# Advisory Notes

March 2021

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## First Quarter in Review

The first quarter of 2021 was met with optimism and fear about the reopening of the U.S. economy in many areas and sectors of the nation. Vaccines for COVID-19 began rolling off the shelves in factories and into the arms of the elderly and those with underlying medical issues. The pace was steady, but the availability was scarce. Two other pharmaceutical giants joined the Moderna vaccine with Johnson & Johnson and Pfizer rolling out their fast-tracked vaccines. By the end of the quarter, close to 3.5 million injections were occurring daily and the White House promised that by mid-summer all who are eligible to receive doses should be vaccinated, if desired. This has not only created optimism for the economy opening up, but has improved the consumer sentiment as people can now look forward to moving about regions without the fear of getting sick.

The Federal Reserve and the Treasury with the aid of Congress have injected more stimulus in 2021 under the American Rescue Plan Act and will continue to focus on improving the economy and the unemployment rate while keeping the lid on inflation in the near and mid-term forecasts with more monetary and fiscal measures. Consumer savings have continued to rise as the stimulus filters in and the consumer backlog for durable products has been building in the supply chain. Shortages from computer chips to lumber products to petrochemical supplies have all been affected by continued shutdowns, the Texas winter storm and delays in shipping across the globe. With all of this, the markets continue to push forward in a positive manner, although we are seeing a rotation to value from some growth areas of the market, as the 10-year Treasury continues to move higher. (See Market Table).

*See* **First Quarter** *on Page 3*

## Market Table

**Valicenti Advisory Services, Inc.**
**Comparative Index Period Returns**
**From 12-31-20 THROUGH 03-31-21**

| | DJIA | S&P 500 | NASDAQ | Russell 2000 Index | BBG Barclays AGGR Bond Index | BBG Barclays Muni Bond Index | FTSE Corporate Bond Index | U.S. Treasury Bill Index (90 day) |
|---|---|---|---|---|---|---|---|---|
| 12-31-20 to 01-31-21 | -1.95 | -1.01 | 1.44 | 5.03 | -0.72 | 0.69 | -1.16 | 0.06 |
| 01-31-21 to 02-28-21 | 3.43 | 2.76 | 1.01 | 6.23 | -1.44 | -1.72 | -1.74 | 0.00 |
| 02-28-21 to 03-31-21 | 6.78 | 4.38 | 0.48 | 1.00 | -1.25 | 0.67 | -1.77 | 0.00 |
| **Cumulative Returns** 12-31-20 to 03-31-21 | 8.29 | 6.17 | 2.95 | 12.70 | -3.37 | -0.38 | -4.60 | 0.06 |

## Director's Chair: Infrastructure Deja Vu

Here we are, another four years past, waiting for an infrastructure bill from the Federal government. Actually, talk of the next infrastructure bill has existed for the last decade with only the Fast Act highway bill being enacted in 2016 for $226 billion, which is pocket change. Similar to Bill Murray's character in *Groundhog Day*, this country kept waking up over and over to Congress talking about infrastructure and expecting a different outcome, the actual passage of a spending bill. Then again, they say doing the same thing over and over again, expecting a different result is a sign of insanity, which makes sense when talking of Congress.

The American Society of Civil Engineers has just issued its 2021 report card on the nation's infrastructure five years after the last measure. Congratulations America we've gone from a D+ in 2017 to a C- today, still disheartening. The improvement in the score can be traced to Drinking Water moving from D to C- (if you are not in Flint Michigan), Energy moving from D+ to C- (unless you are in a winter storm in Texas), Ports moving from C+ to B- due to investment by private industry and Aviation moving from D to D+. Doesn't that make you want to trust air travel?

