HUDOCK CAPITAL GROUP, LLC

WEALTH PARTNERS WITH PURPOSE®

Hudock Capital Group Newsletter

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Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.
~Hudock Capital

Inside this Issue

- Quarterly Tax Tip
- Economic Commentary
- In the News
- Upcoming Events
- Hudock Happenings
- After the Closing Bell

Quarterly Tax Tip:

As the US national debt approaches $28 trillion, our government will be faced with many challenges on paying down the deficit. There are rumors and speculation we will see higher taxes in the not-so-distant future. In preparation for the possibility of higher taxes, we recommend evaluating tax strategies intended to reduce future tax liability. Increasing Roth contributions, if available for your retirement plans, and structuring Roth assets for the greatest growth potential within your portfolio are two options for consideration. If you have questions or would like to discuss, please contact your Hudock Capital relationship manager.

Reference: https://www.pgpf.org/national-debt-clock

Economic Commentary

Five Things You Should Know About 2021… So Far

1. Third U.S. Stimulus Bill Passes
Congress passes another $1.9T fiscal stimulus package, delivering the largest economic boost in history to an already recovering economy.

2. Global Consumer Confidence Hits Record High
Consumer confidence soared as vaccinations proliferated. Prior lock-downs and travel restrictions also loosened.

3. Bond Yields Rise
10-year Treasury yields rose nearly one percent (the fastest move in five years) indicating the bond market's expectation for faster growth and higher inflation.

4. Value Outperforms Growth
After more than a decade of record-setting under-performance, value stocks (led by energy, financials and industrials) begin their rebound versus growth/tech stocks.

5. Commodities Rise, but Precious Metals Weak
Industrial commodity prices in energy, metals and agricultural all climbed in Q1 with rising inflation expectations. Precious metals, including gold and silver, fell as funds flowed out of these safe-havens.

Early in the Year – Strong Growth + More Stimulus

The U.S. economic recovery continued at a breakneck pace in the first quarter. It was helped by two shots in the arm. The first shot was accelerated deployment of vaccines, with over 100M vaccinated. At the current pace, the US could reach herd immunity by early summer. This is paving the way for a re-opening of the economy and release of pent-up demand. The second shot was yet another record-setting $ 1.9 trillion stimulus bill—roughly the same size as the initial CAREs act that was passed a year ago—producing a further round of stimulus checks sent directly to households.

Also, the Fed reaffirmed its plan to keep rates exceptionally low for the next two years, and to continue its bond buying program for the foreseeable future. The Fed also signaled a willingness to hold rates steady and accept inflation above its target to further promote and safeguard the recovery.

Market reaction to this extraordinary support was mixed. Growth-seeking assets appreciated while safe-haven assets declined. These safe-havens, like bonds and precious metals, were sold while growth assets, like stocks and industrial commodities (e.g. copper and oil), were bought. The extreme out-performance of growth and momentum stocks vs. value stocks that began late last year began to reverse this quarter. Last year's laggards, like energy and financial stocks, dramatically outperformed last year's big tech and biotech leaders.

Market Outlook

There has been more direct fiscal stimulus distributed in the last twelve months than ever before in American history. This is happening in combination with maximum support from Fed policy, massive pent-up demand with rising consumer confidence, plus large cash balances and peak household wealth. The most recent $1.9 trillion package is still in the process of being deployed, so much of its impact is forthcoming. Meanwhile, deliberation has begun for another $2 trillion infrastructure bill this year. Further, there are plans for another $1-2 trillion bill soon after, possibly aimed at paying off or forgiving student loan debt. To put this in perspective, the stimulus approved thus far is already over five times the size of the relief package passed during the Global Financial Crisis in 2009. If both additional infrastructure bills pass, that multiple would jump to ten times the size of 2009 stimulus.

The profound magnitude of this economic support is hard to overstate—especially considering that the US economic recovery was already meaningfully underway. It's the economic equivalent of multiple elephant-sized adrenaline shots being given to a patient who is already alert. It's hard to see how growth assets won't continue to rise to new highs.

Too Much Stimulus?

