RETIREMENT WEALTH SPECIALISTS

A BLUESPRING WEALTH PARTNER

Quarterly Economic Update
Second Quarter 2021

WORDS FROM MITCH:

You will read about several things in the newsletter, but two key elements I would like to point out are inflation and the Covid-driven markets. You will see the markets have been going up and there has been tremendous stock market growth. Also, notice the inflation numbers have been going up and bond yields dropping.

I know the markets have risen; however, after the information about the Delta Virus strains and breakthrough infections, uncertainty was created. As a result, on July 19,2021, the 3 major indexes saw a large pullback and a big dip (*Source:Yahoofinace.com 7/19/2021)*. Some states have put some mandatory mask requirements back in place and that spooked the markets; however, I say, "Don't panic!" For three consecutive days following the "spook", the three major markets returned to positive territory.

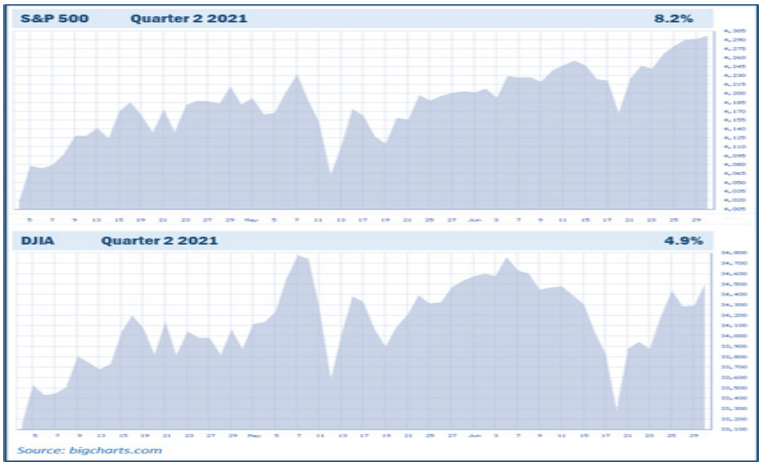
The inflation we are hearing about is both good and bad. Obviously, inflation can hurt the economy with rising prices. I am sure you are asking, "Why is inflation good?" When I say "good," we are coming out of a recession, a closed economy, and coming out of the past devastating 15-18 months.

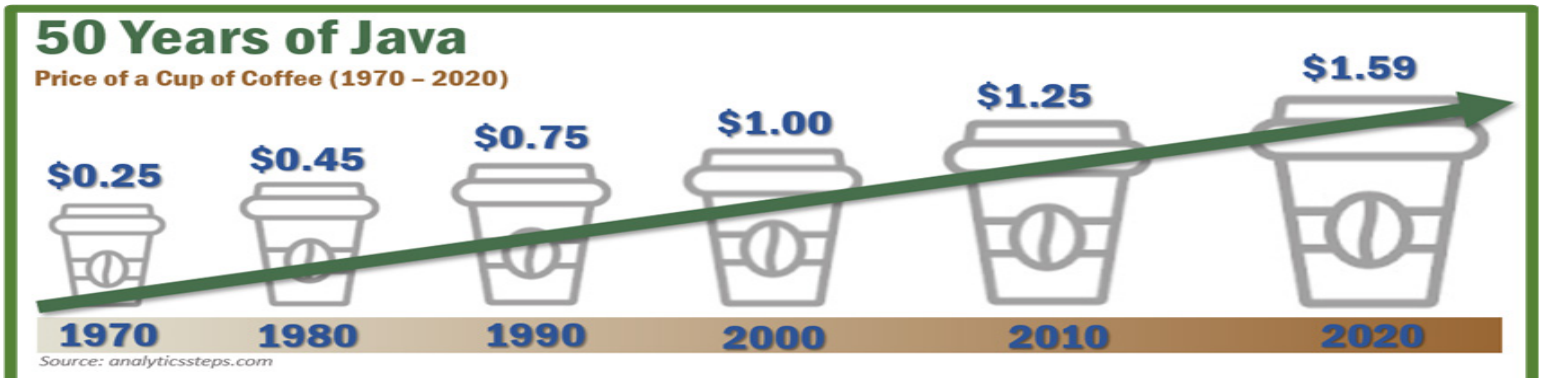
We needed to see people starting to travel, hotels starting to get booked, restaurants starting to open, and people spending more money. The average cash in US banks, Money markets and CD's over the years has been about 1.7 trillion dollars. In February of 2021 that number moved up to 6.2 trillion dollars in US banks, CD's, and money markets *(Source: KPMG Economics, Bureau of Economic Analysis, February 2021, Haver Analytics).* That money is starting to pour into the economy and inflation is rising. They say it is transitory *(*Source: *CNBS 7/6/2021).* We saw lumber go up about 1200% (yahoofinace.com 3/20/21). Lumber has since come down but is still up *(*Source: *CNBC 6/25/2021)*. Rental cars are at record highs, used car prices are up about 21% *(*Source:*CNBC 5/20/21)*, and airfares are rising as people are starting to fly again *(*Source: *NBCNEWS.com 6/15/2021)*. The FED believes this is a temporary issue, but they are watching it carefully *(*Source: *CNBC 7/5/2020).*

There is a lot of information in this month's economic newsletter, but I wanted to draw your attention to some of the big issues driving the most recent volatility in the markets. We continue to recommend a good asset allocation to different market sectors and use some volatility funds or managers. Enjoy the economic update, pass it along to your friends, and as always please call me with any questions you may have.

