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Travel America

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The economy is fully open for business primarily because of Operation Warp Speed, a public–private partnership initiated by the United States government under the Trump Administration and continued by the Biden Administration to facilitate and accelerate the development, manufacturing, and distribution of COVID-19 vaccines(143). Considered one of the greatest scientific accomplishments in our lifetime, drug manufacturers brought COVID-19 vaccines from trial to patients in less than a year, where normally the complicated vaccine process could take 5-10 years or more(119). Operation Warp Speed was a global effort with the U.S. government providing billions of dollars of pre-funding coupled with competition among companies and collaboration with academia(119). Additionally, the lifting of restrictions, loose monetary policy by the Fed and a massive increase in government spending with the CARES Act and the American Rescue Plan is fueling the rapid recovery nationwide(110).

Americans are taking full advantage of the new freedom by traveling throughout the U.S., releasing pent-up demand for vacations from a year affectively lost to the COVID-19 restrictions and inconveniences(115). In the Northeast, the demand for resorts in Vermont and Maine has been described as colossal(48). Southeast Utah is one of the top tourist destinations in the U.S. with two national parks, Arches National Park and Canyonlands National Park. Both parks have experienced a sizable increase in tourists in April 2021 of 15% and 30% respectively verses April of 2019 (closed in 2020) which has caused long wait times to enter the parks that frustrates visitors(21). Dead Horse Point State Park, near Arches and Canyonlands, doubled their visitors in April 2021 over April 2019 and Buffalo Bill State Park in Wyoming increased visitors 37% in April 2021 verses April 2019(21). Grand County Utah, near Arches and Canyonlands, is experiencing more sales and use tax revenues than at any time in their history during the last two quarters, but businesses within the county are acknowledging labor shortages on a grand scale(21). Crowds of frustrated tourists are causing officials to advocate for reservations to enter the parks, which is what Rocky Mountain National Park in Colorado, Yosemite National Park in California, and Acadia National Park in Maine, have already instituted(21).

Retirement Income Planning
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Americans, flush with cash from a year at home and government stimulus payments, are spending on consumer discretionary goods like campers, recreational vehicles, boats, swimming pools and spas, home improvements, bikes, dogs, new and used cars, furniture, and appliances(133)(138)(115)(26). The rapid rise in post-pandemic travel demand has forced hotels, vacation rentals, rental-car companies and airlines to scale up more rapidly than anticipated with staffing their chief concern at present(96). The personal savings rate during the last 12 months has been the highest at any time since World War II boosted by keeping people socially distanced and working from home for a year, plus the injection of government stimulus checks(133)(137)(115).

Economy and Markets

The economy is improving after an unprecedented year of lockdowns and social distancing due to widespread vaccinations, U.S. government monetary and fiscal support, and the resilience of the American people and businesses. Household spending has increased rapidly, the housing market is strong, and business investment is advancing solidly(143)(60). The U.S. consumer confidence has been boosted by an increase in equity holdings and residential real estate(107)(115). However, in some sectors supply chain constrictions are curtailing growth(143).

Giving all the credit to the government for creating this recovery is not the whole story as they in essence created the recession with self-inflicted shutdowns of major parts of the economy and keeping non-essential workers from their jobs(107). The government then borrowed or printed money from future growth for current consumption that may only temporarily provide for recovery, which will not be sustainable unless the U.S. can get near the 7.6 million workers who were working in February 2020, but now are not, back in the workforce(107).

Now that the economy is fully open, the U.S. is taking off much faster than it did after the Global Financial Crisis a decade ago, fueled by huge government fiscal and monetary stimulus(156). Consumers and businesses have more cash on their balance sheets as a percentage of net worth than they have had in decades, and demand is soaring as they spend(156). Spending is increasing the demand for labor and higher wages, which may fuel further spending, sometimes referred to as the “virtuous cycle”, and if that occurs, demand-pull inflation above the Fed’s target of 2% may be present for some time(156). However, this may also enable the Fed to substantially reduce quantitative easing and begin to increase interest rates(156). Research at Vanguard expects strong U.S. job growth in the third quarter of 2021(166).

