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MARKET OUTLOOK: END OF 2021

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If the year ended today, it would qualify as a better than average year for the financial markets. Despite a rocky September, through the first three quarters, the S&P 500 was up about 15%; this despite a 5% decline in September. While we've seen volatility in September, if the market can hold this watermark, returns would be above the historical average of 11-12%, and it would qualify as a good year. So, what about the rest of the year?

We are currently in a seasonal weak period for the financial markets. Since 1926, September ranks as the weakest month of the year. The decline this year was larger than the historic average decline of about 1%. Taken together, September and October are historically the weakest 2-month period of the yar. However, the fourth quarter is historically the strongest quarter of the year. Importantly, our July portfolio rebalance was designed to better weather interest rate volatility and tempered cyclical exposure slightly.

In my view, there are three key issues as we head toward the end of the year: 1) The economic restart, 2) Fed Policy and interest rates, and 3) inflation.

Even though the Delta Variant has caused concern, the economic restart, while not bullet proof, appears real and is being driven by availability and efficacy of vaccines, economic stimulus, pent up demand for goods and services, and high consumer savings.

According to the CDC, as of late September about 77% of US Adults have had at least one vaccination. And the US consumer has been flush with savings. In March, the US savings rate was 27%, or about three times higher than normal; so there has been substantial wherewithal to spend. Also, the economic stimulus provided in reaction to the pandemic was huge - close to 25% of GDP. As a reflection of a strengthening economy, corporate earnings expectations have been on the rise. GDP growth is expected to be 6 - 6.5% this year.

That brings us to the Fed, which has kept rates low and has been willing to have the economy overshoot its inflation target of 2% until there is significant progress on in the labor market. The Fed is likely to let the economy run a bit hotter than normal for some time. This should help growth, but yields on bonds are low, creating challenges for fixed-income investors.

That brings us to inflation, our third key issue. The inflation rate as measured by CPI was 5.3% in August and 5.4% in July; well above the historical rate of 2.9% since 1926. And the gap between interest rates and inflation is the largest it's been since 1980. So, with 10-year government bonds recently yielding 1.4%, corporate bonds at around 2.4%, and inflation at 5.3%, purchasing power is contracting by 3-4%. All of this means that an investor heavily invested in bonds could be losing ground to inflation producing a negative real return.

Generally, equities tend to do better in inflationary times and historically have served as a hedge. But not all equities are created equal, and according to a recent analysis by Blackrock, investors are arguably underweight inflation fighters in their portfolios.

Investors tend to de-risk their portfolios with fixed-income the closer they get to retirement. So, for retirees, it's more important than ever to have a financial strategy in place to make sure they are not losing out to inflation.

HOW TO PROTECT YOUR PORTFOLIO DURING RISING INFLATION

by Jim Lineweaver, CFP®, AIF® President and Founder

The country is opening again after the severe disruptions we saw over the last year. But, the stimulus of the past year, coupled with the growing economy and some of the shortages we have experienced are causing rising prices. In fact, the Labor Department is reporting the fastest pace of inflation since 2008. So, what is inflation, and how you can help protect your portfolio?

First, let's go over the differences between reflation and inflation. Reflation is more akin to what we are seeing now –price increases due to the reopening and growing economy, as the economy works its way back to full employment. Inflation is generally increasing prices in a more stable situation – when an economy is at full capacity, and unemployment is generally low.

To most of us, higher prices affect us negatively, regardless of the root cause. Shopkick, a retail marketing app, surveyed 19,000 consumers to see what their experience with inflation was. Of those, 86% have noticed increased prices, and 83% plan to tighten their belts because of it.

Inflation is a problem because it eats at the value of your retirement savings. Average inflation is about 2.9% according to tradingeconomics.com. So, even in optimal economic conditions, you're losing 2.9% or more of your savings most years. But there are some strategies you can use to help protect yourself, your family, and your hard-earned money.

First, there are certain asset classes that are historically more resistant to inflation, like real estate. If you do not want to own property yourself, there are Real Estate Investment Trusts, ETFs, and other strategies that act as a good inflation hedge. Commodities are also often considered a classic inflation hedge because Inflation means rising prices. Commodity prices usually rise the most, as it takes a long time to build new capacity to satisfy the demand.

Second, Treasury Inflation Protected Securities, or TIPS are another classic option because they are designed to increase in value to help keep up with inflation.

Finally, it may seem counterintuitive, but continuing to invest in the stock market is generally a good hedge against inflation because the market tends to outpace inflation. Stocks with low pricing power can be especially effective – even though this is the exact opposite of what investors usually look for. Companies with in-demand products can raise prices any time, and attract exceptional valuations. But when prices are rising everywhere, the weaker, less popular companies can also price more aggressively, and pricing power becomes less important. In such an environment cheap, or "value," stocks in fiercely competitive sectors such as telecommunications or cable TV become more attractive.

