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**Are We at the Beginning of the End of the Pandemic?**

When I first started sending out my thoughts on the pandemic and its impact on the broad economy and financial markets back in April 2020, my objective was to give you insight into what was currently happening and what you could expect both personally and financially. In contrasting the current status and trends of the pandemic with economic data and analysis, I hoped to illustrate an economic truism; as the economy goes, so goes the financial markets. With the economy on solid footing and the pandemic receding, the financial markets while nonetheless volatile should continue to grow until the next recession occurs (e.g., no, I do not know when it will happen, yet). I never anticipated sending my weekly missive out for over a year. However, I believe it is time to make a change. For the next few months, I will be sending my thoughts out on a bi-weekly basis. Change is inevitable and usually for the better. Thank you for putting up with me clogging your email. I hope to do better in the future. Enjoy the spring weather! Do whatever you need to do to be with family and friends!

San Diego County’s seven-day average daily virus case rate increased from 158 daily cases to this week’s average of 204, a 29% increase. Hopefully, this is just a one-week anomaly. California saw its seven-day average virus case rate fall slightly from 1,750 daily cases to 1,704. Covid-19 hospitalizations in San Diego County remained stable around 150 while California hospitalizations continued to drop to record lows. California now has less than 1,830 hospitalized with Covid-19. Over 2.0 million San Diego County residents (about 60.5% of the County population) and 19.6 million California residents (about 49% of the state population) have received at least their first vaccine shot. One thing to note is that the rate of vaccination for both San Diego County and the state has dropped significantly in the last three to four days. Whether due to timeliness of reporting or actual “hesitancy”, let’s see if this trend continues. Nationally, 46.0% of the population has received at least one vaccine shot. Hopefully, between vaccinated and previously infected and recovered individuals, we are getting closer to herd immunity, if we are not already there. Pray such trends continue so our governments can keep opening public spaces and the economy.

At the top of the headlines last Friday and today was news that the April jobs report came in at a gain of 266,000. While this might seem like a good number, it is below prior months gains and well short of Wall Street estimates of one million. Unemployment also ticked up to 6.1%. Based on a review of the internal data in the report, it appears that this shortfall is more a labor supply issue than a demand issue. Reported job openings are more than seven million and employers report cutting back capacity due to labor shortages. My view is that the labor supply shortfall is due to a combination of fear of contracting Covid-19, lack of available childcare and/or excess unemployment benefits reducing incentives to return to the workplace. Hopefully, as the pandemic recedes, and excess unemployment benefits terminate the labor supply squeeze will loosen and ultimately resolve itself. In the near-term this issue should not materially impact the economic recovery under way.

On a positive note, initial jobless claims dropped to 498,000, a new low in the pandemic recovery. Also, with 88% of the S&P 500 companies reporting the average year-over-year earnings gains was 49.4%, more than double initial estimates. Volatility in the financial markets will always be with us. In the near future, fluctuation in the markets will likely be due to increased sensitivity to economic data reports especially with respect to inflation, variation in reported U.S. and global Covid-19 case levels and vaccination rates not to mention general debate over “tax reform”. As long as the underlying long-term economic trends remain positive, the weekly and monthly reports of data that the financial markets react to are just noise.

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.

I have attached commentary by Brad McMillan, Commonwealth’s Chief Investment Officer this week. In it he notes several positive trends and is very upbeat about the current status of the pandemic and the economy. He does note however a concern about slowing vaccination rates across the U.S.

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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