Raymond Capital Advisors, LLC

July 18, 2021

Stock & Bond Benchmark Total Returns %
For Periods Ending June 30, 2021

	QTR	YTD	1-Year	3-Years	5-Years	9-Years
S&P 500	8.55	15.25	40.79	18.67	17.65	15.93
Bloomberg Barclays U.S. Aggregate Bond	1.83	-1.60	-0.34	5.35	3.03	2.96
60/40 TAA Composite Index	5.84	8.28	23.01	13.64	11.90	10.81
3-month Treasury Bills	0.01	0.02	0.07	1.14	1.07	0.63

Returns (%) include capital gains, dividends and interest, and are annualized for periods greater than one year.

Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: Rising Tide with Increased Chop

Just as a rising tide lifts all boats, so too has the large amounts of fiscal and monetary liquidity lifted all major asset classes. For Q2:2021, stocks gained 8.55% (S&P 500 including dividends), bonds returned 1.83% (Bloomberg Barclays U.S. Aggregate), existing home prices 10.5% (3 months ending May), and gold 3.32%. It was the fifth quarter in a row stocks have risen since the bull market began. From the March 23rd, 2020, stock market low through July 12th of 2021, the S&P 500 (including dividends) has returned 100% in what's been the ***fastest*** reflation of the stock market since the 1942 – 1968 bull market.

An added consequence of the monetary spigot at full open, however, has been "choppier seas" in the form of increased rotation among equity styles and sectors as investors debate the strength of the economic recovery, the degree of inflation, and when interest rates will rise. Also reflecting these uncertainties, analysts' earnings forecasts (up 53% for 2021) have shown elevated levels of dispersion giving rise to the frequent repositioning of portfolios between Growth and Value styles, large and small-cap stocks, and sectors. This quarter, while positive returns were produced, the rotation worked against RCA's equity selection strategies as large-cap Growth returned as the most favored style.

Outlook: It's still a Bull Market, but Check Your Risk Capacity & Tolerance

Year-to-date, stock market pullbacks have been limited to less than 6%, which underscores the favorable monetary and fiscal conditions, strong market momentum, and the probability of economic recession as low. Under such conditions, a primary bull market continues to be our favored long-term scenario. However, the market's recent strong returns have also attracted increased levels of speculation, record valuations and extreme optimism for stocks. One only needs to look at the speculative frenzy occurring in Dogecoin, and "meme stocks" such as AMC, GameStop, etc. without regards to underlying fundamentals. While increased speculation and valuations often go together with easy money policies and low interest rates (which are now near zero), larger pullbacks should also be expected in the quarters ahead.

For investors who are well-funded in their retirement or have long investment horizons before retiring, such pullbacks may present buying opportunities. ***However, for those who are within a few years of retirement or are underfunded, it may be a good time check both your risk capacity (the dollar amount you can afford to risk) as well as your risk tolerance (your psychological ability to withstand loss).*** We can help you to get your arms around both measures.

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Macro Topic: About Inflation

As we stated in our client letter of Q2:2020, "The impact of our added debt burden from Covid-19 is likely to result in a combination of higher taxes, inflation, and lower economic growth. Much is likely to fall on future generations."

Year-over-year inflation as measured by the Consumer Price Index is now 5.4%. Inflation is an increase in the general price level over time and acts as a broad-based tax that falls on all consumers. The classic explanation is that inflation is caused by too much money chasing too few goods. So, the addition of trillions of dollars of stimulus money, which did not have time to be well targeted, has many investors and consumers questioning if we're about to enter a new era of high inflation. There are good arguments on both sides of the debate.

The Federal Reserve believes the current spike in inflation is largely transitory and will subside as supply chain issues are worked through. That seems most likely for commodities as high prices signal hefty profits for those that can quickly ramp up production. Indeed, the price of lumber, which had increased more than 90% through May, is now down nearly 30% for the year. Wages, however, are often stickier (once you've given someone a raise, it's difficult to take it back). Nonetheless, strong deflationary forces that have been keeping price increases at bay for decades continue to lurk in the background... increased production through technology/automation, price discovery via the internet, globalization, high debt burdens, and aging populations.

