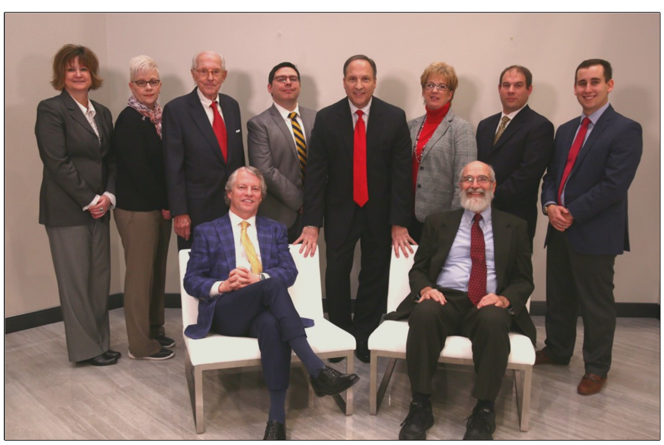
J.W. Burns & Company
Investment Counsel
Quarterly Update - April 2021

"The Great Re-Opening"

"The American, by nature, is optimistic. He is experimental, an inventor, and a builder who builds best when called upon to build greatly."
- John F. Kennedy

Dear Clients and Friends,

The first quarter of 2021 was a strong one for stocks, with the S&P 500 Index up 6.10%, and global stocks up a smart 4.18%. We were satisfied with the overall performance of your stocks for the quarter, although it should be noted that high-quality growth stocks that we favor (such as Microsoft, Visa, Apple, Amazon, etc.), cooled off from their massive multi-year outperformance –not totally unexpected.



The market instead favored more economically cyclical stocks in the energy, industrial, and financial sectors. As I write this in early April, however, I am seeing our premier growth companies resume a leadership role.

Perhaps the most interesting story of the quarter was the very weak performance of bonds, with the Barclays Aggregate Bond Index down 3.52%, a sharp decline considering the paltry yields currently offered by most bonds. In fact, 10-Year Treasury Bonds, arguably the safest investments in the world, were down -8.47% for the quarter! This reinforces our consistent position that high-quality stocks are the best long-term investment for a total return and, in fact, safety of principal relative to inflation.

It is our view that, over the next 12-18 months, and probably longer, equities will be the place to be during this "Great Re-Opening," which is clearly underway.

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Things are quite a bit different than a year ago, at this time, when the economy was effectively shut down and COVID cases were surging. The U.S. economy is poised to powerfully accelerate, as COVID cases drop and 3 million people per day get vaccinated. People are ready to travel, spend, and get out - myself included!

There are several key drivers fueling investor optimism for markets and the economy. ***First, American consumers are sitting on an additional $3 trillion in savings compared to what they started the pandemic with and now have around $5 trillion in total cash sitting on the sidelines.***[1] Between staying at home, having fewer places to spend money, and several rounds of government stimulus checks, many Americans have built up cash reserves to spend.

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As the "Great Re-Opening" kicks into high gear later this year, economists are forecasting the best U.S. growth in 50 years, with some predicting 10%+ growth in GDP. The Federal

Reserve is a bit more conservative, forecasting 6.5% GDP growth for all of 2021. I expect the final number to come in on the high end of these ranges with a substantial infrastructure and more stimulus providing extra muscle.

HISTORICALLY STRONG U.S. GROWTH REBOUND MAY BE COMING

	Previous (as of February 08, 2021)	New
United States	5% to 5.5%	6.25% to 6.75%
Developed ex-US	3.75% to 4.25%	3.75% to 4.25%
Emerging Markets	5.25% to 5.75%	5.5% to 6%
Global	5% to 5.5%	5.5% to 6%

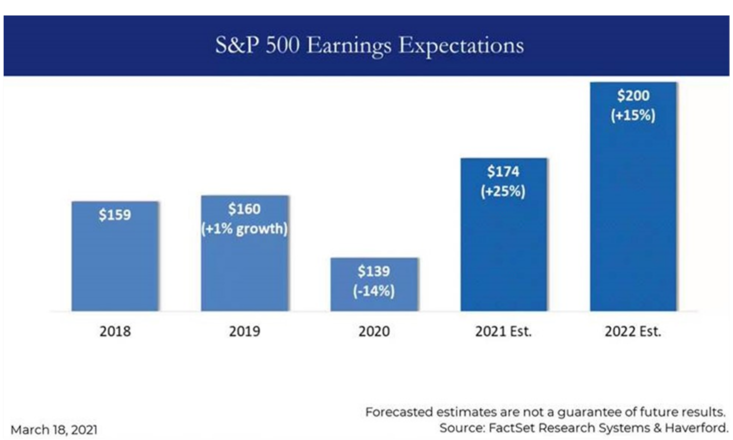
Source: LPL Research, Bloomberg 03/31/21

The economic forecasts may not develop as predicted.

