Email Body 6-21-2021

**Medical and Economic Trends Continue to Improve**

Summer has arrived here in California and for most of us the mask mandate and restrictions on gatherings have been lifted. While it is edifying to once again be able to breathe normally, I believe there are many lessons to be learned about how to deal with the next “pandemic”. Most notably, be careful who you elect and take care to examine legislative actions and initiatives coming down the pike. Economically, we are still accelerating and medically, the numbers are among the lowest they have ever been in the aggregate. Continue to engage with family and friends and support local businesses.

San Diego County’s seven-day average daily virus case rate stands at 69 with a corresponding positivity rate of 0.84%. California saw its seven-day average virus case rate tick up to 958 or about an 8% increase over the last two weeks. California is still below 1,000 on this metric which is outstanding. Covid-19 “associated” hospitalizations in San Diego County currently stand at 67 while California hospitalizations dropped to 1,223. Almost 2.34 million San Diego County residents (about 69% of the County population) and 22.9 million California residents (about 57% of the state population) have received at least their first vaccine shot. The seven-day average rate of vaccination in San Diego County has dropped over the last two weeks from about 6,700 shots per day to 6,000. California’s seven-day average rate of vaccination has also dropped over the last two weeks from about 53,000 shots a day to 43,000. Nationally, per the CDC, 62.4% of the population twelve years of age and up has received at least one vaccine shot with 52.8% fully vaccinated. Considering how many people have been infected and recovered with natural immunity, I believe it is safe to say we are at herd immunity. This does not mean there is no risk for infection, just that case levels should remain in the manageable range, which is good news for the overall economy.

The markets gave up some ground last week on the news that the Federal Reserve moved up its expectations for two small rate hikes from 2024 to late 2023. Some market participants took this to mean that the Federal Reserve may move more aggressively to raise interest rates sooner than anticipated. The Federal Reserve also increased its 2021 estimate for GDP growth to 7% from 6.5%. What does this all mean at this point, frankly nothing. Trying to implement an investment strategy on what you *think* the Federal Reserve will do over the next 12-24 months or longer, is a fool’s game. The key to understanding where the market is going lies in the direction of the economy. Whether the economy is growing or contracting, the markets will reflect that direction. So, if you understand the elements driving the economy and the direction their trends are going, you will have a reasonable idea where the markets are heading.

Today, the economic re-start continues to move forward. May retail sales dropped 1.3% but remain above pre-pandemic levels. Initial jobless claims rose this past week to 412,000 breaking a nine-week string of consecutive declines. The overall claims level continues to be a positive relative to where we were earlier in the pandemic. Inflation concerns appear to be moderating as interest rates while volatile, edged lower at the end of the week. Except for energy, commodities prices dropped across the board amid improvements in supply chain logistics. The National Association of Home Builders Housing Market index in June came in at 81, well into expansion territory. While building permits declined by 3% in May (e.g., likely due to raw material price increases) housing starts increased by 3.6%. While some pullbacks in individual metrics are inevitable, the underlying long-term trends remain positive. Coupled with the Federal Reserves’ decision to maintain its very accommodative policy (i.e., $120B monthly bond buying and near zero short-term interest rates) and upcoming fiscal spending plans, the positive economic trend looks to be in place for a long time.

Assets with a long-term time horizon (i.e., 4-5 years or more to remain invested) should stay the course and remain invested consistent with your investment goals and risk profile. Assets you intend to use in the near-term (i.e., 1-3 years) should be exposed to less risk depending on your specific situation.

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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