Quarterly Booklet

Summer 2021

As pandemic-related restrictions melt away, euphoric consumers drive an economic boom.

ONE DAY IN JULY

Summer 2021

Issue XVI

A Note from our Founder

While U.S. household wealth touches record levels, bank deposits surge, supported by pandemic-induced government aid. As consumers get back to normal, economists project GDP growth will be the fastest in decades, and I can't turn on a device without seeing a headline about looming inflation.

Given the unprecedented economic environment, as we work through supply bottlenecks and a choppy reopening, it's anyone's guess where markets will go. Will the S&P continue to achieve record highs, will potential rising rates trample stock prices, or will markets flatline, as they so often do during the summer doldrums? Either way, if you've got an appropriately allocated, well-diversified portfolio of index funds, we recommend tuning out the noise of financial news media and tuning into family, friends, and nature. Happy Summer.

Dan Cunningham

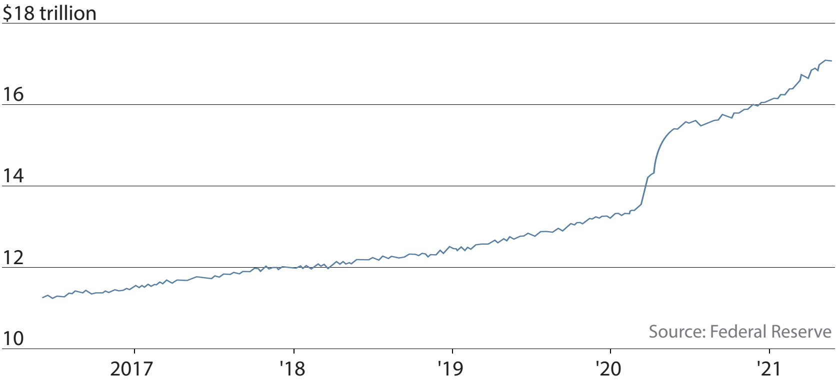
Sources:
https://www.reuters.com/world/us/us-household-wealth-rose-record-1369-trillion-q1-fed-says-2021-06-10/
https://www.cnbc.com/2021/06/13/us-stock-futures-are-flat-with-the-sp-500-at-a-record-high.html

Cash Rich

At the start of the pandemic, companies flooded banks with deposits. Historically low interest rates and the Federal Reserve Bank's bond-buying program enabled many companies to raise funds at low costs. In his 2021 annual letter to shareholders, Jamie Dimon, CEO of JP Morgan, explained that the average U.S. consumer had a healthy personal balance sheet: "The consumer's leverage is lower than it has been in 40 years. In fact, prior to the last stimulus package, consumers had excess savings of approximately $2 trillion. Corporations also have an extraordinary amount of cash," he noted, adding that the Fed's next round of Quantitative Easing (QE) will have created an additional $3 trillion in deposits.

This theme of cash on hand has continued. Between late March and May 26, bank deposits surged by $411 billion. That is slower than the pace last spring, but still nearly four times the average of the past 20 years.

Total deposits in U.S. commercial banks



Sources:
https://reports.jpmorganchase.com/investor-relations/2020/ar-ceo-letters.htm#covid-19
https://www.wsj.com/articles/banks-to-companies-no-more-deposits-please-11623238200

"I have little doubt that with excess savings, new stimulus savings, huge deficit spending, more QE, a new potential infrastructure bill, a successful vaccine and euphoria around the end of the pandemic, the U.S. economy will likely boom. This boom could easily run into 2023 because all the spending could extend well into 2023. Spent wisely, it will create more economic opportunity for everyone."

Jamie Dimon
Chairman & CEO, JP Morgan Chase
in his annual letter to shareholders
April 7, 2021

Tempted by Revenge Spending?

