

Rocky Road

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Market performance in August showed again that liquidity remains a primary market driver. Since the pandemic struck in the first quarter of 2020, U.S. equities have risen at the fastest pace since 1932. Strong earnings growth and extremely accommodative monetary policies continue to fuel price appreciation in the financial markets. Although several warning signs seem to be signaling caution, investor sentiment continues to shrug off mounting challenges. The rapid spread of the delta variant, a sharp decline in U.S. consumer confidence, the calamitous Afghanistan evacuation, fears of embedded inflation, and unsustainable budget deficits have yet to derail this market rally. Simultaneously, ultra-low interest rates have resulted in a debt issuance boom. Companies are also building massive cash stockpiles on their balance sheets in anticipation of uncertain times ahead. Recent market liquidity has been contingent upon the Fed's balance sheet management. With such a prolonged market rally during a time of heightened uncertainty, asset valuations could face a rocky road in the coming months.



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