

Week of March 8<sup>th</sup>, 2021

## A Whiff of Euphoria – Time to Worry?



**HOW MUCH STIMULUS IS TOO MUCH?** A \$1.9 trillion Covid aid bill is likely to win enactment within a week, and the Federal Reserve is determined to maintain an exceptionally accommodative stance — all while the economy is recovering dramatically, with vaccines available to every American by late spring.

**A SCENT IS IN THE AIR — A MOOD OF EUPHORIA:** And that, frankly, worries us. We cite this famous quote from legendary investor Sir John Templeton: “Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”

**WE’RE PROBABLY NOT AT MAXIMUM OPTIMISM YET** — not as some states recklessly abandon masking requirements and social distancing — but the bond market gets the Big Story: the economy is about to surge.

**MONEY FROM WASHINGTON:** The Senate agreed yesterday to modestly scale back eligibility for \$1,400 checks, but still — the checks will go to individuals earning up to \$75,000 per year and couples earning up to \$150,000. Unemployment benefits of \$400 per week will be retained in the final bill, along with all sorts of pork, including an injection of federal money to keep poorly run private pensions afloat.

**WE CONTINUE TO WONDER** why the economy needs much more medicine. The Atlanta Fed’s GDPNow indicator — which admittedly is often on the high side — is predicting growth of 10% in the first quarter. Leading economists continue to revise their GDP forecasts upward, as the \$1.9 trillion aid bill nears enactment.

**THE JUMP IN TEN-YEAR BOND YIELDS** — likely to blast through 1.5% in the next few days — surely must concern the Federal Reserve, but Chairman Jerome Powell, who is speaking today at a Wall Street Journal webinar, is likely to indicate no change in the Fed’s remarkably accommodative stance.

**THIS SUPER-STIMULATIVE NARRATIVE** has been in the markets for the past few weeks. What has changed is the outlook for vaccinations. President Biden thinks every American who wants a shot can get one by the end of May, and some private experts are even more optimistic.

SO SPRING IS COMING AND THE SCENT IS CLEAR: There's euphoria as states open up, there's euphoria in the markets, there's euphoria in shopping malls, there's euphoria in the red-hot housing market, there's euphoria as Bitcoin hits \$50,000. If Sir John Templeton were alive today, he'd be worried<sup>1</sup>.

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<sup>1</sup> March 2021. AGF Perspectives. Retrieved from: [Link](#)