

4Q21

The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives	1
COVID-19 Left the U.S. Travel Industry Reeling	1
A Map for Your Family	2
Signs of a Scam and How to Resist It	2
Child Tax Credit for 2021: Will You Get More?	3
State Income Tax: Depends on Where You Live or Work	3
Following the Inflation Debate	4

Economic & Market Perspectives

Stocks

Market leadership could shift toward value, small and non-U.S. stocks. Although with so much optimism already baked in, we caution that returns may be more limited than many expect. Historically the stock market doesn't perform as well over the next 5 years after hitting the current high valuations, and therefore these valuations are certainly worth paying attention to.

Bonds

Our outlook for bonds is tempered by the current low rate environment and we expect returns will likely be below historical averages for some time. Expectations for the performance of bonds does not look good due to rising inflation, rising supply, and growth rates. For most bond investments, coupon payments are likely to be the key driver of total returns in the near-term, not price appreciation.

GDP

Global growth is expected to accelerate over the course of 2021. The Fed's estimate for GDP growth for 2021 is 7-9%. Economic growth outside the U.S. is expected to be even higher, especially in emerging and developing economies.

Earnings

Global earnings growth is expected to be strong as we move through 2021. Despite steadily rising stock prices, these strong earnings numbers have acted as a counterbalance to valuations. While valuations are high, and most asset classes do not look especially cheap right now, they haven't moved much despite the rally in prices.

Interest Rates

We maintain our outlook that rates will grind higher from here as the economy improves and inflation picks up. In addition, credit spreads are at tight levels that we have rarely seen over the past 10 years. This will continue to make fixed income a difficult place to generate yield in a risk-controlled manner.

Inflation

Inflation is a market buzzword right now, and the market seems to fall into one of two camps. One camp (including the Fed) believes that the current high levels of inflation are "transitory" in nature and subject to significant "base effects" (i.e., the year-over-year numbers look alarming because at this time last year inflation was, essentially, zero). The other camp believes that higher wages and higher input prices will

2021 Returns

S&P 500	15.92%
NASDAQ	14.58%
Russell Small Cap	14.99%
Russell Mid Cap	15.17%
MSCI EAFE	8.35%
MSCI World	13.04%
Barclay US Agg. Bond	-1.55%
Barclay Municipal Bond	0.79%

continue as the global economy continues to recover.

Central Bank Policy

While the U.S. Fed continues to signal that it will remain accommodative into the foreseeable future, we are beginning to see increased divergence of opinion as to when it will be appropriate to begin raising rates again (with some Fed governors now voting for some time in 2022). The Fed itself describes it as "thinking about thinking about" tapering sooner than previously signaled. If the U.S. economic data continues to come in as expected, it looks increasingly likely the Fed will make some sort of tapering announcement later this year.

Source: WisdomTree

COVID-19 Left the U.S. Travel Industry Reeling

The U.S. travel industry's total economic output plummeted 42% in 2020. A full 65% of all jobs lost in the United States were those supported by the travel industry. Perhaps unsurprisingly, the hardest-hit areas were business travel, particularly spending related to conferences, conventions, and trade shows, as well as international travel.

Federal, state, and local government coffers were also strained, as travel-related taxes fell by 34%.

Total travel spending in the United States, accounting for both domestic and international travelers, is expected to rise by 23.6% in 2021.

Source: U.S. Travel Association, 2021



Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 Main
773.714.1550 Facsimile
www.fsadvisorygroup.com

A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

Financial accounts and account numbers, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

List of documents and their locations, including (but not limited to) your

will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.



A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.

Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant. Also include others who may be helpful, such as a business partner or trusted friend.

Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.

Your final wishes for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory are all important details that can help your survivors upon your passing.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

Signs of a Scam and How to Resist It

Although scammers often target older people, younger people who encounter scams are more likely to lose money to fraud, perhaps because they have less financial experience. When older people do fall for a scam, however, they tend to have higher losses.¹

Regardless of your age or financial knowledge, you can be certain that criminals are hatching schemes to separate you from your money — and you should be especially vigilant in cyberspace. In a financial industry study, people who encountered scams through social media or a website were much more likely to engage with the scammer and lose money than those who were contacted by telephone, regular mail, or email.²

Here are four common practices that may help you identify a scam and avoid becoming a victim.³

Scammers pretend to be from an organization you know. They might claim to be from the IRS, the Social Security Administration, or a well-known agency or business. The IRS will never contact you by phone asking for money, and the Social

Security Administration will never call to ask for your Social Security number or threaten your benefits. If you wonder whether a suspicious contact might be legitimate, contact the agency or business through a known number. Never provide personal or financial information in response to an unexpected contact.

