Will There Be a Correction in 2021?

by Bob Deitrick, CEO of Polaris Financial Partners
August 31st, 2021

The market has had a very nice run this year, especially as we are coming off two of the best years we've ever had in 2019 and through the pandemic year of 2020. So, I suspect you may be asking: What is in store for the balance of 2021? No one knows for certain, but there is solid evidence presenting itself today which suggests that 2021 may be looking a lot like 2017.[1] After we came off a major correction in the fall of 2016, the market had a remarkably good year in 2017 with very little volatility. In fact, we did not have a dip worse than 5% in 2017 which is near remarkable.

The longer a rally continues, the shallower the dips become. From the lows of the COVID crash last March 18th when the S&P stood at 2398,[2] to the highs of today with the S&P closing at a record 4510,[3] we have seen increasingly smaller pullbacks from the all-time highs. We did see a 10% correction last fall in September/October and since then we have not seen a 5% correction in almost a year. So far, we have seen 52 record highs in the S&P 500 and the NASDAQ in 2021![4]

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As we came off the 2016 correction there were narrow pullbacks in 2017 into the fall. There was a lot of policy support that year as well, like we have had in 2021, and a lot of excuses for why the market would fall, yet it refused to do so. In 2017, we had steady momentum all year as we have had in 2021. At the end of 2017 there was a lot of energy which led to a buying stampede and a melt-up into the close of that year. 2021 is beginning to mirror 2017. There is no crystal ball; however, 2021 may become a repeat of 2017. There was a much-needed correction in the beginning of 2018 leading to a more challenging year.

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Right now, if there is not any downside give, and if the employment situation continues to improve, there could be another buying spree into the fall and winter as we saw in 2017. We see tremendous pent-up demand in this market that will likely carry into the fall leading to a robust Christmas season.

So, what about inflation Bob? Although there is concern about the labor supply being a challenge and pressure on many businesses with output costs increasing, we continue to see inflation as transient and not creating permanent inflation like that of the '70s and early '80s. Last Friday, Fed Chair Powell spoke about the topic and was clear that he is more concerned about employment than price stability. The goal posts have moved on the word "transitory" but at the end of the day, does it really matter? When Steven and I went to lunch at our favorite Chinese restaurant last week, the prices had been marked up by $1.00 in hand printed ink. I thought about it for a second and ordered. I didn't leave the restaurant, and I believe most people are feeling as they have greater wealth today, so paying a bit more isn't tragic. We have enjoyed very modest inflation over the past two decades, so a little inflation, especially for those who hold real estate, own homes or hard assets is not calamitous.

Let's look at the good news. <u>The U.S. economy has created 800K jobs[5] per month over the past 3 months and we predict robust job gains going into the fall. If these gains continue, we may see a taper from the Fed late this year.</u> Chairman Powell sees most of this inflation as transitory as there are bottlenecks in re-opening the economy. As a result, the Fed will keep rates low going into 2022. I believe that Vice Chair Clarida is correct when he said that we will eventually see inflation move back to the norm of 2%; albeit that <u>may take until 2023 before that materializes. Today, U.S. households have over 2 trillion of accumulated savings.[6] We suspect this bodes well for the economy and the market as we move into the fall, Christmas, and the New Year.</u>

Despite the concerns about inflation, our economy remains very strong. This portends well for the market moving forward. Steven and I remain optimistic about this market which has continued to demonstrate remarkable resilience and "climbed extraordinary walls of worry" over this past 18 months. We will see another correction, it is needed in fact, but we may not see it until next year. In the meantime, please enjoy the ride, have fun with your children, family and friends, travel, and experience the wonderful things there are to enjoy in this great country of ours. We experienced one of the worst moments in our history last year. Now, it is time to be safe, get out and enjoy life!

Steven and I hope to see you at all our events this fall/winter:

- ***Our year end market seminars will be held on Tuesday evening, November 9th over dinner at Eddie's and Friday November 12th a luncheon - both at Eddie Merlot's.***
- ***We are turning Eddie Merlot's into a sports bar once again for the Ohio State-Michigan Game on Saturday November 27th at noon for another romp over Jimmy Harbaugh.***
- ***Our Christmas Party returns December 12th on Sunday evening at Eddie Merlot's. Santa and Mrs. Claus will be present, and we have a terrific soloist we are flying in from Dublin Ireland, Cuan Durkin, who will be performing for you that evening as well!***

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Footnotes:

1) *Source: https://www.cnbc.com/2021/08/28/with-the-sp-500-up-20percent-this-year-without-a-single-5percent-pullback-how-much-is-left-in-the-tank.html*
2) *Source: finance.yahoo.com*
3) *Source: finance.yahoo.com*
4) *Source: https://www.cnbc.com/2021/08/28/with-the-sp-500-up-20percent-this-year-without-a-single-5percent-pullback-how-much-is-left-in-the-tank.html*
5) *Source: https://www.bls.gov/news.release/empsit.nr0.htm*
6) *Source: https://www.cnbc.com/2021/08/28/with-the-sp-500-up-20percent-this-year-without-a-single-5percent-pullback-how-much-is-left-in-the-tank.html*