Existing homes nationwide have sold in many cases very quickly and above the offering price(137). Home prices have risen 13% nationwide over the past year, with prices in Idaho up over 27%, Arizona up over 20%, and South Dakota up 19% over the prior year(137). The demand is boosted by demographics as, during the last year, 37% of all homebuyers are millennials, but also by low interest rates, and the lack of inventory in existing homes(137). Unlike the last housing crisis, credit tightening standards have become more stringent, likely putting fewer homebuyers at risk for default(137). Buyers that win a bidding war for a particular home, may find the bank appraisal will not allow for the extra valuation, consequently requiring the buyer to provide additional cash at loan closing, and thereby ensuring they have more skin in the game should prices recede.

The May unemployment rate of 5.8% is a far cry from last year’s unemployment surge and now the U.S. currently has nearly 8 million job openings(139). Businesses are experiencing high demand levels for new orders, driven by spending after a year in which the consumer savings rate was at the highest level ever driven by a year of lockdowns and stimulus payments(139). However, businesses are having trouble finding workers and global supply-chains have not recovered fully from the pandemic shutdowns, including many emerging market economies that have been hit hard by new strains of the virus and have been slow to get vaccinated(139)(65). In May, retail sales are nearly 13% above the 5-year trend pre-pandemic, whereas the level of employment is 6.7% below the 5-year trend pre-pandemic(122). Commodity prices for steel and other items such as lumber have increased dramatically raising fears of widespread inflation(139).

The pace of vaccinations has decreased, and new strains of the virus may continue to pose a risk for those adults not vaccinated[143]. The U.S. gross domestic product (GDP) is projected to increase at the fastest pace in decades with GDP estimated at 5-7% for 2021[143][157][115]. The Eurozone GDP estimate for 2021 is expected at 4-5% and the GDP for emerging markets is anticipated at 6-7% according to the International Monetary Fund (IMF)[157]. Employment opportunities are greatly improved but unemployment remains high at 5.8%, not considering the low labor market participation rate in the U.S. at present which may make this number look better than it is in reality[143]. Even the weakest sectors in our economy during the pandemic such as entertainment and travel, although still weak compared to pre-pandemic measures, are recovering at a very rapid pace[143].

The median existing home price in the country is $350,300 as of May, up 23.6% from just one year ago[148]. Existing home sales have fallen for four consecutive months due to elevated prices and low inventories, but sales remain 1.8% above the February 2020 pre-pandemic level[148]. Existing home inventories seem to be improving, up 7% in May for the third consecutive month, but still down more than 20% from a year ago[148]. Housing starts increased 3.6% in May and are up 50.3% from a year ago[113]. While new home sales increased in May in the Midwest, South and West, they decreased in the Northeast[113]. Although these housing start numbers are impressive, supply of inputs such as wood coupled with the difficulty in finding workers have slowed progress during the past several months[113].

Demand for new and existing homes coupled with low mortgage rates is likely to keep this positive trend intact despite the rising cost of materials and labor[113]. However, a University of Michigan survey of home buying sentiment, for the first time in 38 years, reveal Americans believe it is a bad time to buy a home with bidding wars for existing homes in most markets[123][44]. The University of Michigan also found consumers sentiment toward buying a car or truck has also turned sour due to low inventory and price increases[138]. Natural gas prices are entering the air conditioning season this year twice as high as last year which could portend higher utility bills this summer[98].

Producer prices have advanced 6.6% during the prior year, the highest in a decade, signaling the cost to produce goods and services has increased and either business profits are absorbing the increase and thus reducing profit, or businesses are passing it along to consumers, or a combination of both[111][61]. Retail sales increased 18% during the past 12 months[111]. Industrial production has risen for the third consecutive month and is up substantially from a year ago, but it remains below the pre-pandemic level from February 2020(112). Auto production is up 141%, non-auto manufacturing is up 14% and the production of high-tech equipment has increased 18% over the prior year[112]. The semiconductor industry is expected to grow exponentially in the next several years as corporations, governments and individuals transition to 5G technologies, cloud-based solutions, and utilize more artificial intelligence within applications[120][38].

