Hamilton-Bates
Market Update

February 24, 2021

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2021 Snow, Snow & More Snow!

2021 has started off much better for the financial markets than 2020 did, although in terms of weather its been brutal. Nearly every corner of the country has been touched by old man Winter, with the exception being California - which we are told is always 70 and sunny. Here in eastern PA we have had more snow in January alone then we get it two full normal years! I know we have had a lot when my youngest son, who lives for snow days and shoveling money, has told me that he is ready for Spring! We all are I'm sure. Good news on the Covid front, as infection rate and mortalities are going down, with the infection rate down 75% from the January peak. We said in the 1/7/21 Update that we thought Covid would drop based on what we were reading—and that research was right. **With vaccinations also rising, the 2Q of 2021 could be a very strong one for the economy.**

Rise of YOLO Trading

Another thing that has happened recently is what 'young hip traders' call YOLO trading (You Only Live Once). This isn't new, we just called it 'Carpe Diem' (seize the day). However, the recent version involved social media and putting massive buying pressure on heavily shorted stocks (like Gamestop). This pushed prices of these stocks to crazy levels, only to see them come crashing back down again. Taking big losses and leaking oil, some hedge-funds 'cried Uncle'; and their friends in Washington had the regulators and the trading authorities tighten the screws on the trading of these stocks, and the push was essentially over.

Increased use of trading apps and the spread of zero commissions are good in that it exposes the next generation of investors to stocks. However that enthusiasm should be tempered with (some) reason. We wish all young YOLO traders well and are happy to help any that seek it.

Blame it on the Bonds

After an initial rally to start the year, stocks have recently hit a rough patch as yields have risen significantly in the bond market, and when yields rise too quickly it eventually pressures stocks. That is what we are seeing now. When rates rise too much it can put pressure on stocks as competition, and on earnings through higher costs. However, if rates are rising because solid growth is coming– that can actually give a bigger boost to earnings beyond the interest rate drag. For now we see the rate bump as a healthy thing, and believe the rise is nearing its end (for now). We rate both bonds and stocks a buy on this weakness.

Volatility is Back and Likely to Stick Around

After a few pretty quiet years volatility came back with a bang in 2020. In the first quarter of 2020 we saw the worst recession since WWII, which resulted in the fastest 10, 20, and 30% declines in history. Fortunately, the markets recovered throughout the year. However, we believe the type of volatility we saw at that time, fast and furious declines in record time, are likely to be the road map for future corrections. Technology, the rise of computerized trading, and the new YOLO traders combining to result in market moves that used to happen in weeks happening in days or even hours. Investors need

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to realize this, and have a plan to mitigate this volatility. Or, have an advisor that has a plan to handle volatility (hint hint : us).

Market Outlook
The last major inflection point for stocks was the Election. We stated ahead of the Election that we wanted to buy weakness into the Election or sell if there was strength. We felt that weakness into the Election would lead to a rally into 2021. That is what we got. The pullback ahead of the Election led to a sizable relief rally thereafter, which continued into 2021 until taking a pause recently. That's where we find ourselves now. We believe that decreasing Covid-19 cases, increased vaccinations, increased openings and better weather—coupled with another round of stimulus—will lead to strong 2Q activity and earnings. We plan on adding to stock positions on this weakness which could extend into March. It is likely that stocks will stabilize once the bond market does—and we believe that will happen soon. We could see perhaps another 2-3% downside in stocks from this week's lows.

Historically ,the year after an election sees weakness in Q1, followed by a rally in Q2. That is our rough game plan. We would look for the market to turn and burn higher into May-June. **So hang in there; the weather, the economy, and the market should be turning for the better very soon.**

S&P 500 Chart (below)
After breaking out above 3600 the S&P has challenged the 4000 mark, coming just short earlier this month. The current pullback could dip a bit further, perhaps as low as the 3800 area before an anticipated resumption the rally into early Summer. Upside target area for the S&P is 4100-4300.