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2021 Midyear Economic Update

As we close out the first half of the year, we know a couple of things. First, the US economy is almost entirely reopened from the pandemic shutdown, and while we are not yet fully back, the healing process continues. That is not true for the rest of the world, which is still struggling with the virus itself, but progress has been made. The story for the rest of the year in the US will be about managing the risks, staying open and growing. We are largely past the pandemic, and the challenge will be staying there. Market action during the month of June reflected this progress. US markets were up with both the Nasdaq and S&P 500 up significantly for the month and year to date. Markets have hit multiple all-time highs this year as they continued to move higher. Although to a lesser extent than the US, we have seen both developed and emerging markets up for the second quarter and the year so far. The pandemic has done real damage worldwide, but we are seeing healing.

For the pandemic, although things are much better, they have largely stopped getting better as case growth stabilized at month-end and the start of July. As more contagious variants have spread through the US, we may be seeing new flare ups of the virus in some locations. While another national wave of infections is unlikely, areas with low vaccination rates could face local health crises. The pandemic is likely to remain a risk across the country, although not for the country as a whole. The pandemic will not go away, but it will be normalized over time just as the flu has been.

Similarly, while the economic conditions have in general improved significantly, that rate of improvement is likely to slow going forward as we approach normal and as the statistics get closer to pre-pandemic levels. Consumer confidence, for example, is now at or above the levels we saw before the pandemic started, while business confidence has pulled back from peaks in recent months. Both reflect the replacement of optimism with realism as attention shifts from the end of the pandemic to the usual problems. News reports, for example, are now about inflation and supply chain problems, rather than pandemic improvements. This is a necessary transition to normal – but it does signal that improvement will be slower through July and the rest of the year.

The one exception to this is likely to be the labor market. While unemployment remains high, job growth is healthy and likely to remain so. As wages rise, more and more people will be drawn back into the labor market, and that will help keep confidence and growth high. We will see slower growth, yes, but we will still see growth. This will be one area to expect sustained improvements.

Despite the general slowing of the economic improvement, there are also reasons we could get faster growth. As the rest of the world catches up, foreign demand will help the US economy. It is likely we will get large amounts of Federal infrastructure spending, which will also be a tailwind. The Federal Reserve remains committed to low interest rates, which will put a foundation under both growth and the financial markets. There are significant upside risks here as well.

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Looking back, in the first half of the year we saw the end – from an economic perspective – of the pandemic. In June in particular, we started to move back to normal, as worries about the pandemic were replaced by the economy. And while those worries are real, they are also a sign that the country is moving back to normal and can now afford to worry about those normal things.

Looking forward to July and the rest of the year, worries will also include continued hiring and continued growth. Normal, here in the US, means more jobs, more growth, and higher markets. Not every month, or even every year, but over time. Expect the negative headlines about inflation, supply chain, and other economic factors, and welcome them as a sign that things are back to normal, and we can worry about things other than the pandemic. Remember that even as the headlines hit, the underlying trends remain very positive, and we are moving more toward normal every day.

Sincerely,

Mike Ovshak, CFP®
President/Owner

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