3rd Quarter 2021 Newsletter
July 2021

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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Despite occasional worries emerging about inflation, economic recovery, or COVID-19 resurgence, the stock market climbed these walls of worry to end the second quarter near record high levels.

The underpinnings of the upward move in stocks has been earnings growth. From the depths of COVID last year, the economy and corporate earnings have been on a steady climb. This has been helped by accommodative monetary policy and an easing of pandemic-related business and social restrictions as vaccines have been made available.

Regarding corporate earnings, the S&P 500 Index posted 52% earnings growth in the first quarter of the year versus the same period a year ago. Second quarter earnings reports are almost half done and earnings for the second quarter are expected to be 78% higher versus last year. The rate of growth should start trending closer to historic levels once we get into the fourth quarter of 2021 when we anniversary the return to growth from last year.

The currently elevated rates of inflation should also start to normalize as we anniversary the depressed price levels from a year ago. Part of the inflation surge has been caused by pent up demand from a population restricted from many activities over the past year resulting in increased discretionary income, part from a delayed supply response due to companies that reduced capacity for goods and services during the pandemic and need time to ramp up, and part from the math of comparing a normalized economic period with a depressed one.

The Federal Reserve has not given any indication it is ready to end the accommodative monetary policy put in place at the outset of the pandemic. The Fed's two mandates are full employment and price stability, and it is sacrificing near-term price stability in exchange for providing an environment for the economy to return to full employment. The economy still has six to seven million fewer employed workers than it did pre-pandemic. Lifting of pandemic restrictions in combination with economic growth have helped part of the employment recovery. The excess Federal unemployment benefits still being made available in about half of the States are set to expire in early September and that may prompt an increase in unemployed individuals to pursue the approximately nine million job vacancies that exist. Still, there is likely to be some churn in the labor market over the coming months.

As the recovery continues to take hold and employment returns to normal, the Federal Reserve will eventually remove its accommodative stance by reducing its monthly bond purchasing ("tapering") to reduce liquidity, and eventually start to increase its short-term target interest rate from its current 0% to 0.25% range. As of the July Federal Open Market Committee meeting, Fed Chairman Jerome Powell has indicated that these actions are not likely to occur imminently.

Our equity holdings are well diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles, while the growth of the dividends can help offset the impact of inflation.

	2Q21 Return	2021 YTD Return
S&P 500 Index	8.5%	15.3%
Dow Jones Industrial Average	5.1%	13.8%
NASDAQ 100	11.4%	13.3%
Russell 2000 (Small Cap Index)	4.3%	17.5%
International Stocks (MSCI ex-US)	4.2%	8.4%

	2Q21 Return	2021 YTD Return
Aggregate Bond Index	1.8%	-1.4%
U.S. Dollar Index	-0.9%	2.8%
WTI Crude Oil	24.2%	51.4%
Gold	3.7%	-6.7%
Real Estate (US REIT Index)	11.1%	19.8%

Sources: S&P Global, Thomson Reuters / YTD Returns through 6/30/2021

Low Yields are Better than No Yields

“It is better to have a little than nothing.” Publilius Syrus

Low interest rates and the prospect of rising inflation present a challenge for savers with short time horizons or low risk tolerance. On one hand, if the cash savings is earmarked for a specific expenditure, investing in volatile investments may not justify the risk of jeopardizing the ability to meet that expenditure. On the other hand, holding cash deposits yields less than inflation, essentially eroding the purchasing power of that cash.

Inflation fears may be exaggerated, particularly because data compares current prices to prices during the pandemic. Future comparisons will normalize, which should result in lower rates of inflation. Additionally, as we have stated inflation relative to expectations is more impactful than the inflation rate in isolation. For growth seeking investors with long-term time horizons, we believe staying invested in equities is the best strategy to outpace inflation.

Still, savings rates are near zero, and even CD rates are under 1%, often with lock-up periods. These are far below current inflation rates, and even the Federal Reserve’s target inflation rate. Savers with potential short and intermediate term liquidity needs are wondering how to do better than 0%.

