Wimmer Associates

Quarterly Report

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Letter from Kathy

Dear Friends:

The first half of the year is over, and companies are now rolling out record earnings as investors celebrate an abundance of vaccines and the reopening of the economy. The broad-based S&P 500 Index returned an impressive 14% over the first two quarters, while the technology laden NASDAQ Composite Index returned 12.5% over the same period. All the major indexes have tested or surpassed all-time highs in July and August of this year. Even "value" stocks have enjoyed healthy gains, as cyclical stocks and "old economy" stocks such as railroad, financial and oil and gas companies have seen strong rebounds since March 23, 2020.

The US economy has benefitted greatly by the fast rollout of vaccines. Developed countries in Europe and Asia have lagged far behind in getting their populations vaccinated. With the more virulent strain of the Delta variant spreading around the globe, it appears that fellow developed economies will lag the impressive recovery in the US. It appears that the widely distributed Pfizer and Moderna vaccines are highly effective against the Delta variant of Covid-19. Some noted epidemiologists are now advocating that recipients of the J&J "jab" should follow up with a Pfizer or Moderna shot as the latter two vaccines show a much higher efficacy in preventing serious illness, hospitalization and death. It seems likely that there may be a need of a third "booster" shot with the Pfizer shot as antibodies begin to decline some six months after the original injection. Readers who are immune compromised or organ transplant recipients should consult with their physician and determine whether a third shot is in order.

We miss seeing you in person and look forward to a pandemic free society where people can once again socialize, exercise and travel with confidence.~

Cordially,

Kathy Wimmer, CFA, CIC
President

Key Facts for 2021

- *Annual gift exclusion $15,000*
- *Estate, gift and generation-skipping tax exemption $11,580,000 per individual*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $6,000, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $13,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $19,500, plus another $6,500 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $58,000*
- *Top Federal tax rate is 37% on income over $523,600 (single filers)*
- *Top Federal tax rate is 37% on income over $628,200 (married filers)*

INSIDE THIS ISSUE:

FIRST HALF REVIEW

As noted above, market performance has been terrific year to date; we attribute the positive results to several factors. One of the primary sources of strong financial results is the unprecedented amount of fiscal largess provided by Congress to offset the negative economic effects caused by the pandemic. Offering a $300 weekly supplement to standard state unemployment benefits allowed many unemployed individuals to stay in their existing housing and, in fact, led to a surge in appliance sales as people stayed safely in their homes. Congress also provided additional fiscal stimulus to individuals with checks in the amount of thousands of dollars.

The second major factor in lifting the markets is the accommodative monetary policy by the Federal Reserve providing tremendous liquidity to investors and companies. Corporations have been issuing low-cost debt and then buying back their shares, which raises earnings per share as well as share prices. Homeowners have taken to refinancing their homes in this ultra-low interest rate environment. Lower monthly mortgage payments put additional cash in a homeowners' pockets which can then be used to invest in the stock market or to buy capital goods.

Third, according to data supplied by FINRA, investors have increased the use of margin debt to buy additional shares of stock.

Fourth, the availability of vaccines has allowed for the reopening of the economy. There is a tremendous amount of "pent-up" demand after "lockdowns" and social distancing, so the economy should recover as consumption rebounds. We have stated before "the economy is not the stock market", but a dynamic economy surely helps investor sentiment.

While companies continue to report their second quarter earnings, actual results are overwhelmingly exceeding the prior earnings projections. There has been a slight rotation to value and cyclical stocks versus growth stocks that have led the market since 2008. Oil and gas companies, materials, finance, industrials and even semiconductors are all beneficiaries of this year's tilt toward value and cyclical stocks.

Gross Domestic Product (GDP) rose at an annual clip this June of 6.5% compared to the same quarter last year. While a 6.5% annual growth rate in GDP is quite high on a historical basis, it was nevertheless well below what economists had generally projected. Supply chain bottlenecks throttled back the June GDP results, as semiconductors idled car manufacturing and housing construction was hamstrung by the lack of needed materials. It is normal to see a high GDP reading coming out of a recession, but it is unsustainable on an ongoing basis once a full economic recovery has been completed. US GDP has grown on average around 2% per annum, since the recovery from the Great Financial Crisis of 2008. Moreover, US real GDP hit an all-time high in the second quarter of 2021 and, thus, completing the "V-shaped" economic recovery.

The Bureau of Labor Statistics issued preliminary unemployment results for July of this year. They appear stellar on the surface. Non-farm payrolls rose by a seasonally adjusted 943,000 workers in July, which is the sharpest rise in eleven months. The unemployment rate declined to 5.4% in July, down from 5.9% in June of this year. To put July's unemployment rate into some historical perspective, the current rate is now lower than it was between 1975 and 1987. Yet, total employment is now 5.7 million jobs below the pre-pandemic rate. A possible catalyst to the decline in the unemployment rate is the number of employees who have dropped out of the workforce by retiring or out of a need to accommodate child or elder care. There is also a reluctance on the part of some workers to return to offices with the Delta variant wreaking virulent damage. In July, 380,000 of the reported new hires were in the leisure and hospitality industry. The number, however, does not reflect any potential setbacks from the outbreak of the Delta variant as the data was based on a mid-July survey. On a more promising note, workers' wages rose 4% in July compared to the same period last year. Hospitality and leisure workers saw their wages climb 10% in July from a year earlier, indicating a tight labor market.