Interest rates remain near historic lows as the Federal Reserve remains extraordinarily accommodative. In fact, just last month, Jerome Powell reiterated that the Fed would likely not raise interest rates until 2023. Inflation also remains quite low and below the Fed's target rate of 2%. This further bolsters the Fed's accommodative stance and will be extremely beneficial to corporate earnings, which are looking to surge after 2020's recession.

"Indeed, if this earnings momentum holds, many analysts believe the U.S. could be entering an economic growth cycle that could last for years."

Over the long term, earnings power drives stock prices. Corporate earnings declined 14% in 2020, which while a steep drop, actually was far better than almost anyone could have expected. In 2021, corporate earnings are expected to grow more than 25%, and the momentum is expected to continue in 2022 with 15% growth.[2] Indeed, if this earnings momentum holds, many analysts, including renowned Howard Marks, believe the U.S. could be entering an economic growth cycle that could last for years.



On the vaccination front, progress is moving better than expected. By the time you read this, more than 25% of the U.S. population will be fully vaccinated and at least 50% of the population will have received at least one shot (if a multi-dose vaccine). I am proud to say that nearly everyone in our office has received at least one COVID shot.

There remain several concerns that could derail our bullish outlook. First, after the very strong returns over the last few years, stocks are not cheap and, in fact, on the expensive side. Furthermore, the parabolic moves in speculative stocks and cryptocurrency investments signals there are dangerous pockets of euphoria and rampant speculation, which is a negative for markets. Additionally, a sustained increase in COVID cases, particularly in hospitalizations, would lead to a disruption to the "Great Re-Opening" and would be detrimental to stocks.

As mentioned in previous client letters, America's debt and deficit spending remains a major long-term concern for the U.S. economy and will impair economic growth in the years to come. The potential for a currency crisis that would be combined with high inflation is a long-term concern. The U.S. National Debt stands at over $28 trillion and our deficit spending remains at record levels. ***Unfortunately***, there is little to nothing that you and I can do to reduce this growing problem. ***Fortunately***, we have positioned your portfolio in outstanding, global businesses, that can, in fact, benefit from a weaker U.S. dollar. Time will tell.

Bottom line, while COVID related and economic risks linger, our base case is that the stock market has potent tailwinds at its back heading into the second quarter of the remaining year. ***We believe low interest rates, pent up consumer demand, widespread vaccinations, and surging corporate earnings will push stock prices moderately higher from current levels.***

Now, let's get to a couple of your questions.

Q: There is a lot of talk of raising tax rates, including the corporate tax rate. Are you concerned about this, and could this negatively impact the recovery in corporate earnings?

A: Part of President Biden's $2 trillion stimulus plan includes an increase in the corporate tax rate from 21% to 28%. You might recall that back in 2017, the corporate tax rate was slashed from 35% to 21%. So, I do not view this as that dramatic of an increase on a relative basis, and I believe most quality businesses – like the ones you own – will be able to absorb this increase if it gets passed.

Keep in mind that political margins within the House and Senate are razor thin, so I believe that significant, long-term changes to the tax code are unlikely and will not have a major impact on the economy or corporate earnings.

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Q: Speaking of the infrastructure plan, when you hear of such a big bill in the pipeline, do you consider stocks that will benefit from the legislation?

A: As I have mentioned to you before, a large part of our success at J.W. Burns & Company is attributed to our consistent, disciplined investment philosophy. We resist the urge to get caught up in the trends or fads of the day, avoid market timing, and maintain a long-term investment view for most of our clients. While we are monitoring the infrastructure bill and its economic implications, I believe most of the positive potential is probably already baked into current prices, and the ability to extract any alpha will likely be short term. As such, we are not targeting any specific infrastructure investments at this time.

Q: What is your view on Coinbase and related cryptocurrency investments?

A: For those who may not be familiar, Coinbase is an American company that operates an exchange where investors can buy, sell, and trade cryptocurrencies like Bitcoin and Ethereum. Coinbase offers secure storage of digital assets, is protected by insurance, and is widely regarded as the gold standard for accessing cryptocurrency investments.

The company recently went public with a valuation of $100 billion which is pretty hard to justify. As a comparison, Coinbase is worth more than any other stock exchange in the United States, including the New York Stock Exchange! So, I view Coinbase, as well as all cryptocurrencies such as bitcoin, as very speculative investments and do not have interest at this time.

In summary, the long-term outlook for your portfolio companies is solid and healthy. We will continue to review the operating performance of these premium businesses, constantly evaluate what trends and sector movements are going on in the economy and markets, and, of course, always be on the hunt for companies that we may want to add to your investment portfolio.

We very much appreciate your continued confidence.

