



The Verdi View



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Newsletter – April 2021, Quarter 1

Welcome to our quarterly newsletter. Below you will find our top Fast Facts, timely reminders, and life updates from the team. Feel free to pass along The Verdi View to your friends and family!

Stock Market: The median annual return of the stock market over the last 45 years (1976-2020) was a gain of +15.8% (total return). The stock market has produced a positive total return gain in 37 of the last 45 years, i.e., 82% of the time. The S&P 500®, consisting of 500 stocks chosen for market size, liquidity and industry group representation, was used as the stock measurement. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

Bond Market: The median annual return of the taxable bond market over the last 45 years (1976-2020) was a gain of +6.5% (total return). The taxable bond market has produced a positive total return gain in 42 of the last 45 years, i.e., 93% of the time. The Bloomberg Barclays US Aggregate Bond Index (created in 1986), calculated using publicly traded investment grade government bonds, corporate bonds and mortgage-related bonds with at least 1 year until final maturity, was used as the bond measurement (source: Bloomberg Barclays).

Do the Math: The S&P 500® is up +5.33% YTD (total return) through last Tuesday 3/30/21. Since the S&P 500® is a cap-weighted index, the largest capitalized stocks carry a disproportionate impact on the index's performance calculation. As of 3/30/21, the 8 largest stocks in the index (out of 505 individual stocks counted in the index) represent 25% of the total capitalization of the index (source: Slickcharts.com).

Pandemic and After: The price of West Texas Intermediate (WTI) crude oil fell to \$22.76 a barrel as of 4/09/20, i.e., 11 months ago. As of Friday, 3/05/21, WTI crude oil closed at \$66.09 a barrel (source: NYMEX).

Coming Back?: The number of operating oil rigs in the United States both on land and offshore have increased for 10 consecutive weeks through Friday 1/29/21. The current total of 384 operating oil rigs nationwide is 57% higher than the low point of 244 from 8/14/20. The pandemic forced 60 North American oilfield service companies into bankruptcy (source: Baker Hughes, Haynes and Boone).

Status Quo for Two More Years: The most recent meeting of the Fed ended on 3/17/21 with their interest rate forecast calling for no interest rate hikes by the Fed until at least 2023 (source: Federal Reserve).

Infrastructure: American roads and bridges will require an estimated \$2.8 trillion of repairs and upgrades over the 10 years from 2020-2029 (source: The American Society of Civil Engineers).

The Work-World has Changed Forever: 80% of 1,388 American workers surveyed in June and July 2020 say they would prefer to work at least 3 days a week from home after the pandemic is brought under control (source: Global Workplace Analytics).

Thought It Would Be Higher: 522,808 Americans filed bankruptcy in 2020, down 30% from 752,160 bankruptcy filings in 2019 (source: United States Courts, Table F-2, Bankruptcy Filings).





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Team Update

We are back in the office full time!

Although we can be in our enclosed offices with masks, we are still unable to have clients in the office. We look forward to being able to see you all again and will keep you updated with office openings as we hear more. In the meantime, we are conducting our reviews via WebEx if you are comfortable. We have had much success with WebEx, being able to see clients faces and share our screens gives us some sense of normalcy. If you have an upcoming review scheduled, we will reach out to you and offer a WebEx meeting if possible.

March Madness is (finally) Back!

For those of you who know us you know we are big women's college basketball fans! Joe coached all three of his daughters in basketball from k-8 and our family interest in the sport is stronger than ever. As UConn fans, we loved watching the UConn vs. Iowa game! Although we hoped for an Iowa win, we were still happy to see the Huskies advance. Sydney however is a long time Tennessee (and Pat Summit) fan and was sad to see the volunteers lose in the second round. Joe's wife, Laurie, is currently leading our bracket challenge but there is still a lot of tournament left! We are grateful to have sports back and are looking forward to being able to finally get back outside with nice weather on the horizon!



Need Less Space: 278 executives surveyed in August 2020 anticipate they will reduce their office space footprint by an average of 30% when their current leases come up for renewal. Those surveyed report that a successful "work from home" experience during the pandemic has decreased their need for daily office space (source: McKinsey Global Institute).

What A Comeback: Many American employers have recovered and as of 2/28/21 they have hired back 67% of the 25.4 million jobs that were lost last year during the 2 months of March-April 2020 (source: DOL).

By Age: 81% of US pandemic deaths as of 2/19/21 were Americans at least age 65. 1% of US pandemic deaths as of 2/19/21 were Americans under age 35 (source: Centers for Disease Control and Prevention).

Global Trade Rebounds: After declining for 10 months during the 2020 pandemic, the monetary value of goods shipped worldwide in November 2020 exceeded its previous high-water mark achieved in December 2019 (source: Netherlands Bureau for Economic Policy Analysis).

No Progress in a Dozen Years: US "life expectancy at birth" for calendar year 2020 that was reported on 2/18/21 was 77.8 years, the same "life expectancy at birth" that was originally reported by the US on 12/09/10 for calendar year 2008 (source: National Vital Statistics Reports).

The Market is Never Boring

Sydney and I are blessed to be in jobs that are well suited for us and that we love. I often compare the daily market to the first day of the March Madness NCAA Basketball tournament. Both are filled with wild swings, upsets, and some expected results that were predicted. Watching the scores roll by all afternoon on day 1 of the tournament is much like watching the Quotron on my computer change second by second. On any given day our favorite stock can be up, down or sideways and are almost impossible to predict on a short-term basis. Again, never boring.

Longer time periods help us to make more sense out of the markets, so we do not have to rely on day-to-day swings. To that end I will share some thoughts on our current market situation. The tech heavy Nasdaq index is up 1.3% year to date while the old school names of the Dow Jones Industrial average up a blistering 8% so far. This is a complete reversal from last year's results, but it makes some sense. The Nasdaq is full of Tech stocks **that pay little in dividends and focus more on growing earnings**. Today's headlines are filled with talk of inflation and rising interest rates. Higher rates are harder on growth stocks for one fundamental reason, **a dollar received today is worth more than a dollar received in the future**. The reason for this is that you can invest today's dollar and earn a risk-free rate of return (treasury yield). As that risk-free rate rises, a future dollar becomes worth less and less. Because tech stocks are often growth stocks with little to no dividend, they take it the hardest when rates move higher.

A recent example of this would be in the 4th quarter of 2018 when the Fed was hiking and tightening monetary policy and the Nasdaq fell well over 10%. I am not telling anyone to ignore the tech sector and sell everything, I simply want to point out the cyclicity of the markets and express my opinion that value stocks, which have drastically underperformed their growth counterparts over the past 10 years, may be getting their day in the sun. Our research leads us to be biased towards value over growth making sectors like financials, energy, materials, and industrials most attractive to us.

We would love to share more of our insights and research with all of you. We will reach out to you on your next scheduled service call but feel free to contact us at any time.

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