CAPITAL INVESTMENT SERVICES, LLC

WARNING: VOLATILITY AHEAD

Anna Vajda
Portfolio Strategist, CIS
Financial Advisor, RJFS

Bobby Lumpkin
Managing Partner, CIS
Founder, investingsimply
Financial Advisor, RJFS

As vaccination rates increase, more states are opening and reducing mandatory restrictions. But what exactly does our new normal look like? Post-pandemic culture across the United States certainly has a different look and feel from what we experienced prior to the year 2020. Increased interest in investing by younger generations, inflation concerns, as well as the anticipation of the money supply tightening are all factors leading into market volatility. What has yet to be determined is whether the volatility will continue intermittently or expand over longer periods of time.

Concerns about inflation and interest rates are circling about as the Federal Reserve and US Treasury consider the best path forward. While the Fed is designed to operate completely independent from any government influence, there is speculation as to how separate the two are functioning at this point. Markets are preparing for a rising interest rate environment in the near future. If the Federal Reserve waits to long to act, then a hyperinflation cycle could accelerate.

With the amount of stimulus released into the economy, consumers have increased spending. Prices for goods and services have risen well above pre-pandemic levels, which is a direct impact of the labor shortage and issues in the supply chain. Increased eCommerce traffic is pushing more and more companies to explore alternate methods of reaching buyers. Businesses are, therefore, passing those increased costs on to their consumers. A large portion of this change in consumerism is directly related to the COVID-19 pandemic, but another factor to consider is the change in who is actually out there buying the products and services. Even though Baby Boomers still hold the largest buying power, according to recent data, Millennials and GenX now make up the largest number of consumers. As we navigate through this transfer of consumer influence and buying power, we are beginning to see changes in what is being bought, where consumers shop, and even how transactions are processed.

The culture of investing is shifting as a new generation enters the market. The recent market interest in the so called “meme stocks” exemplifies the toxic mindset of upcoming investors who see the stock market as more of a game than a financial strategy. The involvement of social influencers and online communication forums have sparked additional interest in various risky investments, which has proven to result in a wide variety of outcomes for those who have participated in such gaming activity. With this cultural shift, we have seen increased market activity accompanied with increased volatility in an already unstable economic time.

All of these factors combined have led to a false value generation, which is better known as a “market bubble”. The equity market is trading at a premium level, so traditional, defensive tools are not going to be effective during a season of interest rate hikes and Fed tapering. Because of these factors, we are broadening our defensive approach and preparing alternative defensive risk strategies as we approach Q3 2021.

We continue to stand by our data driven risk objectives while continuing to make adjustments within portfolios based on the political and economic environment that we are currently in. Looking forward, our team is developing future strategies based on the changes we see coming in consumer trends as a means of identifying market opportunities. As always, please feel free to give us a call to discuss any questions that you may have.