**Weekly Market Commentary**

**July 19, 2021**

**The Markets**

The term “peak growth” has become almost as popular as the comedy show Ted Lasso.

Peak growth is a catchphrase with the potential to mislead. When the term is applied to the U.S. economy, it does *not* mean the United States economy has reached the pinnacle of growth and it’s all downhill from here. It simply means economic growth is likely to climb at a slower pace than it had previously.

Nicholas Jasinski of *Barron’s* reported the term is, “…a buzzy phrase used nowadays in discussing the rate of change in corporate earnings, U.S. gross domestic product, stock prices, government and central-bank stimulus and inflation. It’s the trend that matters for investors, and the outlook is moving toward a deceleration on several of those fronts.”

Last week, the bond market appeared to signal slower economic growth ahead, reported Mark DeCambre and Vivien Lou Chen of *MarketWatch*. Yields on 10-year Treasuries finished the week at 1.3 percent, which was lower than the previous week and well below March highs.

The change in Treasury yields was surprising because of last week’s inflation report from theBureau of Labor Statistics (BLS), which showed inflation well above the Federal Reserve’s target of 2 percent. The BLSreported inflation was 4.5 percent over the past 12 months when measured using the core Consumer Price Index (CPI), which excludes food and energy prices. With food and energy included, prices were up 5.4 percent.

When inflation rises above the Fed target, it suggests the economy is running too hot and the Federal Reserve, typically, raises the fed funds rate to cool things off. In this case, however, the Fed maintains that higher-than-desirable inflation will prove to be temporary.

The Fed’s expectation is due, in part, to supply chain shortages. The BLS report indicated inflation was up 0.9 percent in the month of June. Used car and truck prices rose 10.5 percent during the month, which accounted for more than one-third of the increase. A significant issue underlying the scarcity of vehicles is a microchip shortage.

“The origin of the shortage dates to early last year when [COVID-19] caused rolling shutdowns of vehicle assembly plants. As the facilities closed, the wafer and chip suppliers diverted the parts to other sectors such as consumer electronics, which weren’t expected to be as hurt by stay-at-home orders,” reported Michael Wayland of CNBC. There are about 1,400 microchips in a new car or truck, according to CNBC, and it can take up to 26 weeks from order to delivery, according to Max Cherney of *Barron’s*.

While supply chain issues may be resolved with time, another aspect of inflation is wages. Over the last 12 months, wages have increased 6.1 percent, and in June, they were up 1.1 percent. That’s good news for workers, but it’s an aspect of inflation that’s unlikely to be temporary.

A wildcard for global recovery remains COVID-19. Last week, the Centers for Disease Control reported the seven-day moving average for the number of cases was up 69 percent, hospitalizations were up 36 percent and deaths were up 26 percent.

Major U.S. stock indices moved lower last week.

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| **Data as of 7/16/21** | **1-Week** | **Y-T-D** | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
| Standard & Poor's 500 (Domestic Stocks) | -1.0% | 15.2% | 34.6% | 15.6% | 14.8% | 12.7% |
| Dow Jones Global ex-U.S. | 0.0 | 7.0 | 27.3 | 6.6 | 7.8 | 3.5 |
| 10-year Treasury Note (Yield Only) | 1.3 | NA | 0.6 | 2.9 | 1.6 | 2.9 |
| Gold (per ounce) | 1.0 | -3.4 | 0.9 | 13.7 | 6.5 | 1.3 |
| Bloomberg Commodity Index | 1.0 | 21.0 | 42.1 | 4.5 | 1.8 | -5.4 |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; Federal Reserve Bank of St. Louis; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**WHAT WILL YOU DO WITH YOUR CHILD TAX CREDIT?** Last week, 39 million American households that have children age 18 or younger received their first Advance Child Tax Credit payment.

The Internal Revenue Service (IRS) explained, “Advance Child Tax Credit payments are early payments from the IRS of 50 percent of the estimated amount of the Child Tax Credit that you may properly claim on your 2021 tax return during the 2022 tax filing season. If the IRS has processed your 2020 tax return or 2019 tax return, these monthly payments will be made starting in July and through December 2021, based on the information contained in them.”

The amount Uncle Sam sends depends on the age of the children and the income of the family. Eligible households should receive $300 per month for every child age 6 or younger and $250 per month for every child between the ages of 6 and 17, reported Andrew Keshner of MarketWatch.

For some families, the money will help cover the cost of basic expenses. For others, the cash is a welcome windfall that could be used to:

* **Fund a 529 education savings plan**. These plans provide a tax-advantaged way to save and invest for a child or grandchild’s education. Typically, after-tax contributions are invested and any earnings grow tax deferred. If distributions are used to pay qualified education expenses, they are tax free, reported savingforcollege.com.
* **Fund an ABLE account**. The Achieving a Better Life Experience (ABLE) Act of 2014 allows Americans with disabilities and their families to save up to $15,000 a year in a tax-deferred account similar to a 529 college savings plan, explained FINRA.
* **Fund a Roth IRA**. It may seem counterintuitive to open a retirement account for a 6-year-old, but Bankrate’s Roth IRA Calculator shows that a $3,600 investment, earning 6 percent annually, has the potential to grow to almost $150,000 at retirement by the time a 6-year-old is ready to retire at age 70.

For those who qualify and prefer not to receive payments, the IRS has a website that can be used to manage these payments.

**Weekly Focus – Think About It**

“There's nothing that can help you understand your beliefs more than trying to explain them to an inquisitive child.”

*― Frank A. Clark, Former U.S. Congressman*

Best regards,

Scott J. LeClaire, CFP®, ChFC

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\* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.  However, the value of fund shares is not guaranteed and will fluctuate.

\* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

\* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client’s portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

\* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

\* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

\* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.

\* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

\* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

\* The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

\* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

\* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

\* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

\* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

\* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

\* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

\* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

\* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

\* Asset allocation does not ensure a profit or protect against a loss.

\* Consult your financial professional before making any investment decision.

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