Email Body 3-15-2021

We passed the one-year anniversary of living with Covid-19 and California is still in various stages of significant restrictions, although reductions appear likely. Recent changes to the tier system have allowed several counties (including Los Angeles) to move to the red tier. San Diego and Riverside counties will likely be joining these counties tomorrow. Call me cynical but could these changes to the tier system announced over the weekend have something to do with the increasing likelihood of the Governor being recalled? Nahhh!. So, get ready to go back indoors in restaurants, gyms, movie theatres and to 50% capacity in retail stores. I suppose we should be happy to be joining most of the rest of the country in re-opening, but the totality of the damage to our community and nation is just too real. Please continue to support your local and small businesses as they were the hardest hit. Stay safe and enjoy your family and friends!

San Diego County and State of California Covid-19 case growth numbers and related hospitalizations continue to drop, albeit more slowly. Seven-day average daily case infections in both the County and State peaked in early January and both have now fallen by 92%. Covid-19 hospitalizations in both the County and State have also seen declines of more than 84% and 86%, respectively. Over 1.25 million San Diego County residents (about 38% of the County population) and 12.2 million California residents (about 31% of the state population) have received at least their first vaccine shot. From a medical perspective this is all good news. I have noticed that both San Diego County and California have experienced a slowdown in the rate of decline in both case growth and hospitalizations. This may be due to the new variant (i.e., B117) of the virus introducing itself into the environment. This tracks with national trends as well. Early indications are that between the number of previously infected individuals and those that have already been vaccinated, this variant may be less impacting than the original Covid virus. Time will tell but the indications are positive.

The broader markets performed positively last week on news of the passage of the $1.9 trillion stimulus package and on news that vaccine distribution in the U.S. is accelerating. This has prompted both JP Morgan and Goldman Sachs to raise their estimate of 2021 U.S. GDP growth to 8%. Weekly initial jobless claims came in at 712,000 or below expectations. Core inflation for the month of February came in much softer than expected and below the Federal Reserve’s annual target of 2%. Nevertheless, interest-rate sensitive segments (i.e., technology) of the equity markets have dropped significantly in the last few weeks due to fears that a resurgence in inflation will lead to rising interest rates.

I believe the way to look at the next year is to view it as an economic re-start rather than a traditional recession recovery. The difference here is important in that a recovery from a recession is typified by demand slowly catching up to supply capacity. This is not so much the case today as the economic shock caused by the shutdowns due to Covid resulted in both demand and supply capacity falling. With the re-openings in the various states and the impact of the stimulus packages demand will likely kick off at near normal rates while supply will be struggling to catch up. The result in the short-term will likely be pricing pressure on nearly everything which may be misinterpreted by some as the onset of inflation. While I believe inflation to be a significant risk in the longer-term, I do not see interest rates rising in the near term to a level that would disrupt economic expectations. The cumulative effects of the enormous government fiscal stimulus and the Federal Reserve’s clearly signaled intent to keep interest rates low will go a long way to buoy the economy and the stock and bond markets with it over the next year. Expect some volatility and even a pullback in the next few months but absent a catastrophe, the markets should reflect the improved economic realities.

Brad McMillan, Commonwealth’s Chief Investment Officer penned a letter this week and is as upbeat as I have seen him in the last year on both the medical and economic fronts. Look and see what you think.

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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