What makes this time different? First, the new Democratic administration is signaling it will use the budget reconciliation process to enact such spending, which would only require a simple majority in the Senate to pass, circumventing the filibuster. Second, both political parties have agreed to do away with "earmarks," at least for this bill. Earmarks are specific spending lines (projects) inserted into legislation. Earmarks have a history of bribery, overspending and mismanagement of money, which is why both parties outlawed the practice in 2011. But if bribery is what is needed to pass an infrastructure bill, apparently the politicians are in on the pact, passing sweetheart deals for their districts. Seriously, the combination of budget reconciliation and earmarks give the infrastructure deal the best odds it has had of passing in years.

What is most likely to doom legislation? Republican legislators define infrastructure as new or repaired roads, bridges and school buildings while Democrat legislators, at least on the progressive wing of the party, define it as Green New Deal, alternative energy, energy conservation, mass transit and parks. This wing literally would like to have automobiles removed from cities while the other party wants to pave roads for those cars. The other major hurdle is how to pay for such a plan. Democrats are likely to seek tax increases on high-earner incomes, corporations and estates to pay for their initiatives. Republicans are likely to oppose any tax increase. If there is to be an infrastructure plan, it will likely be either a $1 trillion dollar proposal paid through deficit spending or it could be a near $2.2 trillion dollar plan that relies on all 50 Democrats in the Senate holding together and passing the legislation with the slimmest majority via reconciliation.

Maybe we are crazy enough to let the groundhog drive the car as in the movie, but this year may be the best chance at enactment of an infrastructure bill. Such legislation would benefit industrial and material companies that supply to such endeavors.

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Louis F. Ruize
*Director of Research/Portfolio Manager*

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**First Quarter**
*(Continued from Page 1)*

The economy is bracing for a reopening of all travel, restaurants, entertainment and regular business activities. Fear is still engrained in our systems and no one is interested in getting sick, so avoidance is still the best measure in some consumers' eyes. So what will the new norm be? It is hard to tell. As resilient as we Americans are, we want an open economy in order to have the flexibility to travel, work, educate, play, worship, etc, the way we did in the past and without mandated constraints.

Here, at VASI, we will continue to manage your portfolios in accordance with your goals and objectives to fit your personal needs by utilizing stocks, bonds and cash. Please review additional articles in this publication for a more in depth analysis.

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Joseph M. Valicenti
*President/CEO*

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## Stimulus Payments and Vacation

Here we go again…depending upon your adjusted gross income, many people have received (or will receive) stimulus funds to the tune of $1,400 per person, with additional funds for dependents. For those that were fully employed or had no change in income throughout the pandemic and don't need the funds for living expenses (as in mortgage, rent, utilities, debt payments or the new laptop that is needed after all of those Zoom meetings), this is another windfall from the federal government.

With states beginning to lift restrictions on travel and quarantines, many will decide to use the stimulus funds for a much anticipated and needed vacation, but may be concerned with booking a vacation when restrictions may pop up in an instant. There are still many travel restrictions by state and, while New York is lifting the domestic travel ban as of April 1, other states still have it in effect. It is best to check the destination of your choice to see what type of restrictions may be in place regarding quarantine requirements or COVID-19 testing. These restrictions may change from moment to moment, so it is best to keep on top of them before you leave.

Also, check the regulations on businesses and tourist destinations that you hope to visit during your vacation. Theme parks, museums, restaurants and other public spaces may have limited capacity and require reservations, so you should check the places you want to visit while you are traveling to see if there are any restrictions on when you can go or if you need tickets or reservations. This could make the difference between a vacation where you can go out to eat in a restaurant and one where you may be staying in your hotel room for the evening after grabbing takeout.

When you make reservations for your stay and are staying in a hotel or condo, you may want to consider if there are any shared amenities such as a pool or fitness room. You will need to be aware of the business policies for social distancing and mask wearing. According to the CDC, even if you are fully vaccinated against COVID-19, you should continue with the precautions in public places with social distancing and mask wearing. If you are staying in a vacation rental home, you should check with the host on the health and sanitation methods being used between guests.

Most importantly, check and double-check the cancellation policies for the rental and/or airline you will be using. Be aware that, depending upon the spread of the disease, shutdowns may still occur. That vacation booked in April for July may have to be canceled, so be very flexible with your plans.

