Email Body 8-17-2021

**Geopolitics and Delta, Where Do We Go From Here?**

There is a lot happening today. The U.S. pullout of Afghanistan has resulted in a Taliban takeover and China seems to take this as a cue to threaten Taiwan. Many armchair strategists (me included) are opining about the strategic and ultimate economic effects of these events. Couple all of that with the slowly dawning realization that the Covid “vaccines” appear to be more effective at mitigating symptoms than preventing infection and you have a recipe for more market volatility. The musician Billy Joel said it best in his hit song, We Didn’t Start the Fire, “it was always burning since the world has been turning”. Just another average day in the life of the planet. Welcome to the end of summer!

Assuming June 1, 2021, as a start date in The U.S. for the Delta variant of Covid-19, it continues to generate increasing case levels however, it is proving to result in less hospitalizations and associated fatalities than its predecessors. Hospitalizations in San Diego County and California are at about 30% of the January 2021 peak and the rate of hospitalization of new cases (i.e., in the last 14 days) continues to decline. San Diego County and California case fatality rates (i.e., the number of covid associated deaths divided by confirmed cases) currently are orders of magnitude lower than Covid’s historical fatality rate. Nationally, the rolling seven-day average daily cases have dropped by over 25% from fourteen days ago. Hospitalizations of covid-19 cases are currently at about 76,000 and have declined over the last few days. The national case fatality rate similarly tracks the San Diego and California experience as well. The bottom line is that based on statistics, lockdowns and other more drastic economic stopping measures are likely not to be implemented in the future. How politicians and the populace react to the current news cycle may be another matter.

Trading activity continues to be light as the summer season begins to wind down. The markets have essentially been treading water for a couple of months now. Economic news is generally positive with the July consumer price index coming in at 0.5% which is a decline compared to prior periods. This supports to some extent the Federal Reserve’s position that inflation is transitory. Consumer sentiment posted its lowest reading since 2011 amid a small surge in covid cases but the markets focused on positive trends in employment payrolls and manufacturing data. Second quarter earnings reports wound down with record gains in sales and earnings growth reported across the board. We still have supply chain bottlenecks to deal with as indicated by the 1% growth in the producer price index. July retail sales dropped more than expected largely due to a significant decline in auto sales as manufacturers and dealers continue to confront a microchip shortage.

Given the current geopolitical situation and lowered consumer confidence, expect market volatility to remain high. Afghanistan and China will be in the background but should be economically insignificant if handled reasonably well (i.e., we are watching). The Delta variant, if trends in other countries are any indication, will likely top out this month and recede into our memory. Also, good news is that economic fundamentals in the U.S. and globally remain strong and the financial markets will ultimately reflect that. Other good news includes reports that the Federal Reserve intends to begin reducing its bond buying before the end of the year. This will create some upward movement in interest rates and begin to put us on a path to rate normalization and more market stability. The hit to the economy from the Covid shutdown was enormous, but the relative monetary and fiscal response of the Federal Reserve and the Government dwarfed all previous historical experiences. The resulting imbalances created in the economy by these actions will take time to resolve and will contribute to market volatility going forward. Hopefully, the Federal Reserve will be able to moderate the impact of its adjustments to interest rates and bond purchases. We are watching closely as the Federal Reserve Board of Governors are not immune to making policy errors.

Investment strategy should be based on a portfolio’s objectives, ability to tolerate volatility and its investment time horizon. Assets you intend to utilize or spend in the near-term (i.e., 1-3 years) should be exposed to less risk. Assets that can remain invested over a longer time frame (i.e., 4-5 years) should remain invested consistent with your investment goals and risk profile. Successful investing is not about timing the market. It’s about being able to ride through the inevitable volatility that creates the opportunity for outsized returns.

I am always available to you via phone, zoom conference or in person. 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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