Email Body 3-22-2021

Welcome back! I hope many, if not most of you are enjoying our relaxed restrictions. Take advantage where you can, to get out and get active. I believe one of the most significantly under-reported effects of the Covid restrictions is depression associated with a decline in mental acuity due to a lack of socialization. My wife, who is a 20 year plus special education preschool teacher, sees this effect not only in our elderly relatives and friends, but also in her students. Be aware of this and do your best to engage others in as safe a manner as possible. Please continue to support your local and small businesses as they were the hardest hit. Stay safe and enjoy your family and friends!

Covid-19 conditions continue to improve as vaccinations continue apace. Seven-day average daily case infections in both the County and State peaked in early January and both have now fallen by 94%. Covid-19 hospitalizations in both the County and State have also seen declines of more than 86% and 88%, respectively. Over 1.43 million San Diego County residents (about 43% of the County population) and 14.8 million California residents (about 37% of the state population) have received at least their first vaccine shot. This represents a 21% increase from seven days ago in the total people in California who have received at least their first vaccine shot. If vaccination in California continues at this rate (e.g., assuming people are willing) we could reach a level of about 70% of Californians who have received at least the first shot in about four to six weeks. When combined with the over 3.5 million Californians who have been infected and recovered, we may be reaching a level of natural herd immunity very soon. From a medical perspective this is all good news. From an economic perspective, it is great news as it will allow the state to continue its progression toward being more fully open. Let’s pray that the vaccines and natural immunity of those previously infected will be sufficient to prevent a third wave possibly caused by one or more of the virus variants. Time will tell but the indications are positive.

The broad economic outlook for the next year continues to be positive. The Federal Reserve’s Open Market Committee (FOMC) met last week, and the consensus forecast for U.S. GDP growth in 2021 is 6.5%, which closely follows private sector economists and analysts estimates. This factor is important in that it provides a significant psychological buffer to a sustained downturn in the financial markets in the near term. The FOMC also expects inflation to rise this year to 2.4%, but to fall back to 2.0% in the following two years. As a result, the FOMC does not expect to raise interest rates for the foreseeable future until unemployment reaches pre-pandemic levels (i.e., 3.5% unemployment rate). The Federal Reserve will also continue to purchase $120 billion a month in Treasury and mortgage-backed bonds which will put downward pressure on interest rates.

Recent stock market volatility has been largely caused by bond market inflation fears which caused ten-year Treasury rates to rise from 0.93% at the beginning of the year to 1.74% as of last Friday. I tend to lean toward the FOMC position that inflation in the near term is likely a short-term phenomenon caused by pent-up demand being released with state re-openings coupled with supply chain difficulties. Already auto manufacturers have temporarily shut down production lines due to chip shortages. Longer term realities are such that sustained inflation must overcome U.S. demographic realities of an aging population and the fact that we have yet to recover over ten million jobs lost to the pandemic. Risks to my general positive outlook remain in the form of supply chain shocks causing short-term inflation and a resurgence in the virus or its variants. Volatility will always be present as a result. However, absent a change in Federal Reserve policy and the current administration’s fiscal approach, the economy will continue to advance which should be a positive for the stock market.

Brad McMillan, Commonwealth’s Chief Investment Officer did not prepare a letter this past week, but I have attached a rather detailed explanation of the $1.9 trillion American Rescue Plan Act of 2021. 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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