However, industrial production in the U.S. economy trails consumption as measured by consumer spending and that could be a textbook recipe for continued inflation in consumer goods[112]. New orders for durable goods rose 2.3% in May and are up 41.6% over the last 12 months[155]. There is a tug of war taking place in the U.S. at present between consumers who are back post-pandemic with cash to spend and companies struggling to keep up with demand due to supply chain bottlenecks, lack of materials, and labor shortages especially in hospitality, entertainment, services, durable goods, semiconductors, construction, autos, and retail sales[155]. Many states have announced an early cut-off to the expanded federal unemployment benefits, as these enhanced payments seem to be a headwind to hiring employees despite the highest level of job openings in U.S. history[155].

Worldwide growth has accelerated in 2021 led by the U.S. and China, but recovery from the global pandemic is expected to broaden to most developed and emerging markets in the second half of 2021 as vaccinations increase, COVID cases subside, and economic activity increases[121][115]. Although international developed market stocks have trailed U.S. equities in rewarding investors for several years, Europe and Japan have fared well since November 2020 as cyclical,

value-oriented stocks in the energy, financial and industrial sectors have rallied and many of those companies are domiciled in those markets with attractive dividend yields compared to U.S. value equity counterparts[117]. International emerging markets have also been strong with the demand for commodities and semiconductor chips, but recent COVID-19 surges in India and other emerging markets have frustrated re-opening plans and subsequently slowed the potential for growth[117].

Keep in mind as we move forward into more specifics and commentary with this newsletter, that many investors, businesses, and consumers visualize the economy ahead as either clear sailing or cautious, but what almost always lies ahead is most likely some of both[153]. Macro-economic forecasters are rarely correct most of the time as the future continually throws curveballs that are hard to see coming[153]. So here we go…

Inflation—The Elephant in the Room

Inflation is here, we all see it in certain sectors, but is this just temporary or transitory (the Fed's term), or will inflation persist[50]. To put it simply, the demand for goods in the U.S. is outstripping supply and thus prices have risen[114][1]. Moreover, labor and material shortages coupled with supply chain constraints have hampered supply[114]. Inflation as measured by CPI, was up 4.5% in April and 5% in May (annualized) and is outpacing wage growth even though we are experiencing a labor shortage[18][65][49]. The 5% reading for the CPI in May was the largest monthly reading in 13 years[46][35]. The Fed is the controller of the U.S. money supply, and when they over supply, the purchasing power of each dollar has the potential to decline and thus it takes more money to buy the same goods[35]. Long-term inflation takes time to embed within an economy and often involves policy missteps by the government as it did in the 1960s and 1970s, but once it does, it becomes part of the psychology of every citizen and may take years to unravel[35]. Fox Business released a poll on June 24th revealing 83% of eligible voters surveyed are worried about inflation.

Research released by Vanguard expects inflation to peak in the second quarter of 2021, and average 3% for the entire year, but then moderate back near the Fed target of 2% for 2022 and 2023[125]. Vanguard also believes the Fed may begin raising its interest rate target in the third quarter of 2022[125]. Mohamed El-Erian, the chief economic advisor at Allianz, believes demand has increased dramatically with public and private consumption, corporate investment and manufacturing exports, and while the supply side is responding, it has not kept up with demand[138]. El-Erian also cites the lack of workers, amid record job opportunities[64][45]. The labor shortage may have resulted from government policy to extend enhanced unemployment benefits through September 2021[138][65][95]. According to El-Erian, supply bottlenecks, inventory shortages and transportation problems should be temporary, but his concern is that higher prices and wage increase trends could persist much longer[138][78].

The forecasted low long-term inflation outlook that the Fed and the Biden Administration have is founded in four beliefs; first, that global competition will work to restrain inflation, and second that, American companies can withstand temporary price hikes without increasing wages, third, that the coming end to COVID-19 stimulus will serve to reduce demand and hold inflation down, and finally, that the U.S. as well as other global economies have used quantitative easing and deficit spending during the past decade and inflation remained low[114]. The Federal Reserve, through monetary policy designed to maintain stability within the financial system, has a dual mandate to promote maximum employment and provide an economic environment for price stability[143].