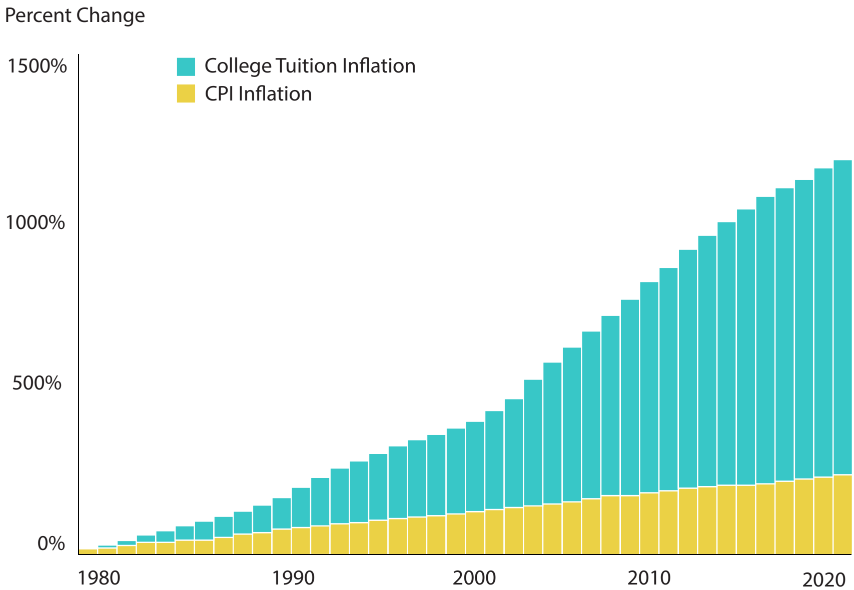
Many Americans have been stuck inside for over a year, saving their cash, buoyed by stimulus payments and unemployment benefits, and limiting nonessential purchases. With vaccination rates increasing and restrictions being lifted, people are ready to spend. After the prolonged period of stress we've collectively endured, a bit of splurging on a summer vacation or a fancy new wardrobe could be good for your overall wellbeing (Lamborghini says it's almost sold out for the year!). But, you might want to hold onto some of those healthy savings habits you developed over the last year. This can be a good time to reevaluate your financial goals and your personal priorities.

Got some extra cash? Consider PYF, or, Pay Yourself First. Setting up a periodic automatic transfer of extra cash from your bank account to your investment account can be a great way to save.

Source:
https://www.gulf-times.com/story/693955/Revenge-spending-clears-out-Lamborghini-for-most-of-2021

Rising College Tuition Costs

Since 1980, college tuition and fees are up 1,200%, while the Consumer Price Index (CPI) for all items has risen by only 236%.*



*Based on seasonally adjusted CPI data, Index values based on 1982-84=100. As of year end 2020.
Source: U.S. Bureau of Labor Statistics.

Feeling intimidated? The key to saving for any financial goal is to start early. This includes saving for college. Not sure where to start? You've got options, from 529 College Savings Plans to Coverdell Educational Savings Accounts. One Day In July can work with you to develop a strategy that fits your family's goals and needs.

Is the housing market finally slowing down?

In May 2021, the median price for active listings of homes for sale grew 15.2% vs. the prior year to a record high of $380,000, but the fast-paced housing market may be starting to slow in the face of price spikes and a dearth of homes for sale across the country. Data analysis from both Realtor.com and Redfin real estate brokerage recently found that while home prices are still rising, they're rising at a slower pace than in recent months.

Source:
https://www.washingtonpost.com/business/2021/06/24/is-red-hot-housing-market-starting-cool/

What about the job market?

The unemployment rate is dropping, approaching pre-pandemic levels. But that metric doesn't tell the whole story. The labor force participation rate, or the measure of folks currently employed or actively looking for work, fell dramatically during the pandemic and is struggling to get back to pre-COVID levels. Whether it's childcare duties, health concerns, or generous government benefits keeping folks out of the work force, many employers are finding themselves struggling to fill vacant positions and are offering enhanced incentives to attract new hires. Higher wages could squeeze corporate profits if they cannot be passed on to the consumer.

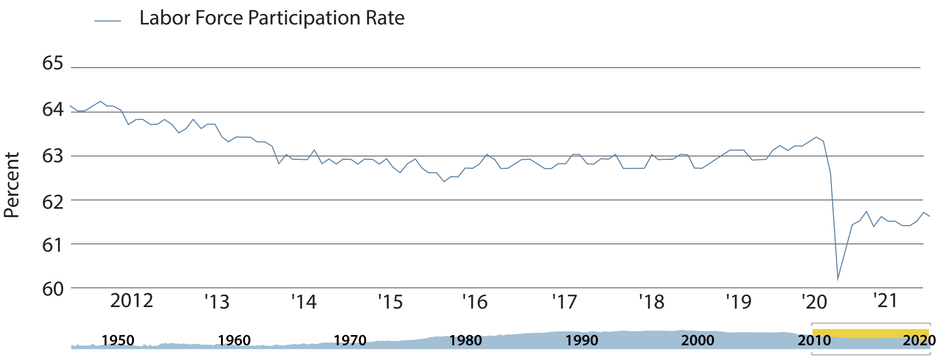


Chart: https://fred.stlouisfed.org/series/CIVPART

Source:
https://www.cnbc.com/2021/05/22/wages-rise-at-the-fastest-pace-in-years-firms-profits-could-take-a-hit.html

Inflation fears - should you be worried?

There is a longstanding debate about inflation in macroeconomics around how it works and how much we should worry about it. Recently, Americans are seeing, and feeling, prices rise all around them. Headline consumer prices rose 5% year over year in May, the fastest pace since August 2008, driven by surging prices for used cars. Costs for groceries, gas, and lumber have also soared. The current unprecedented post-pandemic reopening of the economy has resulted in supply and demand mismatches across many sectors, driving prices higher as cash-rich consumers chase insufficient supplies and businesses struggle to ramp up.

