Email Body 4-26-2021

Last week was a relatively quiet one. Locally, several San Diego school systems restarted in-person learning after spring break to one degree or another. San Diego County stayed in the Orange tier and masks seem to be disappearing, at least outdoors. My church has been open indoors for three weeks now with relatively consistent but lower levels of attendance than pre-pandemic. The outdoor service remains more popular, for now. I was able to dine inside my favorite Chinese restaurant and we celebrated my youngest son’s twenty-first birthday. All-in-all, a quiet week. Keep supporting local businesses and restaurants with your patronage. We need all hands on deck. Do whatever you need to do to be with your family and friends!

Covid-19 conditions in San Diego County and California continued to improve, although doing so at a rate slower than previously. San Diego County’s seven-day average daily virus case rate fell slightly to 228 cases compared to last week’s record low. California also saw its seven-day average virus case rate fall to 1,864 cases, its lowest level since May 2020. Covid-19 hospitalizations in both San Diego County and California are at their lowest levels since the beginning of the pandemic and are trending lower. Over 1.85 million San Diego County residents (about 56% of the County population) and 18.1 million California residents (about 45% of the state population) have received at least their first vaccine shot. This represents an 6% increase from seven days ago in the total people in California who have received at least their first vaccine shot. This rate of vaccination seems to be slowing somewhat. Whether that is a result of “vaccine hesitancy” or supply/bureaucratic issues remains to be seen. Regardless, the level of vaccination is important in that it provides the opportunity to continue to open public spaces and the economy.

Economic news while relatively light last week was positive. Weekly initial jobless claims dropped to 547,000 compared to economist estimates of 610,000. The labor market recovery appears to be picking up steam. March’s leading economic indicators survey (a measure of future economic growth) showed a 1.3% increase from February. Preliminary manufacturing and services purchasing manager indexes (e.g., measures of future purchase orders) reached record highs of 60.6 and 63.1. The ten-year Treasury yield declined slightly to 1.56%. Existing home sales in March declined by 3.7% largely due to limited supply while sales of new homes rose by over 20.07%. With 25% of S&P 500 companies reporting first quarter results, earnings are up over 33.8%. Of the companies reporting, 84% had positive earnings surprises. If this trend continues it would be the first time earnings experienced growth of this magnitude since the third quarter of 2010 (34%) following the global financial crisis. With all this good news one would have expected a stellar week in the equity markets. However, the current administration’s capital gains tax proposal and international covid-19 issues threw cold water over the news. The broad markets both here in the U.S. and internationally fell about 0.5%. However, the positive economic trends remain in force and represent good news for the financial markets over the longer term. As the pandemic continues to come more under control here and abroad, the markets will reflect the positive economic outlook being painted by actual results reported at company levels.

I stated last week that I have some concerns about the longer term because of the structural changes we are watching occur in both the Federal Reserve system (accommodative monetary policy) and fiscally with the U.S. Government issuing trillions in helicopter money in the last twelve months. The immediate results of reinflating the economy are evident in the numbers I have been reporting. Longer-term these measures will put upward pressure on commodity prices (i.e., which we are already seeing), inflation and interest rates. The good news is that positive returns in the stock market can co-exist with rising inflation and interest rates if they do not rise too far and too fast. That is the trick we need policy makers to finesse. Keep your fingers crossed and I will continue to watch closely.

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!

Christopher L. Phelps, CPA/PFS, CFP®, AIF®

Principal

Phone (858) 485-1919   Fax (858) 487-0355   [chrisp@financiallifeconcepts.com](mailto:chrisp@financiallifeconcepts.com)



16935 W. Bernardo Drive, Ste. 228, San Diego, CA 92127  [www.financiallifeconcepts.com](file:///C:\Users\chrisp_mhbfc.com\Desktop\Restore\Docs\Mass%20Client%20E-Mails\www.financiallifeconcepts.com)

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