Housing remains a bright spot in the economy. The median existing home price appreciated to an all-time high of $363,300 in June of 2021, up 23.4% from the previous year according to the National Association of Realtors. Overall unit sales rose 22.9% this June compared to the previous year. Developers of new homes are having difficulty finding skilled labor, materials and land availability, which is constraining supply. Housing starts rose 6.3% in June compared to May, while building permits declined 5.1%. This could indicate less confidence in future housing starts by developers or

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First Half Review (continued from page two)

simply reflect the near-term supply constraints cited above.

The yield on a ten-year Treasury bond has fallen from 1.7% in March of this year to 1.1% at the end of June. The lower long-term rates are most likely the result of the Federal Reserve's ongoing quantitative easing program of buying $80 billion of Treasurys every month. The goal of the program is to keep interest rates low by injecting ample liquidity into financial markets. Additionally, the Fed is purchasing $40 billion of mortgage- backed securities (MBSs), ostensibly to keep housing interest costs down. A strong argument can be made that the Fed purchases of Treasurys and MBSs are feeding the rise in equity and housing prices. One also might surmise that the Federal Reserve has reservations over the strength of the US economic recovery and is consequently remaining overly supportive with its loose monetary policy.

Federal Reserve Chair Jerome (Jay) Powell does not seem concerned with recent signs of growing inflation. He stated his commitment to allow "transitory" inflation to run its course as the Fed's Board of Governors intends to remain "accommodative" well past the time of "liftoff" for the economy. Chair Powell cited declining lumber prices, after a fierce runup as a transitory inflation input. He believes the recent climb in used car prices will also correct as bottlenecks and new supplies come back into the market. Furthermore, the Fed intends to let the economy run" hot" for a prolonged period, until the Fed's dual goals of full employment and 2% inflation are met. Chair Powell has also cited "pent up" demand during the recession as a root cause of near-term inflationary risks as supply lags consumers' demand.

The price of goods and services grew 0.4% in June, slower than the 0.5% growth in May based on the core personal consumption expenditures (PCE), which is the Fed's preferred gauge to measure inflation. The PCE tends to run "cooler" than Consumer Price Index (CPI), which is often called "headline" inflation. June was the second consecutive month of decelerating price growth, which may give the Fed more flexibility to delay tightening monetary policy. On an annualized basis, PCE rose at a 3.5% clip, which is higher than the Fed's stated target rate of 2.0%.~

Looking Forward

Looking forward towards the end of the year, we see the US economies enjoying robust recoveries, as governments have doled generous fiscal stimulus packages coupled with accommodative monetary policy from the world's central bankers. Companies continue to report strong earnings, but we are hearing a number of executives note that they will have to institute price hikes to offset increased commodity prices and higher wages. Goldman Sachs, an investment bank, projects the S&P 500 Index will rise 10% by year end, on top of the 14% performance at the year's half mark. Goldman's assumptions seem reasonable based on the yield on the ten-year treasury climbing to 1.6% by year end and the implementation of Congress' reconciliation bill, which will add an additional $3.5 trillion in spending and higher individual and corporate taxes. Goldman rightly issues a caveat as to how the Delta variant might affect future economic growth and corporate earnings if new restrictions are put on the economy.

We expect there to be new national COVID-19 policies rolling out over the next few weeks. First, the FDA has been sitting on ample data for months, yet still hasn't issued a full regulatory approval for the vaccines that were approved under Emergency Use Authorization (EUA). Pressure is growing on the FDA to grant full regulatory approval to assuage the concerns of some who remain holdouts from inoculation. Second, leading immunologists are urging the FDA to approve a third "booster" shot to those over age 65 and those who are immuno-compromised. Israel and other countries have already implemented booster programs. The New York Times has reported that immuno-compromised patients may generate fewer or minimal antibodies to the Coronavirus, and, thus, need supplemental support with an additional shot.

The Federal Reserve has indicated that it may well not raise interest rates until 2023 and will extend its highly accommodative easing policy of buying

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

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Treasurys and MBS. So, we don't expect any surprises from monetary policy. The Fed's policy stance is beneficial for businesses, housing and consumers.

Oil prices are neither too high nor too low, at around $70 per barrel. A "stealth" war, however, between Israel and Iran (with Iraqi proxies and Hezbollah in Lebanon) could erupt at any moment and disrupt shipping in the Persian Gulf causing supply to fall and prices to rise. A month ago, Iran launched a drone strike against an Israeli ship killing two shipmates and, in the first week of August, they tried to hijack an asphalt ship from the UAE.

China has recently reined in Chinese internet and tech companies, such as Alibaba, Tencent, Didi, etc., with fines and de-listings from exchanges and app stores. China wants to prevent the ascension of alternative centers of power. Due to these recent heavy-handed steps along with the poor structure of "variable interest entities", which gives no voting interest to foreign holders of Chinese shares, we would be cautious about investing in China, despite the dynamism of its economy and market opportunities.

Although there is the ever-present potential for geopolitical or military flareups, we believe that we are still in an early stage of economic recovery, both here and abroad, and approach the markets with cautious optimism.~