Scammers present a problem or a prize. They might say you owe money, there's a problem with an account, a virus on your computer, an emergency in your family, or that you won money but have to pay a fee to receive it. If you aren't aware of owing money, you probably don't. If you didn't enter a contest, you can't win a prize — and you wouldn't have to pay for it if you did. If you are concerned about your account, call the financial institution directly. Computer problems? Contact the appropriate technical support. If your "grandchild" or other "relative" calls asking for help, ask questions only the grandchild/relative would know and check with other family members.

Scammers pressure you to act immediately. They might say you will "miss out" on a great opportunity or be "in trouble" if you

don't act now. Disengage immediately if you feel any pressure. A legitimate business will give you time to make a decision.

Scammers tell you to pay in a specific way. They may want you to send money through a wire transfer service or put funds on a gift card. Or they may send you a fake check, tell you to deposit it, and send them money. By the time you discover the check was fake, your money is gone. Never wire money or send a gift card to someone you don't know — it's like sending cash. And never pay money to receive money.

For more information on this topic, please visit consumer.ftc.gov/features/scam-alerts.

- 1, 3) Federal Trade Commission, 2020
- 2) FINRA Investor Education Foundation, 2019



Child Tax Credit for 2021: Will You Get More?

If you have qualifying children under the age of 18, you may be able to claim a child tax credit. (You may also be able to claim a partial credit for certain other dependents who are not qualifying children.) The American Rescue Plan Act of 2021 makes substantial, temporary improvements to the child tax credit for 2021, which may increase the amount you might receive.

Ages of Qualifying Children

The legislation makes 17-year-olds eligible as qualifying children in 2021. Thus, children ages 17 and younger are eligible as qualifying children in 2021.

Increase in Credit Amount

For 2021, the child tax credit amount increases from \$2,000 to \$3,000 per qualifying child (\$3,600 per qualifying child under age 6). The partial credit for other dependents who are not qualifying children remains at \$500 per dependent.

Refundable Credit

The aggregate amount of nonrefundable credits allowed is limited to tax liability. With refundable credits, a taxpayer may receive a refund at tax time if they exceed tax liability. For most taxpayers, the child tax credit is fully refundable for 2021. To qualify for a full refund, the taxpayer (or either spouse for joint returns) must generally reside in the United States for more than one-half of the taxable year. Otherwise, under the pre-existing rules, a partial refund of up to \$1,400 per qualifying child may be available. The credit for other dependents is not refundable.

Advance Payments

Taxpayers may receive periodic advance payments for up to one-half of the refundable child tax credit during 2021, generally based on 2020 tax returns. The U.S. Treasury will make the payments for periods between July 1 and December 31, 2021. For example, monthly payments could be up to \$250 per qualifying child (\$300 per qualifying child under age 6).

Phaseout of Credit

The combined child tax credit (the sum of your child tax credits and credits for other dependents) is subject to phaseout based on modified adjusted gross income (MAGI). Special rules start phasing out the increased portion of the child tax credit in 2021 at much lower thresholds than under pre-existing rules. The credit, as reduced under the special rules for 2021, is then subject to phaseout under the pre-existing phaseout rules.

Phaseout of Credit in 2021 Based on MAGI

Credit can be reduced to \$2,000 per qualifying child, or \$500 per other dependent, based on MAGI	
Single/Married filing separately	Over \$75,000 to \$200,000
Married filing jointly	Over \$150,000 to \$400,000
Head of household	Over \$112,500 to \$200,000
Credit can be reduced to \$0, based on MAGI	
Single/Married filing separately	More than \$200,000
Married filing jointly	More than \$400,000
Head of household	More than \$200,000

For 2021, there is no reduction in the credit if the taxpayer's MAGI does not exceed \$75,000 (\$150,000 for joint returns and surviving spouses, \$112,500 for heads of households). The credit is partially phased out for MAGI exceeding these income limits. At this stage, the credit is reduced by the lowest of the following three amounts:

- \$50 for each \$1,000 (or fraction thereof) of MAGI exceeding these thresholds
- The total increase in the credit amounts for 2021 [e.g., if 3 qualifying children (2 under the age of 6), then \$10,200 increased credit minus \$6,000 pre-existing credit = \$4,200 increase in credit]
- \$6,250 (\$12,500 for joint returns, \$4,375 for heads of households, \$2,500 for surviving spouses); these amounts are equal to 5% of the difference between the higher pre-existing phaseout thresholds and the special thresholds for 2021

The credit cannot be reduced below \$2,000 per qualifying child or \$500 per other dependent at this stage under this special rule for 2021.

