Email Body 12-14-2021

**Will Omicron Derail the Recovery?**

I hope all of you had a great Thanksgiving and wish you all a very Merry Christmas! I am sorry to have been away for a while. It has been a time of reflection and caring prompted by the passing of my eighty-nine-year-old mother-in-law. An exceptional woman who was always concerned for others. It is a sobering reminder that our time here on earth is limited and that every day we wake up is a gift. I encourage you to make time for family and friends, especially in this holiday season.

COVID-19 UPDATE

These are interesting times we are living in. With Governor Newsom reinstating a state-wide indoor mask mandate regardless of vaccination status, many of you might be wondering what is going on. The stated reasons for the mandate include the presence of the omicron variant of the virus in eighteen people and a recent uptick in the state-wide cases from about 11.59 per hundred thousand at Thanksgiving to 14.65 per hundred thousand as of yesterday. This is about a 26% increase. Interestingly, over the past week this statistic has been on a downward trend. San Diego County has mirrored this same pattern.

We have also seen an uptick in the number of covid positive hospitalizations. However, current hospitalization levels are about 18% of January’s peak and approximately 4% of total hospital capacity. Almost 70% of Californian’s and 79% of San Diegans are fully vaccinated. Given those statistics one could be forgiven for thinking future hospital impact may be muted. This is anecdotal, but I have been tracking cases, hospitalizations, and deaths by vaccine status in San Diego County since October 13 when the County began publishing the data. As of December 8, 2021, the county has recorded over 29,000 Covid positive tests of which almost 45% were fully vaccinated. Also, 846 confirmed hospitalizations (about 3% of cases) *with* Covid-19 of which 49% were fully vaccinated. I guess the good news is that over the same time period only 22% of the deaths *with* Covid-19 were fully vaccinated. While vaccinations do seem to have some efficacy, I believe and hope that we are beginning to embrace additional therapeutic strategies rather than a one-size fits all approach.

ECONOMIC NEWS

The appearance of the Omicron variant helped drive a more than 50% spike in equity market volatility over the past few weeks however, it looks to be milder than the delta variant and should not generate a return to new economic restrictions. Headline CPI and producer price indices have hit new highs but a limited number of components including food and energy appear to be the main drivers. This may indicate that we are beginning to see a peak as year-to-year comparable data points begin to become less impacted by 2020 data. Interestingly, both the Federal Reserve Chairman and the Treasury Secretary have acknowledged that inflation is no longer, *transitory*. Nice of them to get on board with the rest of us. The Federal Open Market Committee is meeting this week and is expected to possibly increase the pace of tapering its bond purchases. Some expect the Fed to announce it is accelerating its planned 2023 interest rate increase into 2022, but that remains to be seen. Other recent economic data has generally been positive including initial jobless claims falling to a 52-year low, the National Federation of Independent Business’ Optimism index remains in line with its long-term trend and Congress is making progress to extend towards passing a debt limit extension.

2022 OUTLOOK

Generally, I expect the economy and stock market to continue its recovery well into next year. Largely this is because I believe Central Banks and the bond market will be slower to respond to higher inflation than in the past. We saw this happen this past year as the economy moved from being capital constrained to labor constrained. The Federal Reserve has already met its inflation target and will likely be more focused on its full employment mandate. Expect equity returns to moderate relative to the past three years and interest rates to rise very slowly. As always risks remain in their many forms. New virus strains may emerge and put pressure on economic capacity, but I would only expect delays, not a derailment of the economy. If inflation numbers do not begin to moderate as expected, the Central banks may panic and raise rates too far, too fast. Let’s hope not. Organic growth in the economy may stagnate due to labor and/or supply constraints causing a slow down or in the extreme, a recession (e.g. unlikely). Finally, there is geopolitical risk with respect to Russia/Ukraine and Iran/Israel.

As always, I recommend you take stock of your financial situation and make sure that funds you plan to expend in the next three to four years are invested in a more conservative posture than your long-term oriented investment assets. Doing so will enable you to ride through the inevitable volatility caused by short-term shocks and unexpected pitfalls that characterize daily life. I have attached to this email an update penned by Brad McMillan, Commonwealth Financial Network’s Chief Investment Officer.

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!

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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