SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Extremes

An extreme event, the Coronavirus pandemic, has spawned other extremes. The pandemic ended the longest bull market in U.S. stocks but with the shortest bear market and a substantial recovery. The largest quarterly decline in real U.S. economic activity was followed by the largest quarterly increase in activity. An historically low monthly unemployment rate was quickly succeeded by an historically high monthly rate. While the course of the pandemic will be turned in time by medicine, the more immediate turns in economic activity and financial markets were a function of timely and substantial policy responses. A review of their impact can provide perspective for investing yet ahead.

PERSPECTIVE

Policymakers learned much from the 2008-2009 Global Financial Crisis. One clear lesson was the need for timely and effective policy responses to contain crisis outcomes. The Global Coronavirus Crisis was much different in the speed of its onset and the lack of immediate, effective remedies. Financial markets and economies needed overwhelming support, the likes of which only could come from central banks and treasuries. Chart I shows the direct outcome of Federal Reserve actions as it provided much needed liquidity to the economy. The Federal Reserve also facilitated the high levels of U.S. Treasury borrowing needed for fiscal programs to contain the impact of the pandemic. The sharp recovery in economic activity, the early improvement in employment and the robust gains in financial markets are testimony to the effectiveness of policy responses to this extreme crisis.

A consequence of the policy response has been a significant increase in the supply of U.S. dollars in the global economy and a general decline in the value of the dollar. A currency's value reflects the issuing country's well-being as measured by real growth, inflation, interest rates and political stability. The strongest currency takes the role of preferred reserve and transactional medium across countries. Chart II shows the history of such primary reserve currencies maintaining their positions. With reserve currency status can come the ability to issue substantial debt at favorable terms. While not anticipated in the foreseeable future, loss of reserve currency status for the U.S. dollar could make debt management more challenging and costly.

Concern for higher government debt levels and currency creation has led to interest in alternatives. Precious metals have been a preferred alternative for paper currency. More recently, cryptocurrencies have garnered much attention. Chart III shows the price trend of Bitcoin, the most well known cryptocurrency. While the incredible price doubling in less than 30 days has been rewarding, it suggests a supply/demand imbalance, unhinged from a fundamental rationale. It has appearances of a mania. As a currency alternative to the U.S. dollar, this volatility raises questions for Bitcoin's transactional role.

INVESTMENT IMPLICATIONS

Extremes have emerged as challenges for 2021 portfolio strategy, most notably very low interest rates and bond yields, and relatively high stock market valuations. It is a time for the steady application of sound investment fundamentals including diversification and periodic rebalancing. With clarity of objectives, time horizons and risk tolerance, extremes can be properly managed for the well-being of investors and their portfolios.

CHART I

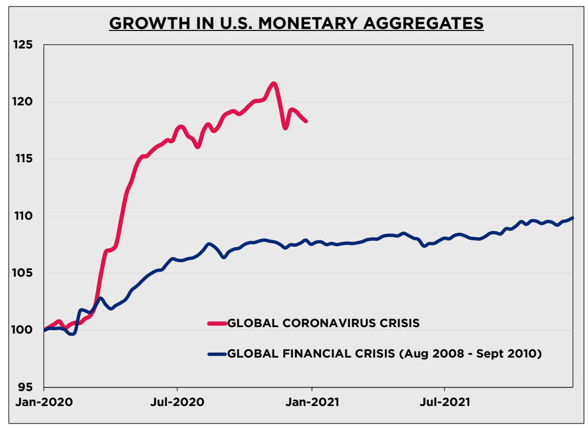

CHART II

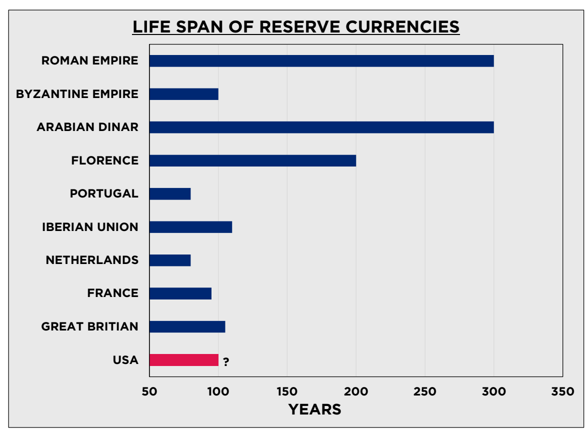

CHART III