In the first half of 2021, investors welcomed a new administration in the United States of America, saw the reopening of many countries, experienced volatility in equity markets and ended a second quarter that produced many new highs.

The S&P 500 has now gained ground for five quarters in a row. Notably, it has gained more than 5% for five quarters in a row, only the second time since 1945 that the index has been able to pull off that feat. The previous occasion was in 1954, according to Bespoke Investment Group, a time when the Fed was also trying to emerge from a period of ultralow interest rates. Needless to say, through a whirlwind of change, investors who stayed the course could have experienced a continued drive toward better economic and financial health.
(Source: Barron's 06/30/2021)





Inflation is a decrease in the purchasing power of money, reflected in a general increase in the price of goods and services in an economy. For example, the prices for many consumer goods are significantly higher than they were 50 years ago. When you hear someone's grandparent say, "When I was your age a cup of coffee cost 25 cents," they are making a statement about inflation. Simply put, it is the rising cost of goods and services over time and the decrease in the purchasing power of the dollar.

"Better news on Covid, vaccinations, re-openings, economic growth, and earnings fueled the advance. Nearly equal gains were achieved in both quarters by a rotation in leadership allowing broad participation," said Jim Paulsen, Leuthold Group's Chief Investment Strategist. (Source: www.cnbc.com 06/30/2021)

On the last day of Quarter 2, the S&P 500 rose 0.1% to end at 4,297. This marked the S&P 500's 24th record close of 2021. The Dow Jones higher and more persistent than we expect," Powell said during the press conference. (Source: www.cnbc.com 06/16/2021)

Powell also stated, "The dots are not a great forecaster of future rate moves ... it's because it's so highly uncertain. There is no great forecaster -- dots to be taken with a big grain of salt," he said. (Source: www.cnbc.com 06/16/2021)

The inflation expectation for 2021 was raised to 3.4%. Back in March, the Fed had anticipated a 2.4% inflation rate. Powell continued, "You can think of this meeting that we had as the 'talking about talking about' meeting, if you'd like." The sentiment of the Fed is that inflation pressures are "transitory". (Source: www.cnbc.com 06/16/2021)

The Federal Open Market Committee (FOMC) still kept its benchmark short-term rate near zero at 0 – 0.25%. Even though the dot plot projected rates may now go up in 2023, Fed Chair Powell stated, "The economy has clearly made progress. I expect that we'll be able to say more about timing as we start to see more data." (Source: www.bankrate.com 6/21/2021)

After the Fed's announcement in June, the stock market experienced a temporary drop but quickly regained losses.
Bond yield percentages also pulled back from their high. 10-year treasury yield last traded at 1.56% on June 16 after Powell's remarks.

MONEY RATES
(as posted in Barron's 7/6/2021)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction)[c]	0.10%	0.09%
Bank Money Market[z]	0.07%	0.12%
12-month CD[z]	0.17%	0.38%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Inflation is a real concern for savers because it eats into purchasing power and lifestyle. While we are nowhere near the last 90 years highest or lowest periods of inflation, investors still should try to at least keep pace with or exceed inflation rates.

Treasury Yields

Treasury yields experienced some volatility at the end of this quarter. Immediately after the Fed's meeting, Treasury yields experienced fluctuations, even hitting a low that day of 1.354% on a 10-year Treasury, the lowest since February 24. (Source: www.cnbc.com 06/21/2021)

During the quarter, longer-term Treasury yields moved sharply higher, with the yield on the benchmark 10-year U.S. Treasury note jumping from 0.93% to 1.74%, its highest level since early 2020. At quarter's closing, the 10-year treasury yield was 1.456% and the 30-year treasury yield was 2.08%. (Source: cnbc.com 6/30/2021)

Top 3 Highest and Lowest Inflation Rates

(1930-2020)

Year	Inflation Rate YOY	Business Cycle (GDP Growth)	Events Affecting Inflation
1930	-6.4%	Contraction (-8.5%)	Smoot-Hawley
1931	-9.3%	Contraction (-6.4%)	Dust Bowl
1932	-10.3%	Contraction (-12.9%)	Hoover tax hikes
1946	18.1%	Expansion (-11.6%)	Budget cuts
1979	13.3%	Expansion (3.2%)	n/a
1980	12.5%	Jan. peak (-0.3%)	Recession

Source: www.thebalance.com

Interest rates are still at or near all-time lows and rates of 0 to 2% will not help many investors reach their goals. Also, during periods of rising interest rates, bond prices fall. Interest rates are critical when creating a diversified and balanced portfolio, therefore, investors need to pay attention to interest rate movements.

