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# Q2 2021 Newsletter

## Economy & Market Valuation

After more than a yearlong shutdown caused by the pandemic, the second quarter of 2021 witnessed a reopening of the US economy like it has never seen before. The reopening has caused huge supply chain challenges as bringing back the economy is not like turning a light switch back on. There are more than 9 million jobs waiting to be filled. Car rental and hotel prices have risen by huge amounts. This has led to an increase in inflation that the US has not seen in the last 40 years. The Fed's view is that this inflation is transitory and will come back to normal once supply challenges are worked out.
As a result of the Fed's transitory inflation view, the Fed is not in a hurry to increase interest rates which bodes well for the US stock market. We agree with the Fed that inflation will come down in a year or two. We are close to fully invested in the stock market as the Fed's easy monetary policy is providing tailwinds to the US economy and the stock market. Real interest rates in the US touched another low at -1% pushing investments to riskier assets like the US stock market. The US economy is projected to grow more than 7% in 2021 and to continue above trend growth in 2022.
Coronavirus and especially the Delta variant still pose a risk and could lead to increases in Corona cases. We do not think it will lead to country-wide shut down like we saw in 2020. There could be outbreaks in low vaccinated areas and local shutdowns.

We are constantly looking out for good companies that fit our criteria of having competitive moat, long term growth and reasonable valuations. We made some additions in Q2 2021 to our portfolio fitting the above-mentioned criteria. Some examples are Pool Corp, Bumble and Accenture. Pool Corp is a distributor for swimming pool products like chemicals, pumps and other supplies. Bumble is a dating site similar to Tinder. Accenture is a consulting company focused on IT projects and the Cloud. Many of you are familiar with Acccenture. Increased IT and Cloud spending are helping Accenture's top and bottom line. We see this as a long-term trend.

As the US economy is maturing and entering mid to late innings of the business cycle, we are reducing risk in the portfolio.

As we said in our last quarterly letter, we strongly believe that the bull market is not yet over. The multiple reasons behind our thesis are:

- The Federal Reserve is committed to keep interest rate low till full employment is reached. They are even willing to let inflation go higher than 2%.
- The US economy is going to see very strong GDP growth rates in 2021 and 2022 as it reopens.
- The employment number is close to 9 million less than pre covid employment. It will take some time to get to full employment.

We plan to stay close to fully invested. You may see a shift between different buckets - more from the high growth bucket to the stable, non-tech bucket.

Stay safe and enjoy the 2021 Summer.