With so much stimulus being poured into the economy and markets, prudent risk management suggests thinking through any unintended consequences that could arise. After all, if printing and spending vast amounts of money is all that governments need to do to propel unbridled growth and prosperity, why haven't they tried it before? The answer: they have. Historically, some combination of unwanted inflation, asset bubbles and/or a currency collapse eventually ended the process, while leaving widespread wealth destruction in its wake. Today, we think unwanted inflation is currently the greatest near-term risk.

Why now?

Leading up to the pandemic, inflation had been in secular decline for forty years. Containing inflation became the explicit goal of Fed policy since the 1980s, after it ran rampant in the 1970s. Soon after the Fed, other central banks began employing a similar inflation-fighting mentality. Over time, consumers and businesses became accustomed to price stability, further reducing inflationary impulses.

Later, two new powerful disinflationary forces emerged, complimenting the central banks' inflation-fighting efforts: globalization and technology. As China allowed its economy to trade with the West, it opened the world's largest and cheapest labor pool, unleashing the greatest disinflationary force in world history. When advanced supply chain management took off in the 90's (empowered by the internet and ever cheaper computing power), it allowed labor and manufacturing to compete globally, and thus, lowered the price pressures from both. Other technology developments have also been broadly disinflationary, including robotics, automation, telecommunication and the creation of a vast new digital economy, which can quickly and cost effectively add new supply with little additional labor. Today, the technology sector employs roughly 2% of the work-force while accounting for nearly 10% of GDP (and 40% of the total stock market capitalization).

In many ways, all of these forces have enabled today's extraordinary combination of stimulus and money printing without traditional inflationary consequences that were clearly seen in the WWII era - which was the only time stimulus was delivered close to today's scale. That may be a blessing, but there is a limit to which these forces can offset, especially with some of these major drivers now reversing.

Reversing Disinflation Forces

Some of these major deflationary pressures have begun to reverse. The globalization of supply chains may likely have peaked in the past four years and is now in the process of unwinding. Nationalism is the current trend in motion. COVID has only accelerated this, with supply chains now being retooled to emphasize stability and access via local sourcing instead of solely profit maximization. Further, China's economy is maturing and is increasingly likely to raise prices as they move their focus to profit rather than market share growth. China could soon be exporting inflation rather than deflation.

Another big change is a shift in Fed policy from just fighting inflation to encouraging it. This so called "symmetrical inflation targeting" is new and represents a complete change in Fed thinking. This shift is largely why the Fed is signaling its plan to stay extraordinarily supportive with its policies until 2024.

What Could Go Wrong?

As we said, for the next 6-12 months, the economy should be poised for solid growth. Given the unique supply/demand imbalances, when thousands of businesses re-hire and re-open, some higher inflation is expected (which is already sanctioned by the Fed).

Yet, if inflation starts to look more problematic and entrenched, bonds will likely be the biggest loser, potentially pushing long-term bond rates higher. As we've written about in past, low bond yields have been a major support to the current stock market valuation.

The Glass Half Full

Despite the inflation risks cited here, there is plenty of good news worth mentioning. Inflation pressures historically take 1-2 years to build up to problematic and entrenched levels. During those initial inflationary years, stocks and other growth assets tend to do quite well as earnings tend to growth faster than inflation.

Conclusion

We still maintain that investors in this current environment are better off remaining invested, as opposed to holding cash. We recommend incorporating diversifiers outside of traditional bonds, specifically inflation protective real assets, including industrial commodities. As always, we will continue to monitor markets through these various forces at play and update you as our views on risk change.

Reference: Economic Commentary with permission from Almanack, April 16, 2021. Redistribution is prohibited.

In the News:

BARBARA AGAIN NAMED TOP FINANCIAL ADVISOR

This spring, both *Barron's* and *Forbes* once again recognized Barbara Hudock as one of the highest ranked financial advisors in the nation.

In its March 13, 2021 issue, *Barron's* named Barbara as one of America's Top Financial Advisors, including her among its Top 50 Financial Advisors in Pennsylvania[1]. In its March 24, 2021 issue, *Forbes* named Barbara as one of America's Top Women Wealth Advisors, ranking Barbara eleventh among its Top Women Wealth Advisors in Pennsylvania[2].