Investor's Outlook

With the swift distribution of vaccines and the subsequent lifting of restrictions, the economy is seeing a dramatic uptick and is positioned to recover even more in the coming months. While equity markets are still looking favorable, all eyes are on inflation. This may cause some volatility in stocks.

Although history is just data and cannot be predictive of future events, as mentioned earlier, historically, a positive first half of the year has traditionally brought a positive second half.

Blackrock, one of the world's largest asset managers in their midyear report noted that, "We remain constructive on U.S. stocks as the economic restart gains pace. Yet as the cycle evolves, investors will increasingly divert their attention toward the potential party spoilers. A chief concern is inflation, and whether the rising prices seen in some pockets of the economy are transitory or the first signs of an enduring new regime. We expect fears of inflation will be enough to stoke volatility in stocks, even amid Fed assurances of continued accommodation. Similarly, tax policy may become a volatility trigger as lawmakers debate the proposal". (Source: Blackrock.com 7/1/2021)

Russell Investments in their mid-year outlook, stated, "We still like the pandemic-recovery trade that favors equities over bonds". However, they did caution that, "We're watching indicators for whether the inflation spike becomes an issue for the Fed." They concluded that, "We expect strong economic growth in the United States through the second half of this year".
(Source: RussellInvestments.com 7/1/2021)

Seeking Alpha in their midyear outlook shares, "The breakneck pace of the COVID-driven decline and restart has made for one unprecedented economic and market cycle. We begin the second half positioned for recovery, while also safeguarding against potential bouts of market angst". They concluded with the fact that they, "remain constructive

economy are transitory or the first signs of an enduring new regime." They also remind us that equity markets are forward looking and they share that inflation and taxes could bring market volatility in this year's second half. (Source: Seeking Alpha.com 6/25/2021)

Key Points

1. All three major indexes finished the quarter positive.
2. Continued vaccine distribution and re-openings are driving the economy forward.
3. Interest rates remain at near zero but are projected to increase in 2023.
4. Inflation is moving forward quicker than expected.
5. Avoid distractions and stay on path with your time horizons and risk tolerance.
6. **Call us with any questions or concerns about your personal investment strategy.**

Investors understand that it is not what you make, but what you keep, so another area we will be paying careful attention to is proposed new tax policy. President Biden's campaign included his administration pushing for several tax law changes. These included: increasing corporate tax rates, increasing the marginal tax rate for top earners, eliminating the stepped-up basis upon death, and lifting the capital gains and dividends tax rates on high-income filers. Changes in tax policy can

bring different results for those affected and volatility to equity markets. We are keeping an eye on tax law changes and how they may affect you.
With interest rates still near ultra-low levels, investors need to examine the use of equities in their portfolios. With equities at or near all-time highs, investors need to fully understand their personal timelines and risk appetites. Our role as financial professionals is to help find the right balance for our clients so they can pursue their goals.

Caution is still the principal notion for investors.

We still advise to proceed with caution. Regardless of how equities are performing, investors should always focus on their personal objectives and long-term goals. Even when investing for the long-term, there is no guarantee that market volatility will decrease, stabilize, or increase over any timeframe. While you cannot control the return on investment you will see, there are three things you can control, and of which should be your main focus:

1. Your risk tolerance
2. Your time horizon
3. Your behavior.

HELP US GROW!

This year, one of our goals is to offer our services to several other people just like you!

Many of our best relationships have come from introductions from our clients.

Do you know someone who could benefit from our services?

We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Invite a guest to a workshop,
- ✓ Encourage someone to schedule a complimentary financial checkup.

Please call Mitch or Charlotte at (407) 875-2674 or kelly@rwsadvisors.com and we would be happy to assist you!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office, or bring it up at our next scheduled meeting. If you ever have any concerns or questions, please contact us!

We are here for you!

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team

on the issues that affect our clients.

A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address them.

Charlotte Bradley shared her insight and explained bonds using the metaphor of rungs on a ladder at our lunch and learn event in Sarasota.

Charlotte Bradley
Financial Wealth Advisor

Amazon - Day 1 of a New Era

Jeff Bezos, currently the world's richest person, stepped down as CEO of Amazon on July 5. While Bezos will still be Amazon's largest shareholder, he will now focus his energies on new products and initiatives. In 27 years as Founder and CEO, Bezos built a garage-based company into one of the most successful businesses in history. Bezos believed in a **"Day 1"** philosophy and stated he was still treating the company as if it was a start-up, even after it was first publicly listed. He transformed the company from selling books online to a place where shoppers can now find millions of products on an internet-based megamall.

Now, as he leaves his post as day-to-day overseer of this great success story, in his last letter to investors, instead of taking a victory lap, he cited new challenges, showing that he still maintains the company is continuing a **"Day 1"** philosophy.

A lesson in long-term investing...

The dot-com bubble in 2000 extinguished many dot-com companies. Although Amazon stock survived, it lost more than 90% of its value. Bezos remained grounded in his foundational principles and long-term success goals. While many of his peers folded, Bezos made sure Amazon continued to evolve and grow. Early Amazon investors who kept their eye on **long-term goals and stayed the course** through even the most difficult of times, have been rewarded with impressive gains.

Source: cnbc.com

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