Fixed income with a quality bias could provide a viable solution. An investor is likely to earn more than cash accounts, and may offset inflation. Investment grade and short duration bonds are also less volatile than equity markets, lower quality bonds, or longer duration bonds. It is often quipped, a bad day in the stock market is a bad year in the bond market.

In addition to yield and safety, bonds can provide “ballast” to equities (staying afloat when stocks are down). This diversifying effect is the role of high quality fixed income in a portfolio and wealth plan. For a long-term or growth seeking investor, bond yields are less than exciting. For an investor seeking balance, downside protection, or yields better than cash holdings, fixed income plays its part with better price stability than equities.

We advocate identifying and defining investor objectives, determine the time horizon and risk tolerance of each objective, and utilizing the appropriate tools in a process driven implementation plan.

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One self-described Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 15%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and are left wondering why they are not able to achieve the returns they are targeting.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

Mid-year Retirement Plan Check

Now that we are halfway through the year, this is a great time to look at your various retirement planning options, and what, if any, options you may still have to reduce your 2020 tax bill. Yes, depending on your plan type, there are still some options to reduce last year's taxes.

SEP-IRA and solo 401(k)

If you are self-employed or an independent contractor, and have extended your 2020 tax return, you can still open either a SEP-IRA or a solo 401(k). Either of these plans could allow you to contribute up to $58,000 for 2020, resulting in a tax deduction. If you have already filed your 2020 tax return, you can still start the process to setting up one of these plans for 2021 and beyond.

It's not too late for a Defined Benefit plan for 2020

Part of the legislation that was passed at the end of 2020 allowed businesses the opportunity to start a Defined Benefit Plan as late as September 15, 2021 with the contributions counting toward 2020. We can also do some planning for funding in 2021 and beyond.

Plan Sponsors

Plan sponsors should consider a mid-year plan review to look at:

Plan Fees – Plan fees can tend to creep upward over time and should be reviewed on an annual basis. The entire plan should also be revisited on at least a 5-year cycle.

Investment Options – Plan investment options will often change as funds are closed and consolidated. We suggest an annual review to make sure the funds are both performing within their peer-group and have the lowest cost share class available.

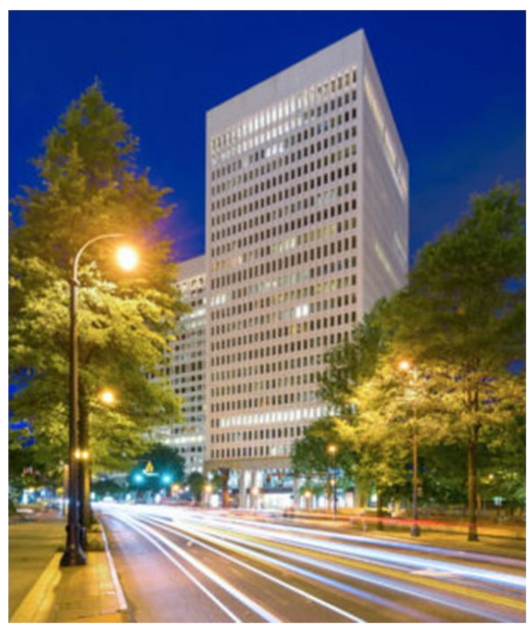
Active Participants – The plan should work for all participants, but when it comes to current employees who are participating in the plan, you always want as many as possible contributing as much as possible. This may require an increase in the company match, or simply some employee education about the benefits of retirement savings. Maximizing employee participation and contributions will reduce the need for corrective distributions.

Terminated Participants – Depending on the size of your plan, removing terminated employees who have less than $5,000 in the plan could reduce the scope of your annual plan audit, or even eliminate the need all together.

Regardless of the size of your plan, or the number of participants, our goal is to help you make sure you have the right plan for your business. Call us to set up a time to either help structure a plan for you, or review your existing plan.

We are Moving!

Starting August 1st, NovaPoint is moving to our permanent offices located at Atlanta's Colony Square. We will be on the 18th Floor of the 100 Colony Square building at 1175 Peachtree Street.



