2021 | Q1 Newsletter

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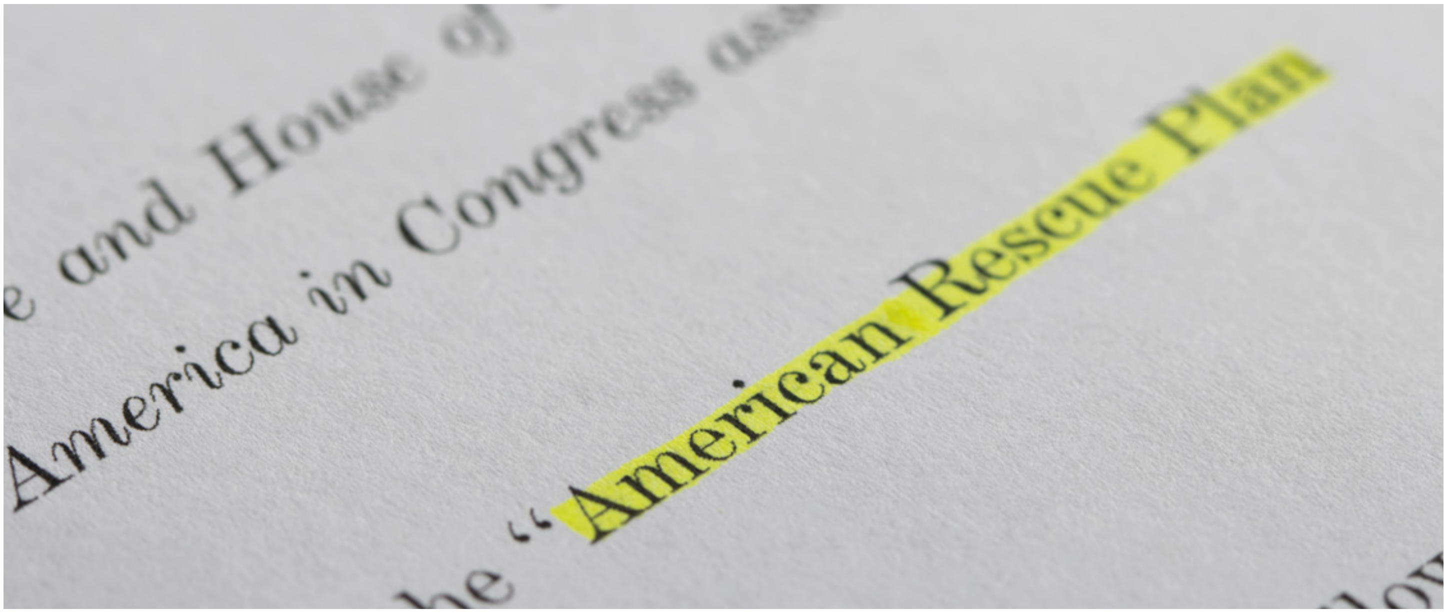

American Rescue Plan

This March, 127 million Americans received a third round of stimulus checks along with funding for state and local government (among other spending measures) as part of the sweeping $1.9 trillion American Rescue Plan Act. Those eligible for the stimulus qualified based on their 2019 and 2020 tax returns received the full $1,400 if their annual income was below 75,000. Those with an adjusted gross income (AGI) over the limit, received a reduced stimulus by 5 percent for the total amount they made over. A family of four making under $150,000 received a $5,600 check. Time will tell how much this third round of direct checks to tens of millions of American will impact the economy.

Too much stimulus?

The issue of government spending still looms because of this next round of stimulus. While many believe the economy was in dire need of additional stimulus funds, the lasting impact will slowly expose the ever increasing cracks in the financial markets. Our expectations are that the true impact of the additional governmental spending will be felt in the next 12-18 months and may only be smoothed by fiscal measures in the interim, i.e. budget cuts or increase in taxes. As a result, many clients are concerned about the proposed Biden tax changes. However, it is still too early to determine if and how much of the proposed tax changes will make it into the bill.

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Important tax deadlines

The Treasury Department and IRS announced on March 17 that the tax deadline for 2021 will be moved from **April 15 to May 17** for individual taxpayers without penalties and interest, regardless of the amount owed. Over 25 states and localities have announced a similar extension in response to the IRS. California also extended the tax deadline for individual taxpayers to May 17, which applies to IRA and HSA contributions for prior years as well.

Both the IRS and California's state tax agency said the deadline extension does not apply to estimated tax payments made quarterly for income not subject to tax withholding. **That deadline remains April 15.**

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Market Update

March continued the rotation from Large Growth to Small Cap and Value stocks. After nearly a decade of under-performance, Small Cap vs Large Cap, the Small Caps finally regained their appeal with a more than 10% out-performance over Large Growth during Q1. In fact, the month of March actually had many investors believe tech stocks were on the brink of another major market crash as the sector experienced a correction, a 10% decline from their market high, during the month.

It is interesting to note that the vast majority of the large cap volatility during the second half of Q1 was a result of inflation fears; and fear is emphasized. Federal Reserve Chairman, Jerome Powell presented three times during Q1 and during all three presentations noted that inflation was not of immediate concern. In fact, he stated that the Fed has had difficulty maintaining the current level of inflation and has not yet been able to reach their target inflation goals; inflation is too low. Yet, after each time Powell noted the current low levels of inflation, the market reacted swiftly down and media headlines cited inflationary fears. The market reaction and media headlines are in complete contrast to what the Fed Chair was reporting based on actual market data.

Looking at the actual market data, we have not, and do not, believe inflation is of dire concern as the current market volatility suggests. Instead, we believe we are in store for continued market growth and will see a second wave up as the COVID vaccines continue and society experiences a "Grand Re-Opening". A measure of this grand re-opening momentum can be found in the March non-farm payroll jobs report which blew the estimates out of the water. The median estimate of new jobs for March was 660,000, but actual jobs created were 916,000 for the month. This is the largest increase in monthly jobs over the last 7 months and is an indication of movement towards a non-COVID economy.