Jerome Powell, the Chair of the Federal Reserve, stated last week that "Inflation is up notably but still transitory" and that inflation should subside near their 2% target in 2022 with maximum employment; further, the Fed will remain accommodating to support the economy and the flow of credit to U.S. households and businesses[143][5]. The Fed Chairman conveyed the underlying cause of inflation as temporary, likely caused by supply chain bottlenecks worldwide due to COVID-19 pandemic shutdowns which have limited how quickly production in certain sectors can respond in the

short-term[143]. Chairman Powell highlighted temporary inflation, by citing the example of used car price increases that are most likely the result of rental car companies halting the buying of new fleets due to the pandemic, consequently reducing a year of lease turnovers going to the used car market, that should work itself out in the near term[164]. Chairman Powell conveyed a framework implying a slow response to inflation, where the Fed would not begin raising rates until 2023; however, this was a bit more hawkish from prior statements where he indicated 2024[126][6]. The Fed Chairman also stated the Fed is "talking about, talking about tapering" bond buying; the Fed is currently buying $120 billion each month in U.S. Treasuries and mortgages in the open market as part of their quantitative easing effort, and his statement has been construed to mean that reducing this amount may be announced this fall[105][116][1][130]. However, Chairman Powell downplays the growth in M2 money supply because central banks throughout the world have utilized quantitative easing during the past ten years with no significant increase in inflation, and seemingly dismissing the link between money and prices[109]. Larry Summers, a Democratic Economist, former Treasury Secretary under President Bill Clinton, and former Director of President Barack Obama's National Economic Council has made a comparison of President Biden's $1.9 trillion American Rescue Plan to President Obama's stimulus during the Global Financial, stating the newly enacted stimulus is six times as large as President Obama's which covered 50% of the output short-fall during the Global Financial Crisis, whereas President Biden's American Rescue Plan covers three times the estimated output loss during the COVID-19 Pandemic[153].

Milton Friedman, the winner of the 1976 Nobel Memorial Prize in Economic Sciences, a prominent advocate of free markets, and considered by some as the 20th century's most influential economist, has stated "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output"[144][135]. Friedman believes that if the money supply rises faster than the rate of growth in output, then there will be inflation[145]. The M2 money supply stands at 30% above pre-pandemic levels with consumers and businesses loaded with spending power[111]. M2 money supply is utilized as a target of the central bank monetary policy and includes cash, checking deposits, and easily convertible securities to cash. Brian Wesbury, the Chief Economist at First Trust, believes that "while supply-chain issues are temporary, the huge increase in money supply will affect inflation over the long term"[111].

Jay Powell may be correct that some inflation is transitory, or temporary, but Milton Friedman may also ultimately be correct that the increase in money supply without the corresponding same increase in U.S. gross domestic product may result in longer-term inflation[1]. Capital Group believes inflation in the post-pandemic near term is driven largely by pent-up demand up against supply chain disruptions and labor shortages and should be temporary[116]. However, Capital Group also asserts the unprecedented amount of fiscal and monetary stimulus paired with structural changes such as demographic trends could result in above-average inflation that could be around for a while [116]. A recent April-May CNBC poll of Americans with $1 million or more of investible assets revealed that 65% of respondents are concerned about inflation caused by government spending and 34% of them are very concerned[163].

In my opinion, inflation may not be what we experienced in the 1970s and 1980s, even if we see more than just transitory inflation, but that it could be above the Fed's target of 2% for several years. It is important to review history in this context as inflation is a hidden tax on income and assets. Inflation averaged 7.4% annually during the 1970s and 5.1% during the 1980s, the worst sustained inflation in U.S. history, where prices doubled roughly every ten years and the Fed had rates close to 20% to stave off the damage[108]. Inflation as measured by the Consumer Price Index (CPI) during the last 70 years (1951-2020) was up 5% or more in twelve years. During those 12 years, the stock market as measured by the S&P 500 total return index, increased in 6 of those years and decreased in 6 of those years, with the average annual return for all 12 years at +3.2%[147].

The shortage of semi-conductors has slowed production of several consumer goods including cars, electronics and appliances, plus the difficulties in finding labor with the record number of job openings, has not allowed production to

keep up with demand[111][138]. Global chip shortages are raising prices for laptops, printers and smartphones[99]. However, at Capital Group, the belief is that the current shortage in semiconductors is due to the global pandemic which spawned increased demand for chips used in computers, video game devices, appliances and cloud-based applications and will abate as capacity increases[120][138]. The auto industry shut down during the early months of the pandemic which resulted in cancelled orders for semiconductors that have now put them behind getting the needed chips[120]. Polaris, a sports vehicle manufacturer of ATVs, motorcycles, snowmobiles and boats has had to cope with a shortage of materials, parts, and an unreliable global transportation system to meet orders while juggling production and cost[97].

