Email Body 4-12-2021

This past week has seen a lot of good news. Not only has the weather been better here in San Diego, but the medical and economic situation continues to make significant improvements both locally and across the state. Here in California large chunks of the state moved into the orange tier (e.g., just below the least restrictive “yellow” tier) along with an announcement by Newsome that he expects to do away with all tiers by June 15, unless a resurgence of a virus appears. Anecdotally, Newsom’s pronouncement already appears to be behind the curve as businesses have been re-opening for weeks and the people have been supporting them whole-heartedly. Perhaps that is why the economic news is positive. Stay safe and enjoy your family and friends!

Covid-19 conditions continue to improve as vaccinations continue to expand. Over the last week I am seeing a divergence between San Diego County and the State in the Seven-day average daily case infection level. San Diego County has seen its Seven-day average case growth rate fall to its lowest level this year while the State’s Seven-day average continued to tick back up modestly. This is not unexpected as the state has relaxed restrictions over the past three weeks. The good news is that Covid-19 hospitalizations in both San Diego County and the State continue to decline to their lowest levels since the beginning of the pandemic. Vaccination of our more vulnerable population appears to be having the effect of not only reducing case growth, but of pushing the virus to the part of the population better able to medically deal with it. Over 1.55 million San Diego County residents (about 47% of the County population) and 15.1 million California residents (about 38% of the state population) have received at least their first vaccine shot. This represents a 13% increase from seven days ago in the total people in California who have received at least their first vaccine shot. At the current vaccination rate, we should reach about 70% of Californians who have had at least one dose in about eight weeks assuming no glitches in the delivery process and that enough people want to be vaccinated. From a medical perspective this is all good news and assuming the trends continue, a positive for the economy and the financial markets.

The U.S. economy added 916,000 jobs in March and the unemployment rate dropped to 6.0% from 6.2%. Almost 10 million people remain unemployed or about four million higher than before the pandemic. There is still work to be done here. The good news is that the Institute for Supply Management’s (ISM’s) latest readings for the services and manufacturing sectors activity reported all-time highs for March. This confirms the Federal Reserve’s and private sector economist’s high expectations for GDP growth this year. The U.S. Department of Labor released its Producer Price Index report – A measure of inflation – showing a 4.2% year-over-year increase, the largest 12-month gain in more than nine years. This was not unexpected given that the prior year March figure was substantially impacted by the Covid-19 related shutdowns. Expect similar figures for April and May after which it is expected to revert to sub-2% levels again. The Federal Reserve released its Open Market committee March minutes which revealed that its bond market support policies remain unchanged (i.e., keeping interest rates low for the foreseeable future). Finally, President Biden’s $2T “Infrastructure” proposal appears to be running into some opposition from both sides to at least elements of it. Look for a long summer of contentious battle before something passes. Either way, the trends are all positive for the equity markets which means downside risk is reduced (but not eliminated). Bonds, while not a great source for income these days should provide additional downside protection.

Make sure you understand your portfolio’s goals and that your allocation strategy reflects your ability to tolerate volatility and planned investment time horizons. With this preparation there will be no surprises regardless of what the financial markets do.

Please find attached this week’s commentary by Brad McMillan, Commonwealth’s Chief Investment Officer. As you will see Brad is upbeat about both the medical and economic news.

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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