The Fed says price increases are transitory.

Over the past several weeks, the Fed has asserted that recent price increases are temporary, driven by COVID disruptions to supply chains and labor markets, combined with pent-up consumer demand. The Fed's most recent forecasts:

- Unemployment rate falls to 4.5% in 2021, dropping further to 3.8% and 3.5% in 2022 and 2023, respectively.

- Core PCE (personal consumption expenditure) inflation up to 3.0% in 2021, up from March's forecast of 2.2%. Core PCE is expected to drop to 2.1% in 2022 and remain there in 2023.

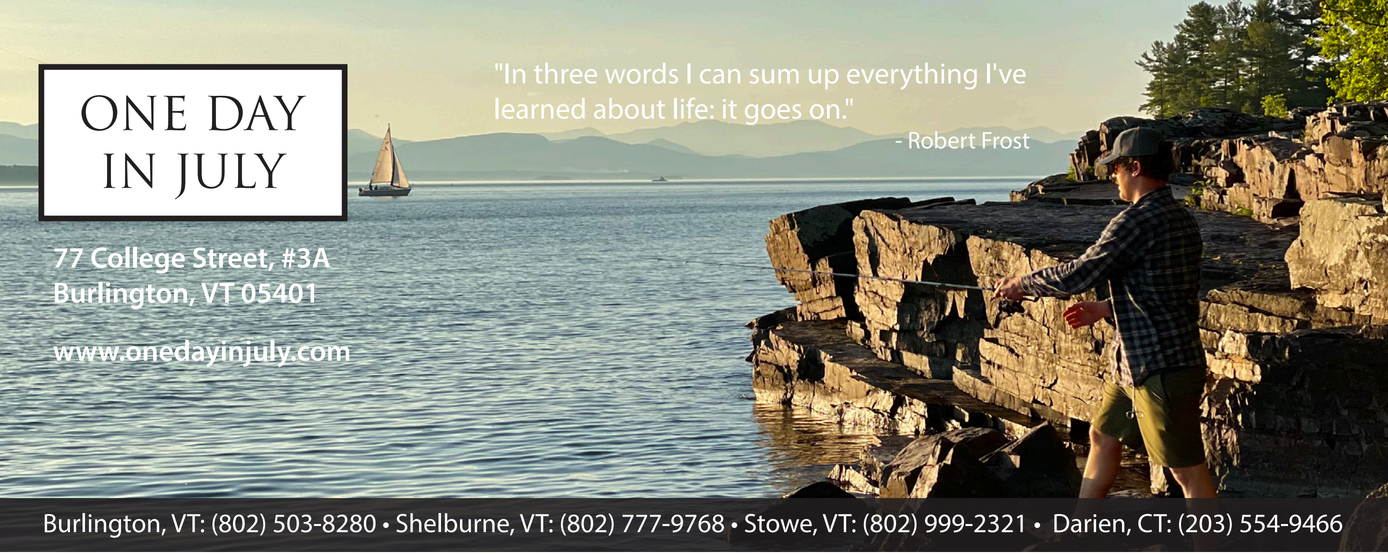
- At least two interest rate hikes during 2023, although Fed Chairman Jerome Powell warns that forecast should be taken with "a big grain of salt," since we are still far from maximum employment.

Sources:
https://www.wsj.com/articles/inflation-rate-climb-adds-impetus-to-fed-policy-shift-11623341429
https://www.cnbc.com/2021/06/16/the-federal-reserve-now-forecasts-at-least-two-rate-hikes-by-the-end-of-2023.html
https://www.cnbc.com/2021/06/16/fed-meeting-live-updates-watch-jerome-powell-speech.html

To quell inflation, the Fed can raise interest rates or slow down asset purchases. Proper timing is critical. If they act too quickly, they risk dampening growth and employment too much. So far, they have given no indication as to when they will begin tapering the aggressive bond-buying program, but Powell admitted they are “talking about talking about" it.

COLA, not the soda kind.

If inflation goes up, social security payments go along for the ride. Each year the Social Security Administration announces the COLA, or cost-of-living-adjustment, that will be applied to social security payments, intended to help offset American retirees' loss of purchasing power due to inflation. The COLA is based on the Department of Labor's measure of the inflation, the CPI. The cost-of-living adjustment for 2022 could be the largest since 2009 when there was an astounding 5.8% Social Security COLA.


ONE DAY
IN JULY
"In three words I can sum up everything I've learned about life: it goes on."
- Robert Frost
77 College Street, #3A
Burlington, VT 05401
www.onedayinjuly.com
Burlington, VT: (802) 503-8280 • Shelburne, VT: (802) 777-9768 • Stowe, VT: (802) 999-2321 • Darien, CT: (203) 554-9466