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The second quarter of 2021 delivered positive returns for all the major segments of the market. Both large and small cap stocks performed well. Growth and value styles both delivered handsome returns. The S&P 500® index closed at a record high and delivered the second-strongest first half of the year since the dotcom era. Additionally, the markets have experienced five consecutive quarterly gains following the onset of the COVID-induced economic shutdowns in early 2020. Equity investors of all stripes have few reasons to quibble with the behavior of the markets.

Investors have warmly greeted the elusive but powerful combination of robust returns with modest volatility. Strong earnings reports deserve much credit for these returns. Fueled by a strong post-pandemic economic recovery, a record number of S&P 500® companies have issued positive earnings and sales guidance for the second quarter, according to FactSet. The Riverbridge strategies all generated strong returns for the quarter and year-to-date as our portfolio companies also reported vibrant earnings and forward guidance.

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Though the markets may appear tranquil, investors still need to navigate some formidable obstacles. Inflation concerns top this list. Some economic readings suggest a spike in inflationary pressures. While these pressures were expected, the real question is whether this uptick in inflation is transitory as we recover from the pandemic or whether it is endemic and part of our new economic normal. The answer to this question will likely determine how quickly the Federal Reserve acts to reign in its highly accommodative monetary policies.

Inflation was not the only factor with which corporate America needed to contend. Continued supply chain challenges roiled many industries such as retail and auto. The disruptions caused by the pandemic are beginning to heal, but it will still take time to reestablish a balance. Attracting workers has also been problematic as there has been some evidence that extended unemployment benefits are presenting a barrier to some workers returning. This labor shortage has resulted in many companies struggling to fill open positions. Should this shortage persist, the economic recovery could be delayed, and goods and services will experience meaningful price increases.

On the other hand, as we look ahead, many ingredients remain in place to propel the market forward. Strong corporate earnings will provide the merit needed for continued market advancement. Demand continues to soar for many items and services including cars, pilots, and truck drivers. This demand will provide support for continued corporate growth. From a policy standpoint, we are likely to have some type of federal stimulus program by year-end and the Fed appears to be in no hurry to conclude their stimulative policies.

Investors will be forced to ponder how much of this good news on the earnings front is already priced into the market. They will also watch inflation closely as enhanced unemployment benefits begin to expire. Lastly, new COVID-19 variants are emerging. So long as our vaccines continue to prove to be highly effective against these strains, the market is unlikely to be severely impacted by global virus flare-ups.

The Riverbridge investment team is delighted to once again be traveling to meet with current and prospective portfolio companies. Given the mission critical and high-recurring-revenue aspects of our portfolio companies, combined with their ability to internally finance their growth, our portfolios are well positioned to thrive in the new post-pandemic economic normal.

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