This is the twelfth year that *Barron's* has included Barbara in its list of America's Top Financial Advisors and the third year in a row that *Forbes* has named Barbara one of its Top Women Wealth Advisors.

Barbara said, "It is truly an honor to be recognized again by these two publications. More than that, it is a reflection on what we—our talented team and remarkable clients—can do together. Through the extraordinary challenges of the past year, we focused on delivering our unique brand of a purpose-driven client experience, and that has made all the difference. I am grateful beyond words for the opportunity to work with our team in the service of our clients."

1. https://www.barrons.com/report/top-financial-advisors/1000/2021
2. https://www.forbes.com/top-women-advisors/#44ba8c3151f4

Upcoming Events

2021 Veteran's Day Event

Community Theatre League
Thursday, November 4th

Presenter: Jari Villanueva, Taps Bugler
Music by the Repasz Band

2021 Holiday Events

The Club at Shepard Hills
Tuesday, December 7th
11:00 am – 2:00 pm

Williamsport Country Club
Friday, December 10th
11:00 am – 2:00 pm

Williamsport Country Club
Saturday, December 11th
11:00 am – 2:00 pm

Hudock Happenings

Hudock Capital is excited to announce that John Kolb earned his Certified Financial Planning® designation in March of 2021. Of the total 2,686 overall registered participants for the exam, only 63% passed. The CFP® marks identify those individuals who have met the rigorous experience and ethical requirements of the CFP Board, have successfully completed financial planning coursework and have passed the CFP® Certification Examination.

CFP Board is a non-profit organization with a mission to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning. For more about the CFP Board, visit www.CFP.net.

https://www.cfp.net/get-certified/certification-process/exam-requirement/about-the-cfp-exam/scoring-and-results/exam-statistics

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If you have any suggested topics or feedback about the Hudock Capital Newsletter, please feel free to call us and share!

After the Closing Bell

We recently celebrated Mother's Day—a day to reflect on one of the most important people in our lives. My mother was such a blessing to me—she was simply the best mom ever (although I'm sure everyone feels that way about their mom). While my mom is no longer here, I cherish her memory and the many gifts and lessons she gave me.

As a young girl, I remember wearing lots of hand-me-downs from my older sister. In the seventh grade, when I finally outgrew my sister, my mother started making my clothes so that I would always have a special outfit that was made just for me. I remember her working through the night to finish whatever dress she was sewing for me. Each outfit was a physical representation of my mom's love and, in my mind, told the world that the young girl wearing these clothes was special. What an incredible gift. One year for Christmas, my mom made me a skirt with a big Christmas tree on the front, complete with lights! I had a switch in my pocket so that I could turn them on and off. I felt like a princess wearing that dress to church that year, thanks to mom. It was my favorite Christmas ever and is one of my favorite "mom memories" too.

> I want my children to have all the things I couldn't afford. Then I want to move in with them." 😉
> *- Phyllis Diller*

I learned a lot from my mom, who had a perfect blend of discipline and encouragement. When I was perhaps 12, I found her reading Dale Carnegie's "How to Win Friends and Influence People". She knew I was at that point when being popular seemed to be the most important thing and that I was not one of the "popular kids" at my very large school. So, mom let me read her book and then we talked about it. Through the book, my mom taught me that listening to and being enthusiastic about interacting with others was one of the most important personality traits anyone can develop—more important than trying to be "popular". It was a great lesson to learn then and one that has served me well ever since.

Sharing stories is a simple but meaningful way to celebrate our mothers and keep their memories alive. Of course, as a mother, I reflect on the kinds of gifts and lessons I hope I am leaving for my children and grandchildren. At the same time, it's also tempting to muse about what we might hope for our children. As Phyllis Diller once said, "I want my children to have all the things I couldn't afford. Then I want to move in with them." Maybe that's wise advice too; I'm just not sure my children would agree.

Warmest, *Barbara*