The surge in demand for new homes coupled with COVID-19 shutdowns at sawmills have created a big spike in lumber prices that should abate as production increases, but it may take several months[138][13]. The demand for bikes as gyms were closed for a year, plus the cautiousness in using public trains and buses have caused price increases and inventory shortages that should work itself out as post-COVID life gets back to normal[138]. Oil prices are back above $70 per barrel hitting a 2 ½ year high as U.S. consumption has increased post-pandemic and subsequently gas prices have risen noticeably[15][82]. Despite the projected demand for oil in the decade ahead, investment in fossil fuel projects is declining in lieu of investment into green energy projects such as wind and solar[15].

Modern Monetary Theory

Modern Monetary Theory (MMT) has come to the forefront in recent years after two decades of annual deficit spending during the Bush and Obama Administrations coming out of the Global Financial Crisis, and now with the passage of the CARES Act during the Trump Administration, and the American Rescue Plan with the Biden Administration, which has massively increased the national debt to just under $30 trillion[149]. MMT argues that a country borrowing in its own currency can finance fiscal stimulus by printing money and the government can control inflation through tax policy[149]. Under MMT, the Fed would not stabilize prices through monetary policy, but rather through fiscal policy by raising taxes as prices get too high (inflation); conversely, then cutting taxes when prices get too low (deflation)[149]. Basically, countries who issue their own currency, allow that currency to float in the open market, and borrow with repayment in that same currency should not be constrained by revenue when it comes to fiscal spending, as the country can always print more money to finance spending priorities[146]. Democratic economist Larry Summers has described MMT as "voodoo economics" whereby an idea with some validity is then extended to defy the laws of arithmetic with the premise that you can print enough money to cover expenditures[149].

MMT is a theory advocated almost exclusively by the far-left in this country, such as Rep. Alexandria Ocasio-Cortez and Sen. Bennie Sanders, economists Stephanie Kelton, L. Randall Wray, Bill Mitchell, and Warren Mosler, to pay for massive environmental, healthcare, and social programs[160]. Warren Buffett feels MMT would bring about spiraling inflation[151], while Oaktree Investment Chairman, Howard Marks, commented that MMT brushes aside the adage of balancing revenues and expenses thereby opening the door to larger deficits and inflation[161]. Proponents of MMT argue deficits can be too big especially if they are not used to increase the nation's productive capacity and cite the deficit spending and corresponding increase in national debt plus the Fed's utilization of quantitative easing during the last decade as it has not resulted in inflation or the decrease in value of the U.S. dollar[161].

National Spending, Deficit, and Debt

The recent passage of the Biden Administration's $1.9 trillion American Rescue Plan coupled with current $2+ trillion proposals each for The American Jobs Plan and The American Family Plan which call for total U.S. spending to rise to $8.2 trillion annually by 2031, with deficits running above $1.3 trillion annually throughout the next decade, obviously make Americans nervous that our national debt could be unsustainable[152][42]. These proposals are included in the Biden Administration's $6 trillion budget proposal and are designed to upgrade the U.S. infrastructure and substantially expand the U.S. social safety net[152][57][42]. Janet Yellen, President Biden's Treasury Secretary, defending the proposed

budget stated, "The U.S. economy needs ambitious fiscal policy to help unwind destructive forces, such as racial inequality and climate change, that have kept prosperity out of reach for millions of Americans"[10]. The proposed $2 trillion American Families Plan would for the first time in history provide government assistance to more than 50% of all Americans through Federally funded childcare, paid family leave, free community college, permanent advanceable monthly child tax credit payments, permanent expansion of Obamacare premium subsidies, universal pre-K, and the permanent expansion of the earned income credit to workers without children[173][174]. Entitlements once enacted are near impossible to reverse, as we have seen with other government entitlement programs, and are often increased or expanded which may portend an entitlement trap for the U.S. as in Europe[173][174]. The proposed tax increases aimed at wealthy Americans are likely not enough to pay for the massive Biden Administration proposed budget of $6 trillion for fiscal year 2022[42]. The budget proposal would put the U.S. debt to GDP at 117% within a few years, a level not seen since World War II[57]. Although our national debt to Gross Domestic Product (GDP) ratio is greater than 100% at present, our GDP growth rate is higher than the interest rate we pay on the debt, so at present it is not a budgetary problem as the debt service payments are sustainable[118].

