

## **Summer Letter – August 26th, 2021**

While I usually open these missives with a summary of my thoughts on the current state of the financial markets, I thought it would be useful to begin with an update on the “internal affairs” of the Hamilton Group. While I receive a lot of inquiries about market conditions and the positioning of client accounts, another clear area of concern for our client of late is “Who do I call on the team if I need something: is it still Erin, or should I call Carina?”

This confusion is understandable, especially for our long-term clients of three or four decades who are accustomed to a tremendous amount of stability. For 40 years, your financial advisor had the last name “Hamilton” (even if there were 3 of us) and for the majority of the previous 20 years our co-worker Erin Tse (formerly Danielson) was your go-to point of contact for tax documents, money transfers and all associated matters. Furthermore, Robb and I adopted our father Glen’s proven and time-tested approach, both in terms of a value-oriented equity investment philosophy, and portfolios that were balanced 50/50 or 60/40 between stocks and bonds. While our investment approach has morphed only subtly over time as financial markets conditions evolved, the past 2-3 years have seen dramatic turnover in the personnel with whom our clients interact on a daily basis.

Most of you are well aware at this point, but I felt it was worth re-iterating, that Robb retired effective 12/31/20. He is doing well and is very much enjoying himself – traveling, creating art, and playing golf, while splitting his time between his homes in Seattle and Whidbey Island. Erin Danielson/Tse and Carina Tran left our ranks in 2018 and 2019, respectively, with Erin shifting to full-time parenthood of two small children, and Carina moving to Chicago to pursue a job in the software/fintech industry. In order to help service the 270+ households for whom I am now responsible as financial advisor, in late 2020 we added Glen Wright. Glen comes to us with his relevant securities licenses, an insurance license, and fairly extensive training & experience from both the Baird Foundations program as well as his 4 years with Edward Jones prior to joining Baird. Cecilia de la Cruz rejoined us in 2020 for a second “tour of duty” as our lead Client Specialist, which is the role formerly occupied by Erin & Carina. Both Glen and Cecilia are studying to get their Certified Financial Planning designations and are already making important contributions to the holistic wealth management services we are striving to provide to all clients.

You may have noticed that Cecilia replaced TWO people and, while she performed admirably for the entirety of what was the very stressful year of 2020, we needed to get her some help. Enter Joe Howard, who joined us at the outset of the summer and whom by now many of you have met over the phone. Joe is a solid “utility player” who has occupied a variety of roles in the financial services industry, ranging from investments to compliance to operations. A Tacoma native and graduate of Western with a degree in History, outside of the office Joe enjoys music and reading, traveling with his wife & two children, as well as playing Senior Baseball and coaching Little League. We are very pleased to have Joe on the team and we anticipate that you will enjoy working with him. Please visit [our website](#) for contact information.

## ***Interest Rates and Inflation***

The relationship between interest rates and equity valuations is well understood in terms of their influence on stock prices. The direction and magnitude of interest rate movements is especially germane to the current situation in this (post?) pandemic world, as the global economy slowly, fitfully & unevenly emerges from the global recession brought on by the COVID lockdowns of 2020. In the first quarter of this year the markets experienced a bout of turbulence when the 10-year treasury rate rose rather abruptly to 1.75%, and the second quarter of 2021 saw rates of inflation not experienced in the US economy probably since the early 1980s.

It is no mystery why inflation & interest rates are areas of such great fixation for investors and portfolio managers. Inflation persistently above the Fed's targeted 2% - 3% range would most certainly lead to a material increase in interest rates, both in terms of the Fed's discount rate and the rates required by fixed income investors to entice them to own longer-dated bonds. Therefore, one can understand why the year-over-year increase in the Consumer Price Index in 2021 of 4.2% in April, 5.0% in May and 5.4% in June was a source of much handwringing for market watchers. These inflation figures are the highest readings in over a decade and are ominously reminiscent of the 5% - 15% annual rates of inflation experienced in the 70s as a result of the OPEC oil shocks. Supply shortages and dramatic price spikes have been felt in housing, semiconductors, autos and lumber, to name a few.

The key question investors are asking themselves is whether these recent price increases are "transitory" in nature, or if they constitute a more lasting state of affairs. I am in the transitory camp and, more importantly, so is Fed Chairman Jay Powell. The transitory folks like myself must however acknowledge that the past 18 months has seen a tremendous expansion of the money supply by the Fed, coupled with massive fiscal stimulus from Congress, which combined constitute an unprecedented set of circumstances. While these uncharted waters require a significant degree of caution and humility, it should be noted that the 4% - 5% annual price increases are from the distorted and artificially depressed baseline of Spring 2020, when world leaders engaged in a coordinated shutdown of the global economy to combat the COVID pandemic. While 2020 was a boon to many tech stocks and other "stay at home" plays, it absolutely decimated the travel & leisure, auto, and non-essential consumer discretionary & service segments of the economy. As a result, it stands to reason that we would see some dizzying price increases in the most affected areas of the economy, which were laid low and are now rebooting as the world begins to benefit from a variety of effective vaccines and increased natural immunity.

In closing, because I do not anticipate a swift and significant increase in interest rates in the next 12-18 months, I am not *aggressively* reducing equity exposure in client portfolios despite the fact that many trade at all-time highs, both in terms of nominal prices and valuations. Having said that, because I am a contrarian and retain (to a degree) the mindset of a "value investor", on balance I am not substantively adding to the stocks in our core portfolio in light of their often record high-valuations relative to earnings, cash flows, book value, etc. While these valuations may be logical in light of an interest rate backdrop that is extremely accommodative by historical standards, it's not an environment in which I am eager to put vast amounts of cash on the sidelines to work.

We look forward to catching up with all of you before yearend.

Adam Hamilton, on behalf of the Hamilton Group