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It Continues to Get Better

Global Markets and Regions

	2nd QTR	2021 YTD
US	9.30%	14.60%
Developed Europe	7.40%	11.80%
Asia	1.30%	4.50%
Emerging Markets	4.80%	7.40%

US Markets

	2nd QTR	2021 YTD
Dow 30	4.67%	13.69%
Large Cap Cos.	9.00%	15.30%
Mid. Cap Cos.	3.32%	17.14%
Small Cap Cos.	4.33%	23.50%
Bonds	1.98%	-1.16%

The world and the world's economy continue to recover from Covid-19. We are increasingly returning to some semblance of normal. Lockdowns and restrictions are still on the table, particularly as variants of the virus continue to emerge. Some US states and many countries around the world still have Covid-19 restrictions in place. Whether or not they are effective at containing the virus will be determined in hindsight at some point. They are still part of the overall policy response options and we know what they have done to the economy.

In spite of the threat, recovery is proceeding. Central Banks and Government fiscal measures are still in place. Extended unemployment benefits are still being paid and PPP loans are still available. Central Bank asset purchases and low interest rate policies are still in full force. Governments are preparing gigantic infrastructure and spending proposals, ostensibly to support the economy damaged by the shutdowns. The National and Global financial picture has been distorted in unprecedented ways by the unprecedented pandemic and the unprecedented response. It's not hyperbole to say this is all new. For the most part they are getting their intended results.

Some of the impacts are quite interesting. For instance, in the wake of an unemployment spike to over 14%, the Personal Savings rate also spiked and exceeded rates not seen since the 1970s. Revolving Credit Card debt held by consumers has been paid down dramatically. The historically free spending American consumer's balance sheet is in the best shape it's been in for years. Being locked in with little to do, but still getting paid has had interesting consequences.

Consumer spending and consumption has historically been 70% of the US economy. Will the American consumer come roaring back to life? There has been some indication of this as travel rates are exploding

recently. The Travel Administration Services (TSA) airport traveler data are almost back to pre-Covid levels.

Another impact has been the emergence of inflation. For instance, the price of gasoline has surged dramatically. The past year has seen a surge in home prices as low interest rates, a limited supply of new and existing homes and materials and labor shortages coincided with the desire of many to exit to Covid constrained cities. Whether this is sustained or transitory is yet to be seen.

The flood of relief/stimulus money has also helped fuel the stock market rise. The Reddit-Robin Hood investors are just one aspect of the consequences, but low interest rates and excess cash liquidity find their way into stocks. Corporations have used low interest rates to finance stock repurchases for years. This just adds an additional source of buyers. There are reports that there is almost \$5.5 Trillion dollars sitting in Money Market funds. With cash rates so low, where will that money go?

The contrast from almost no economy, or at least only part of an economy, a year ago to nearing fully reopened has resulted in Gross Domestic Product (GDP) growth numbers not seen since the 1960s. We are also entering second quarter earnings season at the same time. Earnings ultimately drive stock prices. The earnings comparisons are going to be astoundingly positive for this quarter and at least the next. The stock market is noticing.

Can this continue? By several measures, we still have a ways to go before we get back to the output levels seen before the emergence of Covid-19. In 2019 the economy was doing well and seemed on a path of steady but unspectacular growth. Then there was Covid. But, as far as the numbers are concerned, at this moment we are in a pretty good place. We are very aware of what the immediate threats are to the economy, even though they are unprecedented. The next downturn will be caused by something no one expects. They always are.

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