Email Body 3-8-2021

The good news is that the medical and economic conditions continue to improve which is a positive that will continue to move us back towards normal. The bad news is that the politicians and “experts” who gave us the tier system last fall and then promptly watched case growth go through the roof still insist on applying the same protocols. What was that definition of insanity? Anyway, I still insist on being optimistic because there is much to be optimistic about as I will get into shortly. Nevertheless, I will still quote one of my favorite economists, John Mauldin, “I am an optimist, but I’m also realistic. I am “long” on the human experiment. Government? Not so much…”.

As with the rest of the country, San Diego County and State of California Covid-19 case growth numbers and related hospitalizations continue to drop. Seven-day average daily case infections in both the County and State peaked in early January and have now fallen by 90% and 92%, respectively. Covid-19 hospitalizations in both the County and State have also seen declines of more than 79% and 81%, respectively. Over one million San Diego County residents (about 30% of the County population) and 10.4 million California residents (about 26% of the state population) have received at least their first vaccine shot. Based on fatality and infection rate data, medical experts believe that up to 60% of the population may have already been infected with the Covid-19 virus, meaning that many may now have natural immunity to the virus. They suspect that this potential level of natural immunity combined with the accelerating vaccination program here in the U.S., is largely responsible for the sustained decline in case levels and hospitalizations over the last few weeks. Vaccine demand is beginning to outstrip supply indicating an increase in the general populations willingness to be vaccinated. With the Johnson & Johnson vaccine coming online hopefully, this will continue to accelerate vaccination progress.

The equity markets as measured by the Dow Jones Industrial Average and the S&P 500 were up last week and the stock market are still up for the year at slightly over two percent (2%+). Rising interest rates (e.g., the ten-year Treasury closed last Friday at 1.56% compared to 0.93% at the beginning of the year) while prompted by confidence in the economic recovery also rekindled inflation fears. This fear combined with some profit-taking by traders is primarily responsible for the recent pullback in equities. Most economists take the position that any inflation experienced this year will be due to the impact of re-opening local and state economies and will likely be transitory. I tend to agree because unemployment and under-employment is still a significant issue that will take time to address. Consumer incomes (and therefore spending) will likely recover slower than anticipated but recover none-the-less.

Economically, we have several positive developments to reflect on. The Labor Department reported February jobs gains of 379,000 or almost double expectations. The Institute of Supply Management (ISM) reported that its manufacturing index rose to 60.8 in February. The ninth straight monthly increase and the highest level reported in over three years. First quarter 2021 company earnings expectations continue to climb, and the Atlanta Federal Reserve Bank is projecting first quarter GDP growth of 8.3%, annualized. Combine that with the passage of the $1.9T stimulus bill in the Senate and the Federal Reserves stated policy of keeping interest rates low and you have a potentially impressive environment for equities. One caveat, last year we saw a steep drop in economic growth and a sharp rise in stock prices. This year we may see strong economic activity with less impressive stock market performance. There is a lot that needs to be fixed, not only structurally, but psychologically as well. That will take some time.

Brad McMillan, Commonwealth’s Chief Investment Officer did not come out with a letter this week however, in listening to his firm-wide conference call I can assure you that he remains positive on both the medical and economic fronts.

I am always available to you via phone, zoom conference or in person. I encourage you to remain optimistic and to do what you can to contribute to growing the economy. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

As always, stay safe and healthy!

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