In my opinion, the higher the debt goes, the greater risk to the U.S. economy. If we experience increasing and sustained inflation, interest rates will need to rise to combat the threat, and consequently the debt service payments could be more challenging. Governments around the world are in the same boat as the U.S. with rising deficits and increasing sovereign debt due to the pandemic. Our Treasuries remain a haven during market and economic turmoil, plus we enjoy the privileged status of the U.S. dollar as the global reserve currency which carries built-in demand for dollar denominated assets[118]. However, can the U.S. continue to spend with annual deficits in the trillions for years, and the Fed increase of its balance sheet by trillions through bond buying quantitative easing, and not have negative consequences to the U.S. dollar and endanger our status as the global currency[153]. Time will tell, but the bond and stock market at present are indicating that inflation may just be transitory as the Fed believes[129]. To turn the tide on this massive deficit, and subsequently reduce or stabilize the level of national debt, the U.S. may need to raise taxes and/or to cut spending, of which spending cuts are unlikely in the near term considering the proposals by the Biden Administration for The American Jobs Plan and The American Family Plan that contain additional government spending on a grand scale coupled with increased taxes[118]. However, the U.S. leads the world with innovation and technological advances and that may lead to productivity growth, and consequently, a more manageable debt burden to act as a potential ceiling on inflation[118].

The Biden Administration appears to be an advocate of Modern Monetary Theory (MMT) whereby the U.S. government can decide what to spend as the priority, then address financing through taxation, printing dollars and borrowing[118]. MMT does have purported limits to the amount of debt, and it is tied to inflation; inflation is evidence that the deficit is too large, and high unemployment signaling that the deficit it too small[118]. Opponents argue the Federal Reserve would lose independence and would be politically influenced under MMT[118][77]. Lastly, the Federal Reserve playbook includes purchasing U.S. Treasury and mortgage bonds in the open market, like it has in the past, with newly printed money, through a process referred to as quantitative easing, to stabilize the U.S. financial system(118). Currently the Fed through quantitative easing is buying $80 billion in U.S. Treasuries and $40 billion in mortgages each month[106].

Proposed Tax Increases and IRS Expansion

The Biden Administration is proposing tax increases not seen since Franklin D. Roosevelt's Presidency, and the Biden Administration's goal is to make them permanent and without excessive deductions[154]. The proposal is to raise the top individual tax rate to 39.6%, plus the 3.8% Obamacare tax, and increasing corporate taxes to 28%[154]. Additionally, the Biden Administration has proposed raising the capital gains tax to 39.6% including the 3.8% Obamacare tax, and most troubling is imposing a new tax for Social Security of 12.4% on income above $400,000[154]. Including the Obamacare Tax, the top tax rate will effectively be 54.9% (plus state and local taxes) on earned income above $400,000 and 43.4%

on income from investments and savings above $400,000[154]. President Biden's capital gains tax increase in his budget proposal assumes it will be retroactive back to April 30th of this year; however, there seems to be hesitation on both sides of the aisle in Congress about increasing the capital gains tax by this large a margin, not to mention making it retroactive[59].

Although President Biden's tax proposal did not include changing the estate tax, on the campaign trail he touted raising the top estate tax rate to 45%, from 40% and decreasing the current $11.7 million exemption[154]. However, President Biden has proposed to eliminate the step-up in basis for assets more than $1 million that have unrealized appreciation untaxed at death to the beneficiary[154][25]. Americans already pay tax on the entire amount of their estate if more than $11.7 million ($23.4 million for couples), but the proposal will tax all unrealized appreciation more than $1 million for beneficiaries, ensnaring stock, farms, businesses and homes that likely would result in needing to sell part of those assets to pay the new capital gains tax at death, which the IRS has never taxed[25]. The wealthiest one percent of Americans have nearly 40% of their wealth in the form of unrealized capital gains[134].