Colony Square has undergone a full renovation over the past few years and is a vibrant mixed-use development in Midtown Atlanta. NovaPoint is proud to be a corporate member of this dynamic community.

Summer Squash with Bacon

We hope everyone is outdoors enjoying the great summer weather.

Ingredients (serves 4)

- 2 to 3 yellow squash, sliced
- 2 to 3 zucchini, sliced
- 1 medium onion, sliced
- 4 strips of cooked bacon
- 2 tablespoons olive oil
- Salt/Pepper/Garlic Powder

Directions

Slice squash, zucchini, and onions. Cut bacon into pieces.

Heat olive oil in pan and add first three ingredients. Cook until slightly tender.

Add bacon. Add salt, pepper, and garlic powder to taste.

Courtesy of Food

Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint website blog highlighting important financial and investment issues for the week. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

If you'd like to receive the blog in by email each week, please contact Jeff Wright at jwright@novapointcapital.com

NovaPoint CAPITAL LLC

Weekly Market Commentary

July 26, 2021

Passing the Baton

The market succumbed to COVID Delta variant fears last Monday, then snapped back to a record close by week's end. All major averages closed higher for the week with the S&P 500 Index +2.0%, the NASDAQ +2.9% and the Dow +1.1%. The U.S. 10-year Treasury bond yield decreased to 1.28% at Friday's close versus 1.30% the previous week.

The second quarter earnings reporting season continues this week with the large capitalization technology companies carrying the baton. Apple, Microsoft, Amazon, Alphabet, and Tesla all report this week. Collectively, these companies represent over 20% of the S&P 500's market cap. In all, 177 companies in the S&P 500 Index are scheduled to report earnings this week. The current expectation is for S&P 500 earnings growth of 78.1% year over year, an increase from the expectation of 72.0% year over year growth from last week.

Initial unemployment claims for the week of July 17th increased to 419,000 versus the previous week at 368,000. Continuing claims for July 10th were 3.236 million versus 3.265 million the week prior. We expect some choppiness in the labor market over the next few months as individuals contend with expiring unemployment benefits and decisions about returning to the workplace.

In our *Dissecting Headlines* section, we take a look at current back-to-school shopping forecasts.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	2.0%	18.4%	Aggregate Bond Index	0.1%	-0.6%
Dow Jones Industrial Average	1.1%	15.7%	U.S. Dollar Index	0.2%	3.3%
NASDAQ 100	2.9%	17.7%	WTI Crude Oil	0.4%	48.5%
Russell 2000 (Small Cap Index)	2.2%	12.4%	Gold	-0.5%	-5.0%
International Stocks (MSCI ex-US)	0.3%	7.0%	Real Estate (US REIT Index)	0.5%	25.2%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Back-to-School Shopping

Inconsistent education schedules shifted traditional back-to-school shopping in 2020 to accommodate online education. This year, the expectation that school gets back to normal (barring Delta variant disruptions) means a more consistent pattern of back-to-school shopping.

According to the National Retail Federation, families with children in elementary through high school plan to spend $848.90 per family, $59 more than last year, on average for back-to-school items. Total back-to-school spending is expected to reach $37.1 billion, a 9.4% increase from 2020 and an all-time high in the survey's history. Major categories for spending include electronics, clothing, and shoes. While online shopping continues to be a prime destination, the survey indicated shoppers are more comfortable in stores this year. Forty-three percent of survey respondents said they plan to use money received from government stimulus for back-to-school purchases.

College students and their families are also setting records in spending. Total spending on back-to-college is expected to reach $71.0 billion, a 4.9% increase from 2020. Major spending categories for college students include electronics, dorm and apartment furnishings, and clothing.

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NovaPoint CAPITAL LLC

Visit our website: www.novapointcapital.com

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

Our Team

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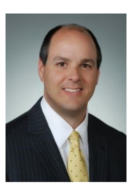

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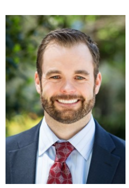

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