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**The Restart Continues…**

September was a difficult month for the financial markets as the effects of the Delta wave were felt in slowing economic measures generated in August. On the bright side we seemed to have turned a corner medically and economic expectations for the future are rising. Locally, most of San Diego County and the State of California seems open for business. The same is true across the nation. A Covid-19 game changer recently announced is that Merck has been asked by the FDA to apply for emergency use authorization for its oral drug Molnupiravir. This new anti-viral drug currently in phase three trials has had significant success in preventing hospitalization and deaths. There are many reasons to continue being optimistic about the future. Lets see if we can add to those reasons.

Covid-19 case levels, hospitalizations, and deaths in San Diego County and California (per County and State government sources) continue to trend down and are now at about 21% of the January 2021 peak. Nationally per the CDC, the rolling seven-day average daily cases has dropped from its August 30 peak of 176,452 to its September 19 level of 86,801 or over a 50% drop. Per Johns Hopkins total hospitalizations of covid-19 cases are down about 24% since late August and is accelerating. Clearly, the Delta Covid wave is fading in the U.S. The Delta wave slowed the U.S. and global economies down for a period of time; however, it did not stop it. With Covid becoming less of an economic factor, look for accelerating, positive economic trends and corresponding market movements over the next several months.

September just finished as the worst market performance since the first couple of months of the pandemic. A combination of inflation fears, higher oil prices, continuing supply chain disruptions, higher long-term interest rates and general bickering in Congress caused concerns about the length and strength of the economic restart in the U.S. According to Federal Reserve Chairman Powell inflation remains stubbornly frustrating and will persist into the next year. Tapering of the Fed bond purchasing program will most likely begin in November and end late next year. The Federal Reserve still maintains that it anticipates raising interest rates no sooner than 2023. While the end of the tapering program may result in interest rates rising, demand from other buyers will likely take up the slack. The restructuring/repair of global supply chains will take longer than expected. This will cause inflation to continue to be an issue that will create uncertainty and volatility.

The good news is that economic data continues to strengthen even if the GDP growth rate has peaked. Final second quarter GDP has been revised upward again, while pending home sales, continuing jobless claims, consumer spending and manufacturing levels improved in August. Couple this with an accommodative Federal Reserve (i.e., low short-term interest rates), low inventories and increasing capital expenditures by Corporate America and you have a recipe for continuing economic growth for the next several months if not a year. Risks to this outlook remain and they start with a resurgence in Covid variants, supply chain recovery difficulties, tax, and regulatory risks as well as a potential U.S. debt default, no matter how unlikely. Additionally, the Federal Reserve will be very closely watched as it begins to become less accommodative for the next few years. Volatility may increase as investors search for potential missteps in timing or size of the Federal Reserve’s moves. Nevertheless, for long-term oriented investment assets a “risk on” attitude remains warranted as the best way to counter the impacts of inflation and low interest rates.

With this report I am including a link to Commonwealth’s October Market Update by its Chief Investment Officer, Brad MacMillan. I think it is always a good idea to get a fresh perspective and see what others think. Please take a few minutes and watch at <https://vimeo.com/channels/966267>.

I am always available to you via phone, zoom conference or in person. 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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