At this point, no changes to the tax code have passed into law, but we could see movement by Congress soon on President Biden's tax proposal designed to make the wealthiest Americans pay more. Incidentally, statistics from 2018 show that the top 5% of taxpayers, those who made $218,000 or greater, paid more than 60% of all income tax that year, while the bottom 50% of taxpayers, paid less than 3% of income tax in 2018[154]. While U.S. tax rates are likely to rise for corporations and top earning individuals, they are likely to be more moderate than proposed by the Biden Administration[101]. The near-term market impact from higher taxes has historically been temporary[101].

ProPublica, which published income tax data on Warren Buffett, Michael Bloomberg, Elon Musk and Jeff Bezos, purports to uncover how the rich do not pay their fair share of taxes but may expose the real objective to champion a new tax on wealth, or unrealized appreciation, as it deceptively treated unrealized appreciation as income in their calculations[104][154]. If you had to pay a wealth tax on unrealized appreciation, such as in your home, retirement account, stocks, farm, real estate or business annually, it may be tough to accumulate wealth or acquire prosperity[162]. Proponents of the wealth tax claim it would only be imposed on the rich, but keep in mind, that is how most taxes are initially promoted and then enacted, only to later ensnare the middle class[162].

The ProPublica report clearly shows the legal strategies these rich Americans use to pay the least tax possible by utilizing strategies such as holding assets (and not selling them), borrowing funds, and passing assets on to heirs or non-profits at death[132]. However, ProPublica uses confidential tax information that is surmised to have been leaked by insiders at the IRS[132]. This may hurt President Biden's Made in America Tax Plan where he proposes to double the size of the IRS and increase exponentially the amount of information the IRS may seek on individuals from financial institutions, as this may weaken the trust and confidence citizen taxpayers may have with the IRS[132].

The Tax Foundation has indicated the proposed Biden Administration tax increases may hit the middle class in direct, as well as, indirect ways, contradicting the Biden Administration's assertion that only those with incomes over $400,000 would be affected by the proposed tax increases[36][171][167][172]. Increasing the capital gains tax will hit all Americans who sell assets and realize taxable gain[36]. An estate tax increase in the final bill that removes the step-up in basis for inherited assets, thus subjecting the beneficiary to potential unrealized capital gains tax, may end up affecting taxpayers regardless of their income level[36][171][167]. The Biden Budget Proposal includes some of the Trump 2017 tax cuts for individuals to expire in 2025, thereby increasing taxes at most levels of income[36]. Additionally, by increasing the corporate income tax, individuals may indirectly pay higher prices as the corporation passes on the tax increase to consumers and/or real wages may decrease[36][172].

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Expanded and Newly Advanceable Child Tax Credit

The Biden Administration's 1.9 trillion stimulus law, the American Rescue Plan, increased the maximum Child Tax Credit (CTC) in 2021 to $3,600 for each child under age six and $3,000 for each child ages 6-17. Sixty-five million children, or 39 million households, covering 88% of children in the U.S. are estimated to be eligible for this benefit. Advance payment of this credit will be sent out beginning July 15th in the form of monthly checks to the parent or guardian for up to $300 (under age 6) or $250 (age 6-17) per child[141]. The remainder of the credit will be claimed on the 2021 tax return[140]. Although this enhanced benefit is only for 2021, it is expected to become a permanent form of basic universal income in the U.S. for households with children[142].

The full credit is available to married couples filing jointly with children with adjusted gross income less than $150,000, or $75,000 for individuals with children. The enhanced child tax credit will phase out for individual taxpayers who earn $75,001-$95,000 and married couples earning $150,001-$170,000 filing jointly. However, taxpayers who make more than that will still be eligible for the full regular child tax credit, which is $2,000 per child under age 17 for individual and married taxpayers with children, earning less than $200,000 and $400,000, respectively. The regular child tax credit phases out for individual taxpayers who earn $200,001-$240,000 and married couples earning $400,001-$440,000 filing jointly[140].

