Email Body 9-1-2021

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

The Afghanistan pullout took a turn for the worse with the bombing at Abbey Gate and the deaths of thirteen U.S. military personnel and hundreds of Afghans. Having a son on active duty with the Marines, its getting a little personal to me. He is deployed to another part of the world, so he is not in imminent danger, yet. Revelations about decisions made before and during the withdrawal/bombing are beginning to surface that are not friendly to the current administration. Weakened presidencies and their administrations present a risk to the economy and financial markets. Time will tell if these events impact the current administration, and we follow historical precedent into a period of heightened volatility and economic uncertainty.

Hospitalizations in San Diego County and California are at about 38% of the January 2021 peak and the rate of hospitalization of new cases (i.e., in the last 14 days) has declined to less than 0.40%. San Diego County is beginning to see a decline in total Covid patients. San Diego County and California case fatality rates (i.e., the number of covid associated deaths divided by confirmed cases) currently are at 20% of the long-term covid fatality rate. Nationally, the rolling seven-day average daily cases have remained constant over the last fourteen days possibly indicating a peak. Total hospitalizations of covid-19 cases are up but the rate of hospitalization of new cases is declining. The national case fatality rate similarly tracks the San Diego and California experience as well. The consensus among economists and other analysts is that we may be seeing the top of the delta wave n the U.S. If true, this would replicate the experience seen in Israel, Great Britain, and India all of which incurred the delta variant prior to the U.S.

The most significant economic news of the past week is that coming from the Jackson Hole, Wyoming virtual summit held by the Federal Reserve and its member institutions. Specifically, Chairman Powell noted that the Fed is likely to begin tapering its monthly $120 billion bond buying program by the end of this year. However, interest rate hikes are not likely until 2023. Also noted was that jobs are recovering but still have further to go. Inflation remains high but the Fed is still confident that recent trends are transitory. This is based on evidence that inflation is mostly occurring on a narrow group of goods and services affected most by the pandemic and the reopening of the economy. Additionally, the Fed is not seeing any significant wage-price spiral indicating wage increases are not a material factor in inflation measures so far.

Surveys still indicate GDP estimates for 2021 remain above 6% growth. Consumer confidence remains stable and cash levels are significantly above long-term averages. Corporate earnings growth averaged over 45% in the second quarter. However, manufacturing and services purchasing managers indexes hit short-term lows although both measures remain well in expansion territory. Consumer retail spending continues to increase, and corporate spending plans are growing as well. Risks remain in the form of reduced fiscal stimulus, higher stock market valuations, the ending of mortgage forbearance on September 30, stickiness of inflation, the delta variant not to mention domestic and geopolitical issues associated with recent events. Nevertheless, the underlying economic fundamentals remain strong both in the U.S. and globally. The next six to twelve months should see relative gains in the equity markets but remains susceptible to volatility if future economic data reports miss consensus expectations.

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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