

Trust in Progress

By Bill Koehler, CFA, President and CEO

The U.S. stock market just concluded a very strong first half of 2021. The S&P 500 generated a return slightly above 15% in the first six months of the year. In fact, over the last 10 years, from June 30, 2011 to June 30, 2021, domestic stocks have compounded at an annual rate just below 15%. So, the last decade has been a very good one for stocks in general. Growth stocks have compounded at a higher rate, around 18% and value stocks have compounded at around 12%.

What set the table for these types of returns? Let's recall what the economic environment was like in the summer of 2011. It was a tumultuous time in the markets. The predominant theme among market observers was that the U.S. Government may very well, for the first time in history, have its credit rating reduced. It ultimately did not happen but that was a fear. It is often from that type of challenging environment strong returns occur. The market has shown great resilience and progress from those anxious days of 2011.

On this Independence Day weekend as I begin writing this Perspectives, I am reminded of the remarkable resilience of our nation and its citizens. A little over one year ago, the economy was essentially turned off like a light switch. Today, we are back up and running. Yes, we now have the Delta variant with which to deal. However, we will meet the challenge. We are a remarkable country with more ingenuity and resolve than we often realize or for which we give ourselves credit.

Unstoppable Progress

In my research, I came across the article below, written by Larry Hathaway and Alex Friedman of Jackson Hole Economics, which appeared in the

July 5, 2021 issue of Barron's. I thought it more clearly made the points I was attempting to convey and decided to use it for a large portion of this quarter's Perspectives.

Obviously, some of the authors' contentions in the article can be debated by reasonable people but the overriding point I took away from the article is pretty simple. The march of human progress, particularly American progress, is inexorable. It cannot be stopped. Humans have an innate need and powerful desire for progress. It drives us. Look at the recent foray into space by Richard Branson.

He wanted to be first to travel in a private craft well into

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space. He was. He went up 50-plus miles above the earth. Now, Jeff Bezos will be second but he wants to make more progress. He wants to further the record. One thing is certain. Like vast areas of the human condition, which continue to evolve for the better, progress won't stop.

Celebrating Aspiration

By Larry Hathaway and Alex Friedman

Americans celebrate a remarkable anniversary on July Fourth. Congress approved the Declaration of Independence that day in 1776.

The lasting importance of that document wasn't that it detailed abuses by the British sovereign. Rebellions against tyrants were nothing new. Nor was it because its authors and signatories were representative of the populations of the 13 colonies. No women, Native Americans, or people of color signed.



Rather, the place of the Declaration in history was assured by its preamble: It is “self-evident” that “all men are created equal” and are “endowed by their Creator with certain unalienable rights” to “Life, Liberty, and the Pursuit of Happiness.”



Cynicism has merit. Many signatories were slave owners, and America’s original sin courses indelibly through our history. Yet the fallibility of the signers doesn’t diminish their intent, nor what they set in motion. The Declaration was, and remains, an aspirational statement.

Aspiration worked. The Declaration, the Constitution and its Bill of Rights, and the protections afforded individuals under a new nation’s rule of law unleashed the two great forces that shaped America, and the world, in the ensuing 245 years: democracy and markets.

The rule of law, rooted in the power of the ballot, created the institutional framework for self-governance as well as the parameters for property rights, capital accumulation, and human investment. The collective choices of individuals created durable community.

Progress was neither easy nor linear. From John Adams’ infamous sedition laws, the Confederacy, the genocide of Native Americans, the internment of Japanese Americans, to the storming of the Capitol

on Jan. 6, 2021, U.S. history is replete with failure, shame, and worse. A more perfect union has at times been found wanting.

Yet America’s accomplishments are testimony to the founders’ faith in individual rights. American democracy informed and inspired liberal movements worldwide. U.S. military power ended tyranny in Europe and Japan. U.S. economic and financial assistance allowed the world to rebuild after 1945, unleashing the greatest global economic advance in human history. The U.S. won the Cold War, and in doing so contributed to the greatest antipoverty program in human history, namely the adoption of market-based economies across former communist countries, including China.

History, like our own lives, is messy. Accomplishment is accompanied by failure, achievement by moral outrage. Greatness isn’t found looking back, but in tackling what hasn’t worked and what wasn’t

“Americans today have reason to hope, cause to celebrate, and purpose to fulfill.”

addressed. Americans today have reason to hope, cause to celebrate, and purpose to fulfill.

Much is written these days of America as a power in decline, soon to be overtaken economically by China, perhaps militarily and technologically as well. China has indeed lifted its citizens out of poverty at a remarkable rate since Deng Xiaoping initiated his reforms in the early 1980s. By mere fact that its population is more than four times larger than that of the U.S., its economy will soon become the largest in the world.

But size isn’t everything. U.S. income per head is nearly four times larger than China’s. Slowing trend growth and a declining working-age population suggest that China will have a hard time narrowing the gap in living standards.



Economists have long realized that living standards are a function of productivity, which depends on capital and innovation. China's hybrid model of state-directed capitalism allows some resources to be allocated by markets, while others enjoy government-directed investment. That is surely an improvement over Mao Zedong's command economy, but it remains fundamentally vulnerable to corruption and misallocation of resources based on favoritism and central planning, rather than prices and human ingenuity.

The most effective development and deployment of Covid-19 vaccines came from the West. From Galileo to Einstein, history demonstrates that fundamental advances in science and knowledge, which underpin the technologies and innovations that enable our living standards, are cultivated by free will, not directed thought.

China is but one challenge ahead. Climate change, biodiversity loss, equality of opportunity, and geopolitical conflict will make tremendous demands on Americans. A society that prizes the rights and contributions of the individual will have to find new ways to think and act collectively if it is to tackle fundamental challenges that cannot be solved by self-interest and free markets. This summer's shocking heat is a visceral reminder that our children will suffer if we don't effectively organize and sacrifice — across national borders — to reduce greenhouse-gas emissions.

Yet the aspiration that resides at the heart of U.S. history, embodied in the Declaration, represents the most solid foundation known to man to address such challenges. In ambition and accomplishment — just as in markets — selling America short is never a good idea. Debates may rage about inflation and market prices. But in the spirit of the Fourth, let's celebrate our resolve, present at the birth of the nation, to realize our potential, to make right what is wrong, and to live up to our aspirations.

Don't Be Afraid

At the most basic level, it is aspiration which drives progress. Is it corporate earnings growth that drives stock prices? Yes, it is important, but what is really behind that earnings growth? The unyielding aspiration for progress that, in turn, manifests itself in earnings growth. So trust in progress and the aspiration for progress that resides in every human heart....and don't be afraid of stocks.

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