Enjoy the Great Re-Opening – we all deserve it!

Best Wishes,

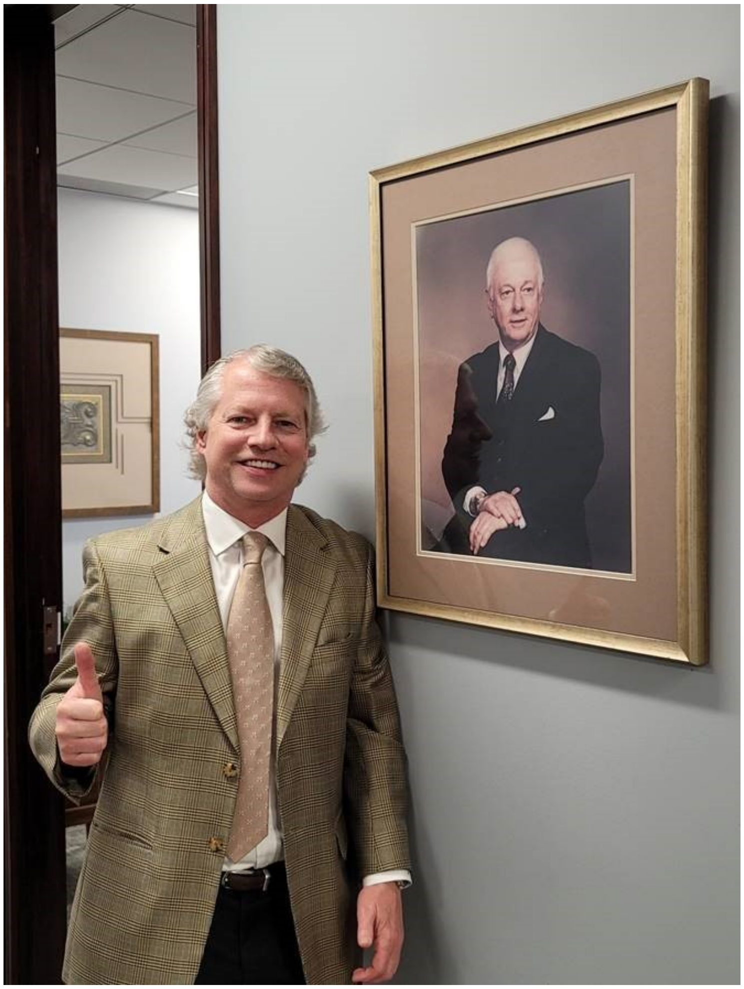
Jim

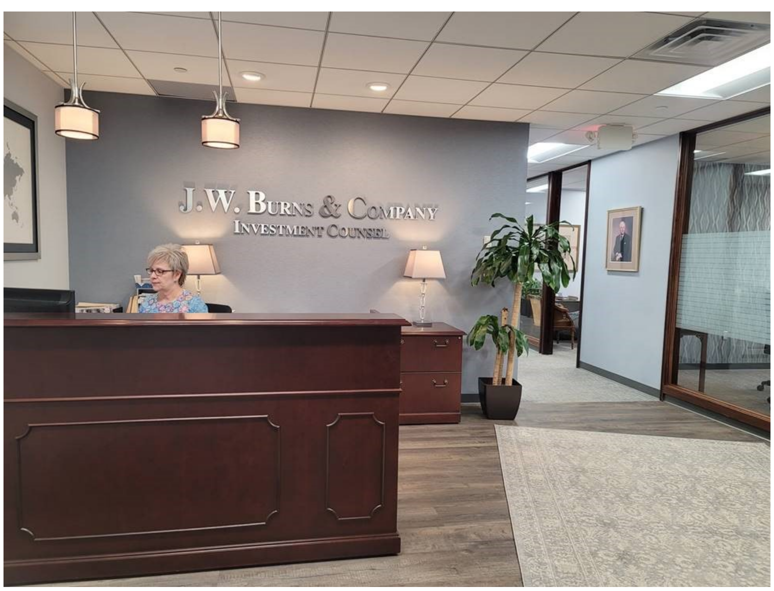
James C. Burns, CFA
President & Chief Investment Officer

P.S. - Recently, my sister, Shelia, came across this picture of my father that had been stored away and suggested it be hung up in our office. Great idea, Shelia. It is prominently displayed as you walk into J.W. Burns & Company and looks great.

J.W. Burns & Company currently manages $750 million in client assets, with only experienced and seasoned professionals on the job. We have no dedicated sales or marketing efforts. Our only commitment is the financial well being of you, our clients.

I think John W. Burns himself would be proud.





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INVESTMENT COUNSEL
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1 Steve Chiavarone, Federated Hermes, CNBC, April 2021.

2 Factset Research, S&P Earnings Expectations, March 2021.