Email Body 5-3-2021

The Economy Takes Off as the Pandemic Comes Under Control

It seems there are certain segments of our national community who do not want to acknowledge that we are near the end of this “pandemic”, at least here in the U.S. Most notably these include the national teacher unions, the Center for Disease Control, and certain politicians at both the state and national levels. Whether they like it or not, the trends now appear irreversible. The proof, the economy is taking off like a rocket ship. Unfortunately, there has been a lot of collateral damage (not including associated deaths) because of the government response to the pandemic. Some of it necessary but most not in my opinion. The good news is that it is time to begin returning to normal. Many have already begun the transition. So, keep supporting local businesses and restaurants with your patronage. Get out and enjoy the spring-time weather. Do whatever you need to do to be with your family and friends!

Covid-19 conditions in both San Diego County and California improved substantially this past week. San Diego County’s seven-day average daily virus case rate fell from 228 daily cases to this week’s average of 158, more than a 30% drop. California also saw its seven-day average virus case rate fall from 1,864 daily cases to 1,750, or a 6% drop. Covid-19 hospitalizations in both San Diego County and California dropped to record lows. California now has less than 2,000 people hospitalized with Covid-19. That is the first time that has happened since I started tracking this on April 1, 2020. Over 2.0 million San Diego County residents (about 60.5% of the County population) and 19.0 million California residents (about 48% of the state population) have received at least their first vaccine shot. Nationally, 44.4% of the population has received at least one vaccine shot. Consider that confirmed virus cases (and recoveries) in San Diego County, California and the U.S. are 8.5%, 9.2% and 10.0% of the population, respectively. These levels are likely higher by one or two orders of magnitude due to unreported cases and undiscovered asymptomatic cases. When combined with vaccination levels the overall immunity picture brightens considerably. Pray that vaccinations continue at their current rate and that case and hospitalization levels continue their dramatic drop. Such trends provide the opportunity to continue to open public spaces and the economy.

Economically, this past week was a banner week. The preliminary report of the 1st quarter GDP growth estimate came out at an annualized rate of 6.4%. Jobless claims fell for the third consecutive week to 553,000, the lowest level since March 2020. The Consumer Confidence Index reached 121.7, its highest level since February 2020 and thirty points higher than the beginning of the year. Over 60% of the S&P 500 have now reported first quarter results with 86% beating earnings estimates and 78% beating revenue estimates. The average earnings gain was 45.8%, the highest ever reported. Household income jumped 21.1% in March with consumer spending also rapidly increasing by 4.2%. On the inflation front, the personal consumption expenditures (PCE) index rose year over year in March by 2.3%. The “core PCE index” which excludes food and energy (who uses those items) and is the Federal Reserve’s preferred inflation gauge, rose 1.8%. Fed Chairman Jerome Powell indicated that the Federal Reserve expects inflation to rise “temporarily” due to the rebound in spending and due to production shortages cause by supply chain bottlenecks. Accordingly, he has left current monetary policy unchanged for the future. This means short-term interest rates remain low and bond buying to continue at a monthly rate of $120 billion.

Clearly the U.S. economy is off to a bounding start. When coupled with very easy monetary policy for the foreseeable future and an additional $1.8 trillion in proposed spending now being considered by Congress, it is hard to even consider going against this avalanche of money pouring into the economy and markets. The equity markets should respond positively over the next twelve months. Beyond that, we must wait and see. Near-term risk for a major market decline is minimal. Risks in the short-term consist primarily of (1) the Federal Reserve reversing policy and raising rates or reducing bond-buying, (2) corona virus/vaccination setbacks in the U.S. and globally, (3) geopolitics (e.g., Russia/Ukraine and China/Philippines) and/or (4) policy maker over-caution. Longer-term the risks primarily reside in our debt levels ($40T by 2025) and the inflationary impact of all this money creation occurring in the U.S. and globally.

Make sure your portfolio strategy is consistent with your cash flow needs. Assets significantly exposed to risk (i.e., the stock market) need at least a four-to-five-year time horizon to remain invested. Assets with a shorter time horizon should be exposed to less risk depending on your specific situation.

There is no commentary by Brad McMillan, Commonwealth’s Chief Investment Officer this week. I will forward anything he puts out to you as soon as possible.

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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