CALLAHAN FINANCIAL
MANAGEMENT GROUP, LLC

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Quarterly Newsletter

As we pass the mid-year mark, investors continue to cheer on the stock market as it pushes against record highs. Late into Q2, most indicators told us that the economy is seeing a healthy recovery and continued growth should be expected for the second part of the year. Recently however, the forecast has become a little less clear and expectations have been dialed down. A surge in coronavirus cases along with inflation worries are to blame.

After a steady decline for the better part of the last six months, coronavirus cases are once again on the rise thanks to the Delta Variant. It was reported recently that new cases are up by nearly 70% in just one week and hospitalizations are up by nearly 36% (Source: Centers for Disease Control). This could put some pressure on the economy as we watch the markets try to figure it out, but we don't foresee new "stay at home" orders which would surely be devastating to any economic turnaround. As vaccination output and "herd immunity" continue, we believe the case numbers settle down before year's end helping the economic recovery.

We are also now seeing evidence of inflation. In June, inflation reached a 13-year high in the U.S., leaving consumers questioning their spending confidence. Consumer prices increased 5.4% in June from a year earlier, the biggest monthly gain since August of 2008. Supply-chain disruptions and higher demand (post pandemic) have both played a role in the recent surge in prices. For much of 2021, businesses reopening, rising vaccination rates and government aid have helped consumer confidence and we see these trends continuing even with a potential inflationary period upon us. But, unless inflation becomes entrenched within our system over the long term, we do not find it as a major concern at the moment. We actually believe inflation will begin to top out and then decelerate as we get into next year. To battle inflation, the fed recently announced possible rate increases coming in 2023, but this will probably remain a moving target depending on inflation numbers moving forward.

On the more upbeat side, earnings season is upon us and we should see some strong numbers for Q2. Looking at the year over year comparison from a year ago (post lockdown), projections show earnings may be up over 60%. This is a major increase, but investors do want validation of growth from the past 12 months. These earnings reports will be important in keeping confidence intact. U.S. stocks have continued to do well, but the number of individual stocks that are currently trading above their 50 day moving average has fallen from over 93% in mid-April of this year, to just under 50% (Scott Wren, Senior Global Market Strategist; Wells Fargo Investment Institute Market Commentary 6/30/2021). Therefore, at the moment, fewer stocks are continuing to reach new highs. This might be a sign that index returns begin to slow down. Look for money managers and managed funds to have a slight advantage going forward.

We thank you for your continued business and trust.

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