Treasury Secretary Yellen believes we are likely to see several more months of rapid inflation before it settles down. Runaway inflation like the 1970s seems unlikely, while the impact of the Covid delta variant is another wild card. Just how the inflation story unfolds we will have to wait and see. But here are some useful perspectives on inflation to keep in mind.

From the Fed's viewpoint, somewhat higher inflation helps to solve several problems:

- To combat deflationary pressures, the Fed is intentionally allowing inflation to run above its 2% target for period (although the Fed uses a somewhat different metric to measure inflation, the PCE deflator). This helps to ensure the economic recovery and price stability.
- Higher inflation allows the Fed to eventually raise short-term interest rates... their key policy tool! Higher interest rates would give them more room to lower rates to mitigate the next financial crisis or recession.
- Risk is that the currency could weaken. But all countries need spending more. So here in the age of fiat currency, where all currencies are priced relative to each other, it's a game of simultaneous relative devaluation. (Hence the increased interest in cryptocurrencies.)
- Helps to reduce the real value of debt, which can be paid down in cheaper dollars.
- It is a broad-based tax on everyone. No political bickering over whether taxes should fall on the rich or the poor! (Although its burdens are felt the most by the poor and retirees on fixed income, the Fed can leave such fixes for Congress to debate.)
- Trivia/Perspective: The actual rate of inflation over the past 10 years has been a little under 2%, but since 1913 has been 3.1%.

From a retiree's viewpoint:

- Retirees on a fixed income can be hit hard by inflation. If inflation were to grow at 2.5% over a 30-year retirement period, it would mean over a 50% reduction in one's purchasing power (or wealth left as legacy) at the end of the 30-years.
- Stocks can offer protection against moderate inflation. They are operating companies that can adjust the prices they charge for their needed products and services, adjust their cost structure via automation, etc.
- Bonds aren't protected against inflation (other than TIPS).

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- The best annuity you can have during inflation is Social Security as it's adjusted annually for inflation. (Be aware, however, discussions are underway to replace Social Security's inflation adjustment with a new Consumer Price Index, i.e. the CPI-E).
- Over a person's lifetime, a small increase in inflation can have a huge impact. For example, 2% annual inflation over a 95-year lifespan is a factor of 6.6 times (money is worth only 15% of its original value). But 3% inflation over the same period is a factor of 16.6 times (only 6% of original value)!

Financial Planning Items:

While not yet passed and subject to changes, the "Secure Act 2.0" is a bill moving through Congress with sweeping changes for retirement planning. It enjoys widespread support and could be passed before the year's end. Some provisions of the bill include:

- Beginning age for retirement account required minimum distributions (RMDs) would increase in stages:
    - 73 on 1/1/2022
    - 74 on 1/1/2029
    - 75 on 1/1/2032
- Individuals with less than $100,000 in IRAs would be exempt from RMDs.
- Increased catch-up contributions up to $10,000 for ages 62 to 64.
- Contribution catch-up amount indexed to inflation beginning 2023.
- Employers would be required to automatically enroll employees in 401(k) and 403(b) plans. <= FYI –- Bullish for stocks! (Employees may opt out.)
- Employers would be allowed to make matching contributions based on the employee's student loan payments.
- Small businesses would be encouraged to start retirement plans via tax credits.
- The 25% cap on Qualifying Longevity Annuity Contracts (QLACs) would be removed.

We are always available to answer questions about your RCA investments and provide guidance for your retirement planning. These services are provided free of charge to our clients with assets under management. Feel free to email us! (Referrals are also always appreciated.)

Thank you for your continuing support,

Geoff & Lance
Raymond Capital Advisors, LLC
A Retirement Wealth Advisor

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