June 2021

Dear client,

The warm and sunny days are upon us again as we have emerged into summer and I hope that this will be the last time I start the quarterly letter with the current state of the pandemic!

It's been a long road over the past 15 months as our country has faced COVID-19. Over one half of adult Americans are now fully vaccinated and nearly two thirds of adult Americans have received at least one shot. Case numbers have steadily dropped and the 7-day average of new cases is down towards 15,000 per day – a level not seen since the very start of the pandemic. A significant economic pickup due to a fully reopened economy is upon us.

After having strong returns for the stock market in 2020, and now halfway through 2021, the momentum continues as the S&P 500 Index, year to date, is up close to 14%. Since economic activity has picked up, the concern for the months ahead now focuses on inflation. It's clear that inflation is edging up but to what degree and is this caused by temporary factors that will ease in the coming months? **Headline Consumer Prices** (includes food and energy) rose 5% year over year in May, the fastest pace since August 2008. However, comparisons from a year ago are magnified because economic activity was reduced due to pandemic restrictions. Also, it's important to note that surging used car prices accounted for a significant portion of the inflation gains and some of the largest increases were in sectors that had been disrupted by COVID. All this may very well support the theory that the inflation we are currently experiencing will be "transitory" as the Federal Reserve has stated – meaning it will be something that won't persist.

Clearly we will be monitoring the quarters ahead to watch for rises in the **CPI**, because if we get to a consistent level of 3%, that will be more inflation then we've had in this country since the 1980s! Although I do think it's still too early to lock in on that scenario, it's important to remember that investing discipline; risk management; tax minimizing strategies; and thoughtful estate planning will continue to play a significant role in meeting your goals.

Since earnings have recovered significantly from a year ago, it's quite possible that these increased earnings can in fact support the current S&P 500 Index trading where it is today and even a bit higher from here. Sounds too good to be true? Let's take a look at a few items we will be watching that could cause problems…

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According to the **Sevens Report,** we are entering a transition period for Federal monetary policy, from historically "dovish" to less so (think unlimited stimulus to a bit more "hawkish" restrictive policy). We need to understand that this may cause more volatility in the stock market. But as long as the market does not think the Federal Reserve is committing a policy mistake, then this alone should not cause an end to the rally.

Also, remember that any major changes in the tax code, especially at the corporate level which might impact company earnings, could have impacts on market valuations. And while it is possible we won't see any tax increases until 2022 – it's another issue that that we will have to watch for. However, because of the extremely slim Democratic majorities in both Houses, we should expect material changes to these proposals if they are to pass. While I touched on some of the proposed changes in the last letter, it's really too early to speculate as what actually comes to law and at this point, history tells us that making portfolio decisions based on tax proposals in such a slim majority government isn't a good long term solution.

Minimum Required IRA distributions are mandatory this year (Tax Year 2021) for those of you 72 years of age and older. We will reach out to you toward year end if you have not met the requirement of taking the distribution. I had mentioned in the last letter that there is the possibility of the required minimum IRA distribution age getting pushed to 75 but it turns out it's not that simple. It appears that the RMD age may get pushed back in stages over the next decade rather than immediately. The first proposed change will be age 73 in 2022; age 74 starting in 2029; and age 75 starting in 2032. Again, nothing is set in stone on this and we will be sure to keep you posted as more information becomes available. I'm hoping to provide a more comprehensive update to any tax/retirement changes in the next letter should we get more clarity from Washington.

Once again we are hesitating to try and plan any client appreciation events this summer or early fall. We think it's still a little early to count on having a room full of guests be comfortable eating and drinking, coping with or without masks and "social distancing"! Let's keep our fingers crossed that by our next quarterly update we can revise that assessment and have a great social get-together, celebrating our continued working partnerships and friendships!

If you should have any questions at all please do not hesitate to reach out to us. It's always important that we speak with each other, at least once a year, to go over your portfolios and concerns. We are happy that we are now able to see clients for in-office meetings and of course, can arrange on-line Zoom meetings or a phone call, if you prefer!

Hope everyone has a wonderful summer!

Sincerely,

Bryan Bastoni, CFP
CERTIFIED FINANCIAL PLANNER, TM