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# The Archvest Advantage Q2 2021 Newsletter

July, 2021

## Market Update

The markets across the board ended positive for the quarter, bringing the year-to-date figures to staggering levels. Many would argue the positive half year figures would make for great one-year returns. So, do we say it's smooth sailing from here and annualize to 15%+ returns?? Well, we all know it would be very dangerous to assume that you can take two data points and extrapolate into the future. The quarter ended with the S&P 500 up 8.6%, the Dow up 5.1% and the international markets up 5.2%. Unlike the first quarter where value lead the pack, up almost 11%, this time it was its growth counterpart up almost 12%.

As we enter the third quarter, investors will refocus back to earnings, because stock prices are ultimately driven by earnings. Many investors are anticipating robust economic and earnings growth which has led markets higher for the year, however guidance is going to play a much more important role because investors need something new to believe in. At the heart of it, strong earnings based on the prior year's company performance is not a strong enough indication to lead to great confidence in future positive returns in the broad economy. Given how much the markets have risen on the expectation of strong earnings, we would not be surprised to see much more benign returns for the market for the remainder of the year.

## Advanced Child Tax Credit

Starting July 15th, the government will be issuing advance child tax credit payments for those who qualify. The IRS is using either the 2019 or 2020 return (the most recent available) and is basing the payment upon the adjusted gross income (AGI) data from the tax return. If eligible, the payments will be direct deposited to your checking account or will be mailed to you on the 15th of each month for the remainder of the year. For those of you who expect higher income levels in 2021, it will be worth reviewing and projecting your income taxes to see if it makes more sense to put a hold and/ or decline the monthly payment. If you receive payments and are ineligible, you will need to repay any non-eligible child tax credit payments when you file your 2021 taxes.

Here is a link to the update portal to learn more about the credit, payment details and possibly stop the payments: https://www.irs.gov/credits-deductions/child-tax-credit-update-portal

## Inflation Concerns

The latest consumer price index (CPI) is placing inflation north of 5% on an annualized basis. This represents a significant jump in inflation from previous decades. While the headline data is

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worrisome, it's important to dive deeper into the details to understand if this is truly concerning or not.

CPI is calculated using a basket of goods selected to represent consumer spending, it includes food, energy, living expenses, and capital purchases. The latest data includes a 45% increase in energy and used car prices. In fact, some used vehicles are now selling for more than what they cost when they were new.

As per the comments from the Federal Reserve Board Chair, Jerome Powell, they believe this spike in inflation is transitory, meaning that it will not last. Specifically, he testified that he believes inflation "will wane over time and then inflation will move down towards our (Federal Reserve's) goals." The last time the US economy faced significant and protracted inflation was in the 1970's. The 1970's inflation was a result of OPEC nations placing an embargo on oil in response to the US support of Israel in the Yom Kippur War. This caused the price of oil to double overnight creating a supply shock to the US economy which fueled inflation. The COVID crisis has caused a similar supply shock in the world economy. New cars are not being produced due to chip shortages which has in turn caused used car prices to skyrocket. However, the COVID crisis is distinctly different than the oil embargo; companies want to produce products but are held back due to the lack of supply. Once economies around the world reopen, the supply chain issues should subside and ease the supply shock.

The 10-year US government bond is an indication of anticipated inflation. The interest rate on 10-year bonds remains low at 1.4%. Bond investors are betting that inflation will remain low despite the recent spike. Thus, we remain invested in bonds but have taken inflationary hedges where appropriate. The ultimate reason for owning bonds has not changed, bonds act as a counterbalance to stock risk.

## Cryptocurrencies – Decentralized Finance

Another day and another acronym in the crypto space. DeFi is the new keyword, it's an abbreviation for decentralized finance. This refers to financial services using blockchain technology/ smart contracts, that are automated and enforceable agreements that don't need and intermediary like a bank or lawyer. The value of the contracts since September of 2017 through April 2021 have gone from $2.1M to a staggering $6.9B. These DeFi services include no loss lotteries, investing in stablecoins, exchanges on derivatives of real-world assets like stocks and precious metals, borrow and lending of cyptocurrencies as well as betting on outcomes of world events. The space is growing at what it seems an exponential rate and is showing no signs of slowing down.

While it's fascinating to see the rapid expansion of the crypto space, what's giving us pause is actually the part of the DeFi's claim to fame, little to no governmental regulation. This is also why there are so many bad actors in crypto. According to a recent article in the Wall Street

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Journal, the company Chainalysis estimates more than $4.9B in crypto was received by illicit entities extorting funds, versus legitimate merchants who received $2.8B in crypto. The extorted funds are likely undercounted as many people don't report paid ransoms.

In order for cryptos to replace a widely accepted currency like the US dollar, there needs to be more regulation and less speculation. Recent price movements show that cyptos remain a tool of speculation. While speculation is good for headlines, it is not good for the long-term investor. We will undoubtedly keep watching how this space unfolds. More headlines will come, many more investors will lose and gain money in the name of speculation as the myth of cryptocurrencies become more of a reality.

## Office Hours

We are still working in the office on rotation and plan to keep meetings online with clients through the remainder of the third quarter with the hope of resuming in-person meetings starting October. We look forward to seeing you in person again soon! Please stay safe and healthy.

As always, we greatly appreciate the confidence you have placed in us to work alongside you regarding your planning needs. Be sure to follow us on Facebook, LinkedIn and Twitter as well as our RSS feed to stay up to date on what we're reading and thinking.

THE Archvest Team