FISCHER STRALEM

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August 5, 2021

Dear Client:

The month of July provided highly anticipated economic data with the quarterly report that the U.S. economy, as measured by gross domestic product (GDP), is back where it was at the end of 2019, before the pandemic wreaked havoc. In isolation, the results -- the economy grew 6.5% (annualized) in 2Q -- are historic, but the actuality of this growth requires context, as in, it could not have occurred without vaccines or massive monetary and fiscal stimulus. And even then, it has taken six quarters to get back to where we started. If the economy now resumes its pre-pandemic GDP trend (+/-2%), recovering to where we *should* be will still take years. Problematically, the virus remains disruptive, impacting businesses and lives in under-vaccinated communities around the country. That's not likely to change in the near-term, forcing us to face the fact that the pandemic economy isn't over -- we're just entering another stage of it.

The GDP print also exposed another contextual aberration: analyst expectations. The vast majority of economists believed that GDP would comfortably beat estimates, but the actual print came in far below expectations. Growth was less than half of the original consensus (13.5%), and was even lower than the Fed's own, much-reduced estimate (7.6%). It is well-known (to those paying attention) that, as a profession, economists have never met a stimulus plan that wasn't the gateway to economic Valhalla. One would think that these past decades -- where trillions and trillions in stimulus and easy fiscal policy failed to ignite "breakaway" growth -- would lead to a tempering of expectations, but apparently not. Nonetheless, last quarter's GDP refelcts the diminishing impact of a monster bailout plan. While clearly necessary in the early days of the pandemic, stimulus has since provided less bang-for-its-buck than imagined, and is trailing off even as consumer stimulus wanes, the cessation in real estate evictions is near, and the much-hyped savings rate is far lower than advertised.

Indeed, the so-called "pen-up demand" consumption boom that was assured by the same analysts for 2021 and 2022 is now a questionable narrative. Inflation is eroding consumers' purchasing power and weakening the margins of small and medium businesses. This is further reminder that we cannot print and spend our way to prosperity and that "spend at any cost" policies generate a short-term sugar rush followed by a long-term trail of debt and zombification. Afterall, something is very wrong when U.S. GDP is growing at 6.5% but salaries grow only at 3.5%, and weekly jobless claims continue at 400k. In March 2020 jobless claims averaged ~220k a week.

What does this mean economically? The kind of widespread business closures and other restrictions we saw in 2020 won't likely happen again, so expect the fiscal support to wane. Large employers and universities are starting to require vaccinations, and many large businesses are starting to ban unvaccinated customers. Yet some states have forbidden mask mandates and businesses from even asking customers if they're vaccinated so, as we've noted, COVID isn't behind us. We haven't even talked about the many other countries that haven't started vaccinating -- the U.S. economy depends on them, too. Or the possibility a vaccine-evading variant will emerge -- each new case, anywhere on the globe, is another chance for the virus to mutate. We don't know how many more variants will rear their ugly heads or what new powers they might have. We wish we could move on from the COVID economy, but don't think we can just yet.

Regards,

Adam S. Abelson
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