The Biden Administration, to include families that do not file a tax return, recently made a change to public social programs without bipartisan support whereby the IRS will begin sending checks to qualifying families amounting to $300 per child for kids under six and $250 for each child ages 6-17. Recipients will no longer need to enter a welfare office or apply for benefits. These benefits will be paid regardless of whether the parent is working, looking for work, or in training or school. Proponents argue this will eliminate red tape and reduce child poverty by one half, or more than five million children. However, throwing money at a problem without addressing the root cause may make this goal somewhat elusive. Opponents point out the current welfare policy crafted with bipartisan support during the Clinton Administration requires contact with a social worker to receive benefits so other causes of child poverty such as substance abuse, domestic violence, absentee parents, mental health issues and deficiencies in health, nutrition and education can be identified and addressed as part of the prerequisite for benefits[100].

LW GamePlan

Our **Leshnak Wealth Portfolio Models** are not immune to declines in global markets nor do we have a crystal ball, but neither do any of the market analysts and forecasters. Our belief is that our LW Portfolio Model construction has positioned us for potential resilience in most environments and situates the portfolio to possibly take advantage of market mispricing. We see no need to change course or modify the overall asset class allocation due to market corrections, or sudden market shocks unless a fundamental change in the underlying outlook for the domestic or global economy has diminished or brightened verses our expectations. As the ancient Buddhist proverb states "If we are facing in the right direction, all we have to do is keep on walking". Corrections and pullbacks can be expected to last relatively shorter periods on average compared to the bull markets they take reprieve from, as the greed present turns to fear and shakes out those investors who are not fundamentally based in their convictions[136].

The **LW Portfolio Models** are globally diversified and strategically constructed with core equity positions in small, medium, and large cap equities, each straddled by momentum-based and value-based investment positions. We believe adding momentum-based investment positions using technical analysis offers the opportunity to allow current market trends to play out while also providing the flexibility to potentially reduce exposure when market trends retreat. We also believe adding value-

based positions puts us in the position of the "turtle", in the proverbial tortoise verses the hare scenario, over the long-term with equities. Value-based investment generally involves buying securities whose shares appear underpriced by a form of fundamental analysis. Additionally, we believe that by combining value and momentum strategies across diverse markets and asset classes may result in significantly higher risk-adjusted rates of returns based on the academic research conducted[136]. Lastly, we prescribe dividend yield from all our equity investment positions so that no matter what markets are doing day to day, we have dividends continuously coming into the portfolio. Our fixed income blueprint for the portfolio consists of allocations to core domestic, foreign core, strategic investment grade, inflation protected, and high yield bonds. Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets such as real estate, commodities, gold, natural resources and infrastructure for inclusion within our overall asset allocations. How much of each asset class, if any, we hold in these asset classes is based on your unique risk tolerance, financial resources and personal goals and objectives.

As your financial fiduciary, the Leshnak Wealth team cares deeply about your financial well-being and will monitor for rebalancing opportunities that may add value to your portfolio, or to be defensive as conditions might warrant. We know that as your advisor, the trust you bestow upon us is built and maintained on three pillars; doing what we say we will do, assisting with planning for and achieving your financial independence, and providing unbiased advice with your best interest at the forefront. As always, please call with questions or if you wish to discuss your specific portfolio in greater detail.

–Bob Leshnak, June 30, 2021

The investment decisions are those of Robert M. Leshnak, Jr., CLU®, ChFC®, CFP®, MPAS®, EA as of 6/30/2021 and are subject to change. The information contained herein is only intended for Leshnak Wealth clients invested in the Leshnak Wealth Portfolio Models. No forecasts or recommendations are guaranteed. The technical data utilized as part of the investment decisions does not guarantee future positive results. Performance, especially for short periods of time, should not be the sole factor in making investment decisions. The information contained herein does not constitute client specific investment advice or consider a specific client's particular investment objectives, strategies, tax status, resources, or investment time horizon. No investment strategy such as asset allocation, diversification, momentum, value, tactically overweighting sectors, or utilizing fundamental and technical analysis can always assure a profit, nor always protect against a loss. The information presented is not intended to be a substitute for specific individualized tax, legal, or financial planning advice. The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time. Investing involves risks regarding all the investment products mentioned in this commentary, including the potential loss of principal. International investing involves additional risks including risks associated to foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic, and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the insurer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax and other government regulations, as well as other factors. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

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