However, the credit can be fully phased out for MAGI in excess of \$200,000 (\$400,000 for a joint return) under the pre-existing phaseout rules. The credit as reduced in the preceding stage is further reduced by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer's MAGI exceeds these thresholds.

State Income Tax: Depends on Where You Live or Work

Eight states have no state income tax. Of the 42 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.9% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; nine states have only a single tax rate.



Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.¹ The annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) — often called headline inflation — was due in part to the "base effect." This statistical term means the 12-month comparison was based on an unusual low point for prices in the second quarter of 2020, when consumer demand and inflation dropped after the onset of the pandemic.

However, some obvious inflationary pressures entered the picture in the first half of 2021. As vaccination rates climbed, pent-up consumer demand for goods and services was unleashed, fueled by stimulus payments and healthy savings accounts built by those with little opportunity to spend their earnings. Many businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet surging demand. Supply-chain bottlenecks, along with higher costs for raw materials, fuel, and labor, resulted in some troubling price spikes.²

Monitoring Inflation

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In June 2021, for example, used-car prices increased 10.5% from the previous month and 45.2% year-over-year, accounting for more than one-third of the increase in CPI. Core CPI, which strips out volatile food and energy prices, rose 4.5% year-over-year.³

In setting economic policy, the Federal Reserve prefers a different inflation measure called the Personal Consumption Expenditures (PCE) Price Index, which is even broader than the CPI and adjusts for changes in consumer behavior — i.e., when consumers shift to purchase a different item because the preferred item is too expensive. More specifically, the Fed looks at core PCE, which rose 3.5% through the 12 months ending in June 2021.⁴

Competing Viewpoints

The perspective held by many economic policymakers, including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, was that the spring rise in inflation was due primarily to base effects and temporary supply-and-demand mismatches, so the impact would be mostly "transitory."⁵ Regardless, some prices won't fall back to their former levels once they have risen, and even short-lived bursts of inflation can be painful for consumers.



Source: U.S. Bureau of Labor Statistics, 2021

Some economists fear that inflation may last longer, with more serious consequences, and could become difficult to control. This camp believes that loose monetary policies by the central bank and trillions of dollars in government stimulus have pumped an excess supply of money into the economy. In this scenario, a booming economy and persistent and/or substantial inflation could result in a self-reinforcing feedback loop in which businesses, faced with less competition and expecting higher costs in the future, raise their prices preemptively, prompting workers to demand higher wages.⁶

Until recently, inflation had consistently lagged the Fed's 2% target, which it considers a healthy rate for a growing economy, for more than a decade. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to rise moderately above 2% for some time in order to create a 2% average rate over the longer term. This signaled that economists anticipated short-term price swings and assured investors that Fed officials would not overreact by raising interest rates before the economy has fully healed.⁷

In mid-June 2021, the FOMC projected core PCE inflation to be 3.0% in 2021 and 2.1% in 2022. The benchmark federal funds range was expected to remain at 0.0% to 0.25% until 2023.⁸ However, Fed officials have also said they are watching the data closely and could raise interest rates sooner, if needed, to cool the economy and curb inflation.

Projections are based on current conditions, are subject to change, and may not come to pass.

- 1, 3) U.S. Bureau of Labor Statistics, 2021;
- 2) *The Wall Street Journal*, April 13, 2021;
- 4) U.S. Bureau of Economic Analysis, 2021;
- 5-6) Bloomberg.com, May 2, 2021;

*At Financial Solutions
you'll find a fee-only
Registered Investment
Advisor (RIA)
committed to putting
your interests and your
needs first, eliminating
the commissions and
self-serving incentives
that get in the way of
solid, successful
financial planning and
investment
management.*

**Please contact us if you
would like to receive this
publication by e-mail.**

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 Main
773.714.1550 Facsimile
www.fsadvisorygroup.com