



PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager

Speakers Bureau: Kansas City CEO Roundtable August Meeting

Mr. Dykstal was the featured speaker at a recent Roundtable of Kansas City area CEOs. This is a summary of our views on the economy and markets he shared with them.¹

ECONOMY

- GDP growth is going to be strong this year as economies are reopening. Monetary, fiscal, and social policy are all providing stimulus supportive of a rebound.
- Inflation is being reported at 5.4% which is above the longer-term trend of 2-3%. The TIPs market implies a 2.4% inflation rate over the next five years.
- The labor market is improving with the unemployment rate at 5.9%. However, 9.4 million people in the labor force are still seeking a job. Perhaps wage growth will need to accelerate to entice people back to work.
- Deflation trends may actually be more powerful. There is too much debt, which becomes burdensome to GDP over time. Demography is destiny as population growth in developed countries is dropping/slowing. Globalization and reopening of trade will push down prices.

MARKETS

- Earnings growth rebound is priced into current market levels. Earnings estimates for 2022 have readjusted downward.
- Current bond yields do not bode well for longer-term returns in fixed income.
- Domestic stock market valuations are dominated by the mega-cap growth companies. The top 10 in market cap make up 25% of the Wilshire 5000.
- Private assets, like public, also seem pricey. Income generation is an attractive component of return in this historically low interest rate environment.

TAKEAWAYS

- Value stocks are undervalued and underappreciated. International indexes are dominated by value companies.
- Bond duration, not credit, is the diversifier to equity risk. Despite low yields on investment grade bonds, the asset class does provide diversification.
- Stay invested and rebalance with discipline.
- Buy undervalued assets that don't dominate indexes.
- Consider allocation to private assets as liquidity allows.
- Own inflation protection when cheap as a hedge (real assets, TIPS, infrastructure, real estate).

If you would like to receive more detailed information on our discretionary consulting services, please contact Tom Woolwine, President; DMS, LLC; a DeMarche affiliate; at twoolwine@demarche.com or 913.384.4994.

¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC