



CAPITAL
INVESTMENT
Advisors

The Great American Reopening Has Begun

In light of markets continuing their momentum higher this spring, along with another historic stimulus package, we want to take a moment to update you on our current views of markets and the economy.

In short, we are of the opinion that over the next six to nine months we could see a dramatic economic surge.

Why?

- 1. Pent-up demand:** the US consumer is saving money. This is partly a function of direct payments from the US government and partly because opportunities to spend money has been somewhat constrained (lockdowns).
- 2. Stimulus:** the sheer amount of money being pumped into the system is the largest in the past 50 years. By a factor of two.
- 3. Herd immunity:** with over 120 million people currently in the “herd immunity” camp (past infection recoveries and/or vaccination), we believe the US consumer activity will continue to surge over the coming months. From our conversations, more than 75% of the families we work with booked a trip or vacation within the first week of getting their COVID vaccine. Reminder, our travel wall in the office has been neglected for the past year and we relish the correspondences and post cards you send us!
- 4. The Great Re-Opening:** these factors all come together at a time when more and more local communities are accelerating reopening plans. This pent-up demand coupled with massive stimulus and potentially more job opportunities could lead to GDP growth north of 5% in 2021.

Let's dig in on the above points.

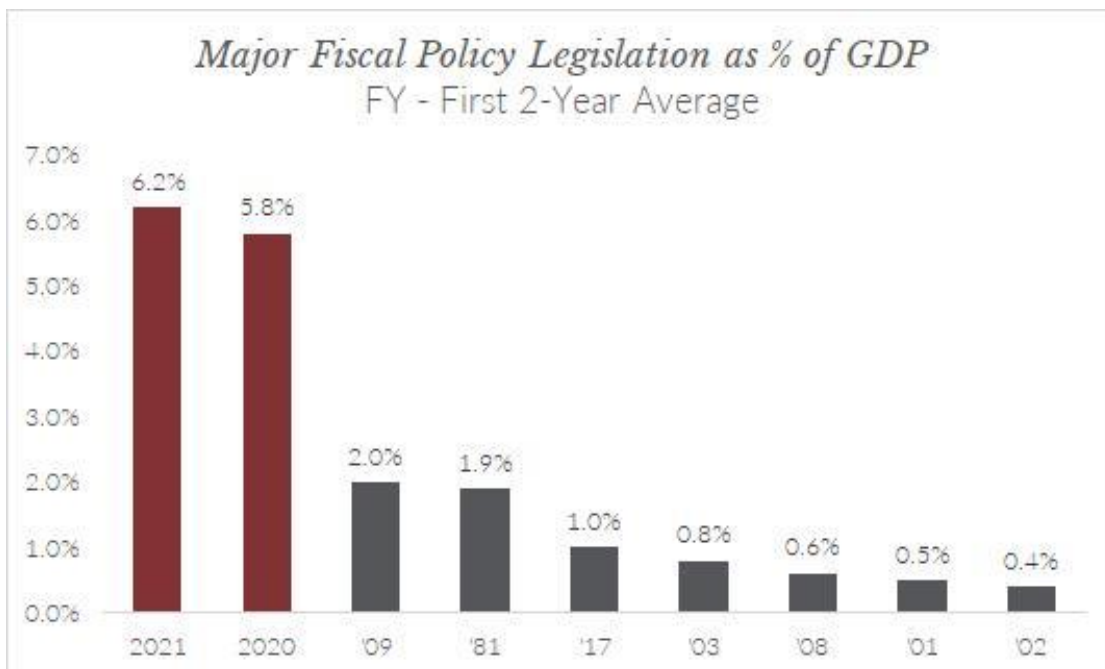
What does the resumption of “normal” economic activity look like? I'm sure the following have come to mind for many of you. Dinner and a movie, family reunions, weddings, concerts, plane tickets, cruises, and the list goes on. Family gatherings with big bear hugs rank near the top as well. What about attending a spring baseball game with a hotdog and a real crowd? Many of these endeavors we normally spend money on have been mostly removed from our lives over the past year.

The removal of these pleasures has created enormous pent-up emotional and financial demand. The emotional part stems from our collective desire to do the things we love with the people we love. The financial demand comes from the fact the US consumer has had limited ways to spend their money over the past 12 months. This has boosted the US savings rate to over 20% compared to a historical 8.2% average. We believe a large portion of this savings will flow into the economy as the nation re-opens.



Source: Bloomberg Finance LP

And it's not just the current savings rate which will be available to spend. Lawmakers in Washington just passed another monumental stimulus bill. This time to the tune of \$1.9 trillion. A staggering sum on its own – one of the largest in history. But this also comes on the heels of multiple stimulus measures (CARES ACT 1.0 and 2.0) last year of similar gargantuan scale. In fact, based on current projections, the US is going to have *more* stimulus in 2021 than we did in 2020. This is happening at a time with substantially lower unemployment and at a point when much of the economy is already re-opening. Put simply, the US is getting *more* fiscal fuel this year than we did during the depths of last year's pandemic, despite a dramatically brighter outlook.

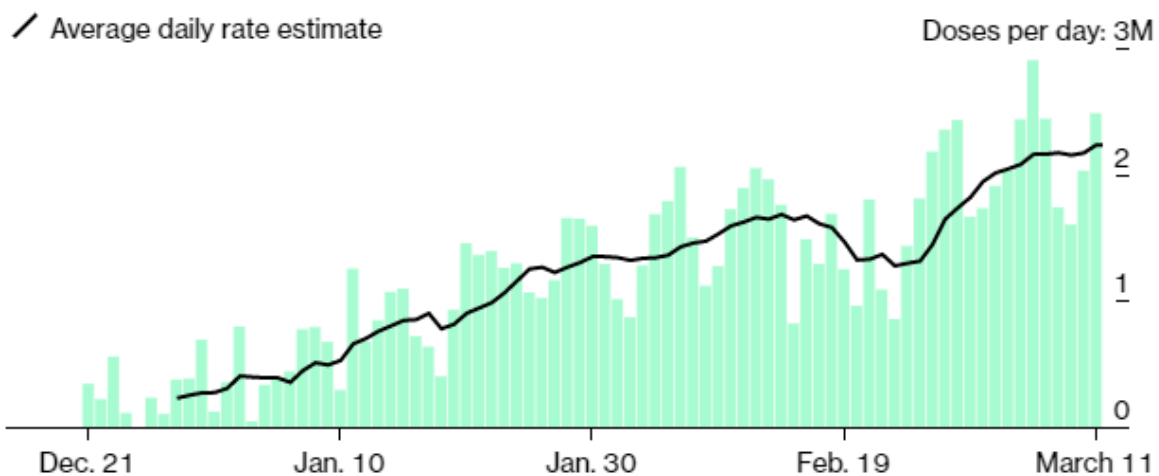


Source: Strategas Research

The Impetus of Reopening?

COVID cases, hospitalizations and deaths are all plummeting after a brutal winter surge. Why? The reasons are twofold:

- 1) Many Americans have already have COVID immunity due to prior infection (over 85m by some estimates.)
- 2) The pace of vaccinations continues to improve. Approximately 100 million doses of the vaccine (first and second shots) have already been administered in the US, with the pace reaching over 2 million doses per day. And thanks to Johnson & Johnson we now have access to a one-dose regimen. We marvel at how quickly the medical world came together and produced not one, but several vaccine options. We think the current pace of vaccinations could get us to full herd immunity by the early summer. This is much earlier than public health officials were predicting only a few short months ago.



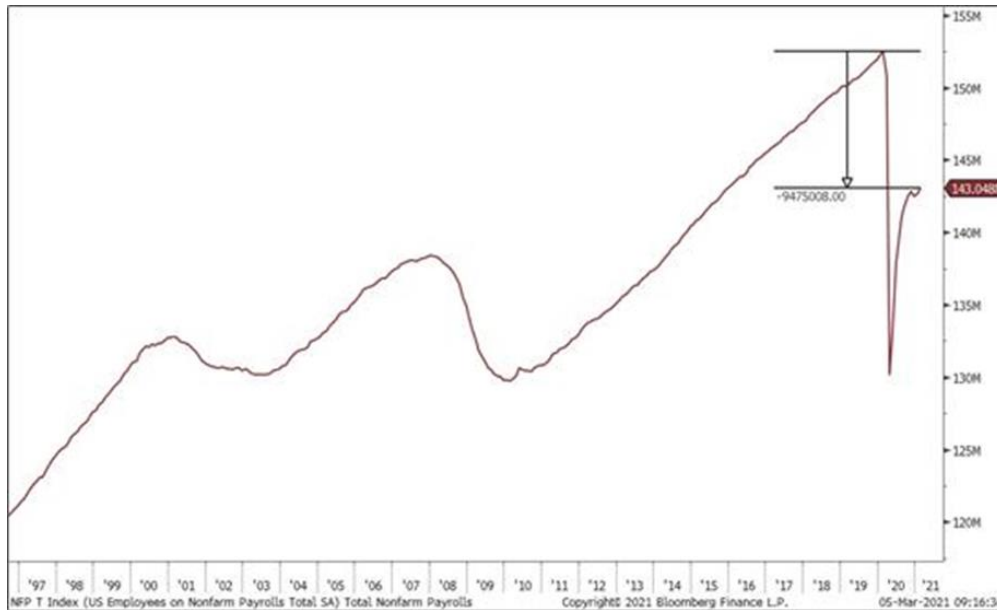
Note: Immunity calculations take into account the two doses required for most vaccines. The "daily rate estimate" is a seven-day rolling average; interpolation is used for countries with infrequent updates. Data are from Bloomberg's Covid-19 Vaccine Tracker.

Source: Bloomberg

The Great Re-Opening

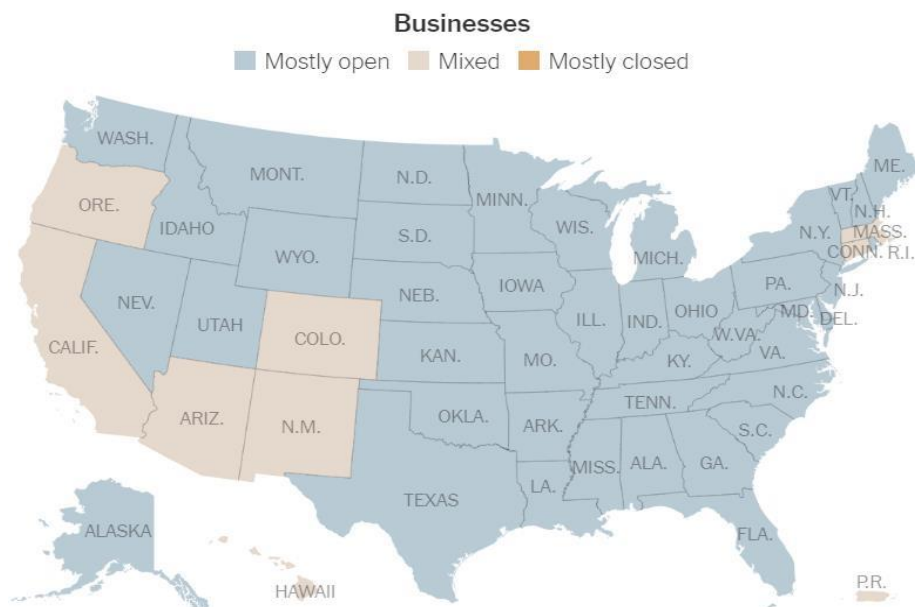
At Capital, we are dubbing the months ahead as America's Great Reopening. As pent-up demand meets historic economic stimulus this creates a recipe for nearly unmatched economic growth rates here in the US. In fact, current estimates call for GDP to rise north of 5% in 2021. We also expect unemployment trends to move lower but admit it will take time to replace the nine million lost jobs as many businesses were severely impaired by the COVID lockdown.

Jobs have recovered but still over nine million to go



Source: Bloomberg Finance LP

That said, the key to getting back to work is for all businesses to open again. We think the US is right on the cusp. In fact, look at the below map. What do you notice? We immediately see no states that are "Mostly closed". Yes, some are still mixed but over the next few months the entire map should read "Open for Business"!



Source: The New York Times

So, what does all this mean for markets?

What does all this mean for the markets that have continued to push higher and plow new ground? We think we are in the beginning stages of a Great Stock Market Rotation as the great re-opening takes place. What does that mean? It means that the high-flying companies who benefited from a stay-at-home world could start to lag the traditional dividend paying companies that were left in the dust during the height of COVID. Think NASDAQ versus DOW. There are signs of this already occurring under the surface. In fact, since the end of August the DOW, which tends to be more dividend focused, has performed better than the high-flying NASDAQ. And most of this has occurred over the last month. We don't have a crystal ball, so we won't try to make bold guesses as to the future. But we do know that a fully functioning and open economy will take away a structural advantage that the stay-at-home economy engendered for the past year. We think this could be a strong tailwind for many of the dividend paying, blue chip stocks that we tend to own here at Capital.

Regardless of how the markets play out, we look forward to a re-opened world and hopefully seeing you soon. Virtual or not, we are always here to help so please reach out with any questions you may have.

Best,

Capital Investment Advisors' Investment Committee

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