steps to resolve them and ensure their customers don't start looking elsewhere for products. In all, Mr. Brown acknowledges that inflation is occurring, but believes the phenomenon may abate within the next few months... depending, of course, on how the pandemic recovery goes. (data from Raymond James, 5/10/21)

We try to stay out of politics, but this seems to be one such year when politics and finance are on a collision course. The Biden administration has proposed a number of significant changes to the tax code designed to increase revenues to pay for infrastructure improvements and other policy initiatives. The proposals include raising corporate taxes from 21% to 28%, raising personal income tax rates, increasing the top capital gains rate to 43.4% (top income rate of 39.6% + 3.8% Obamacare surtax), and eliminating the "step up" in cost basis on assets at death. The market's response to these announcements has been, well, negative to say the least. Thinking through the administration's strategy, though, there's an old expression about shooting for the moon and landing among the stars (in other words, ask for way more than you actually want), and we can't help but feel like this is a living example of that. Ed Mills, Raymond James's DC policy correspondent, seems to agree, noting, "we continue to expect [these proposals] to be moderated as legislation is crafted," in a piece published April 28th. For example, we've heard from a number of different sources that an increase in corporate taxes from 21% to around 25% could be absorbed without derailing earnings. Similarly, the proposal to eliminate the "step up" at death may include exemptions for family businesses, farms, and estates valued under a certain threshold. While nobody likes increased taxes of any kind, it's important to note that no bills have been put forth by either the House or Senate and much negotiation will be required to get moderate lawmakers on board. We're not tax experts and would encourage our readers to consult their CPAs or tax advisors when determining what actions may be appropriate, but we caution against making any rash decisions until the picture becomes more clear.

We wish you all a happy, healthy, and safe spring!

Keri's Corner

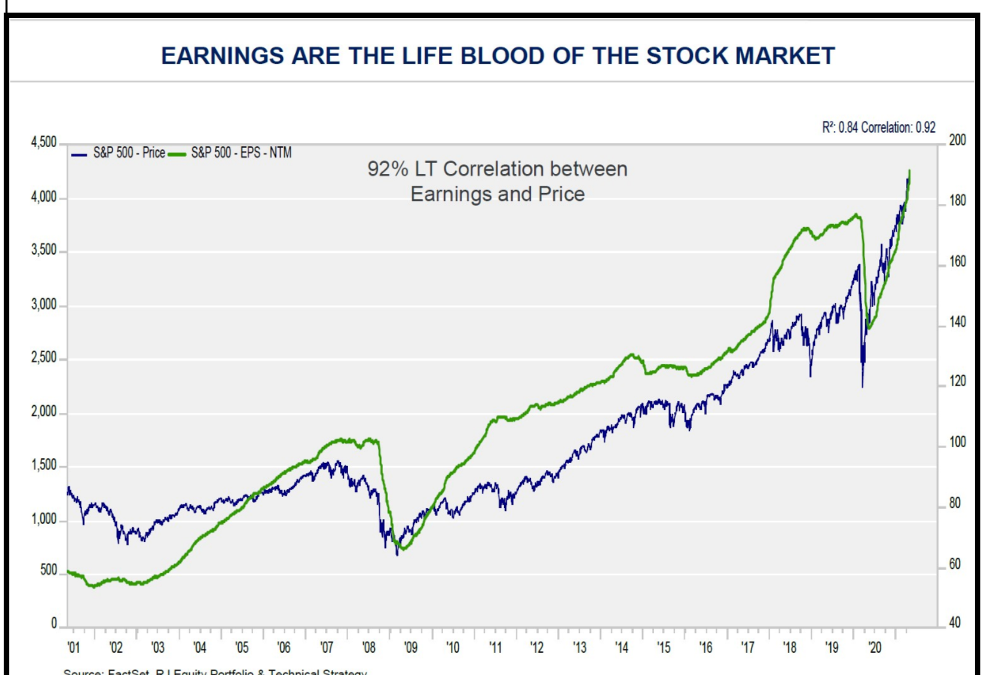
Like a needed ray of sunshine, this spring seems to bring with it our collective vast hopes for a return of some sort of "normal". So many facets and rituals of our lives have been semi or even permanently disrupted with our uninvited COVID guest more than outstaying its welcome.

I, like so many, have looked for the positive outcomes for individuals, businesses, and institutions. Though I have come to dislike the term "pivot" due to its overuse and associations, it is a concise term for what many have needed to do to survive or thrive. One institution that is near to my heart is my local Farmer's Market. These gatherings of small local businesses have supported more than just commerce. They are a place to meet and greet, to stroll with your pet, get a little exercise and sunshine, all while supporting local agriculture and products. These small businesses truly suffered when it seemed they would be unable to get their product directly to their consumers. We, as individuals, also suffered with the loss of these connections. And here came the needed "pivot": Creative folks got out there to solve this problem. The Farm to Table movement was enhanced as a by-product of these local Farmers attempting to get their product to their consumers during the COVID lockdown.

Creative solutions were found for collecting businesses and their products into portals where folks could order their fresh food and pickup by appointment or other creative means. One such local entrepreneur who took this idea and ran with it is KelRae Farms located in Toano, Virginia. The farm quickly launched their Food Hub in the spring of 2020, kelrae.luluslocalfood.com, and invited other local producers of all sorts to join their online family.

I found myself ordering items I would never have thought to try were I walking from stall to stall and I also enjoyed the drive to their farm: A truly Farm to Table experience. I learned that I actually LIKE radishes, though only roasted, as one farm worker suggested to me during one of my pickups. Who would have thought you could roast radishes? I also liked that you could donate a fresh box of produce to a local charity with their Box of Hope.

KelRae was not alone in their drive to make this bad situation better and workable for their farm and their extended farm community. The Farmer's Market in Colonial Williamsburg also launched their own service and each site had its own nuances and niceties and others all over the country did the same. KelRae has also since opened an indoor market store at their farm, which may never have happened without COVID.



From Raymond James "Wall Street vs Main Street" webinar, 5/10/21

As we slowly move past this distancing event, I choose to celebrate the good things that brought us together while being apart, like service with a hidden smile (you could see it in their eyes instead) and just a little socializing through the car window, but still…that small connection was made.

Editor's note: we had to steal some space from Keri's corner this quarter to include this illustration from Raymond James. We're constantly telling you that earnings are critical to the market's performance. The chart to the left proves it, showing correlation between the S&P 500 (blue) and the S&P 500's aggregate earnings per share (green) over the past 20 years.