These are just a few of the steps and strategies we're using with clients to help them outpace inflation. As markets and economic conditions continue to evolve, we'll continue to update our strategies and help clients adjust to changing and often volatile markets.

THE WEALTHWATCH

2021 BIDEN TAX PLAN AND FEDERAL TAX PROPOSALS

The Biden administration is proposing about $4 trillion of new federal spending over 10 years as part of their new infrastructure legislation. To partially fund this new initiative, the new tax proposal includes higher taxes on individuals and corporations. These changes could potentially include higher individual and corporate tax rates, higher taxes on capital gains and new individual and corporate tax credits. Let's take a look at some of these proposed changes:

- The current top individual tax rate is 37 percent. The Biden proposal will raise the top rate to 39.6 percent. This would apply to taxable income over $452,700 for individuals and $509,300 for heads of households and joint filers.
- Tax long-term capital gains and qualified dividends as ordinary income for taxpayers with taxable income above $1 million. That would result in a top marginal rate of 43.4 percent when including the top marginal rate of 39.6 percent and the 3.8 percent Net Investment Income Tax. Current law has long-term gains and qualified dividends taxed at 20 percent for those same individuals, plus the 3.8 percent Net Investment Income Tax.
- Tax unrealized gains at death for unrealized gains above $1 million ($2 million for joint filers, plus current law capitals exclusion of $250,000/$500,000 for primary residences).
- Apply the Net Investment Income Tax to active pass-through business income above $400,000. Currently, that income is not included in the Net Investment Income Tax calculation.
- Limit 1031 Like-Kind Exchanges above $500,000 in deferred capital gains.
- The proposed plan would extend to 2025 the enhanced Child Tax Credit providing $3,600 for children under age 6 and $3,000 for children ages 6 to 17. The proposal would also make permanent the changes that occurred last year that made the Child Tax Credit fully refundable and expanded the Earned Income Credit and the Child and Dependent Car Tax Credit.
- Raise the corporate tax rate from 21 percent under current law to 28 percent.
- There are also new initiatives to fund the IRS for more vigilant tax compliance for individual and corporate taxpayers, as well as new reporting requirements for financial institutions aimed at curtailing tax fraud.

These are just some of the highlights of the tax proposals being considered under the American Families Plan and the American Jobs Plan. We will continue to monitor these proposals and keep our clients and friends up to date on any new developments as they become more clear.

HEALTHWATCH

HOW BAD ARE CARBS, REALLY?

ARE THERE 'HEALTHY' AND 'UNHEALTHY' CARBS?

Carbohydrates often get a bad rap due to the association of their excessive consumption with weight gain, obesity, metabolic syndrome, and diabetes.

This phenomenon, which some researchers call "carbotoxicity" promotes the idea that the excessive consumption of all types of carbohydrates favors the development of chronic diseases.

For this reason, many low carbohydrate diets have become popular among people interested in losing weight or managing blood sugar levels. They are even in favor among seasoned athletes.

However, several other studies have demonstrated that the quality of carbohydrates that people consume is as important as the quantity.

This finding suggests that rather than all carbs being "created equal," some options are better than others for health.

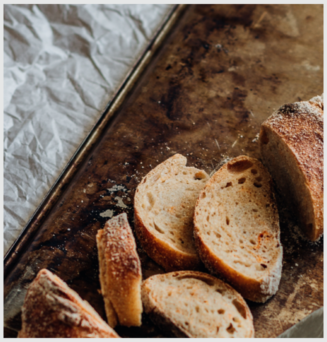
THE BOTTOM LINE

Carbohydrates are an essential macronutrient, providing the body with energy and dietary fiber to support good health.

Excessive consumption of carbohydrates is associated with weight gain and an increased risk of the development of chronic diseases, such as heart disease and diabetes.

Despite their bad rap, however, carbohydrates offer many health benefits when a person frequently consumes sources of complex carbs and dietary fiber in favor of refined carbs and sugar-sweetened beverages.

Source: Medical News Today



Despite the popularity of low carbohydrate diets, they are not suitable for everyone, and some populations still benefit from a carbohydrate-rich diet.

Before making changes to their diet, people should speak with a doctor or registered dietitian to determine their specific carbohydrate needs to optimize their health outcomes.

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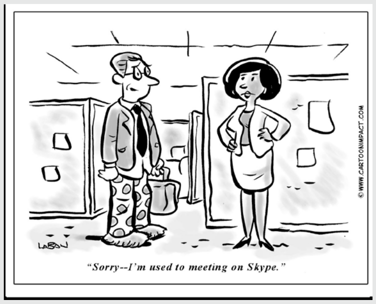

Source: Breakthrough Visuals

DID YOU KNOW:

German chocolate cake doesn't come from Germany. In fact it doesn't have anything to do with the country at all. The dessert was named after American baker Sam German. In 1852, he invented a style of sweet baking chocolate for the Baker's Chocolate Company. The company called it "German's Sweet Chocolate".

Source: NPR

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