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Ann S. Nolan, FPQP™
*Administrative Assistant*

***The highest compliment our clients can give is the referral of their friends and family. Thank you for your trust!***

## Analyst Corner

The reflation scenario anticipating a recovery relative to the deflationary trough the economy and financial risk assets found themselves in a year ago found a bit of affirmation in Q1 of 2021. The main feature of the quarter's price action saw yields on the 10YR U.S. Treasury rise 83 basis points that saw the rate move from 0.91% to the current level of 1.74%. While the rate does not currently sit at a historically high level, the movement was large and rapid given the low level of rates we found ourselves with coming into the year. The rate rise put pressure on bond prices in fixed income components of portfolios and correspondingly we saw equity pro-cyclicals, more amenable to the reflationary move, outperform sectors with defensive characteristics or high growth and higher valuation characteristics.

The S&P 500 was up 6.17% on a total return basis while the more technology and high growth exposed NASDAQ Composite lagged with a 2.95% return. FTSE Corporate Bond Index was down -4.60% in the face of the rate move and the broader Bloomberg Barclays U.S. Aggregate Index that includes quality mortgage bonds and U.S. Treasuries was off -3.37%. Overall, while there were winners and losers, the markets appear to be generally broadly supported at this juncture given the mix of Federal Reserve monetary policy support, U.S. Government fiscal support and the rollout of the COVID-19 vaccine progressing. The market from here will likely be on the lookout for faster levels of inflation and potential wage pressures as the economy recovers throughout the year in order to anticipate a quicker interest rate rebalancing than is currently priced in.

The Energy sector was the strong winner in the quarter rebounding 30.84% in the first three months with Financials and Industrials being the other notable performers rising 15.90% and 11.41% respectively. Materials and Real Estate followed the leading sectors and returned positively. The higher growth Information Tech sector, which has been a massive outperformer over the past several years, struggled in this environment of cyclical rotation and was up 1.97%. Consumer Staples was the worst performing sector up 1.15%, while the similarly defensive area of Healthcare was up 3.18%.

More discussion of potential infrastructure legislation will likely be watched closely in the coming quarter. Additionally, market watchers may begin to receive better data as to where price pressures and cost input inflation is the strongest. There appears to be an episodic period of supply chain issues, perhaps leading to some intermediate price pressure. Margins in some industries may become pressured while others may have the ability to contain costs elsewhere or pass some of the higher expense through to consumers. With the Federal Reserve signaling that it views the current environment as one which promulgates a temporary uptick in prices, as opposed to a general, broader and sustained uptick in inflation, it may take a considerable amount of time from now to observe if this is the case.

| Positive Market Influences | Negative Market Influences |
|---|---|
| Vaccine Launch | Supply Chain |
| Fiscal Policy | Debt Overhang |
| Monetary Policy | Real Rates |

### Positive Market Influences:

- **Vaccine Launch** – According to the CDC, there are over 60M Americans fully vaccinated at this point (19% of the population) and over 100M single doses administered.
- **Fiscal Policy** – Following the fiscal support that was injected into the economy last year, President Biden signed into law a $1.9T economic relief package which will likely continue to lend support to incomes, consumption levels and the nascent recovery overall.
- **Monetary Policy** – The Federal Reserve has communicated that overall policy remains accommodative and will remain so for some time, as it looks for an economy that can achieve maximum employment with an inflation rate of 2% over the longer run. It has signaled that it will accept inflation moderately over this 2% target in the recovery period, before it would move to tighten conditions.

### Negative Market Influences:

- **Supply Chain** – Weather, shipping blockages in international trade routes and continued COVID-19 pressures around the world have led to shortages and delays for companies in sourcing some raw material inputs. This brings a bit of uncertainty to the supply side of the economy and creates an uncertain pricing environment for business.
- **Debt Overhang** – In the U.S., the fiscal deficit has expanded considerably in order to finance the recovery packages and support. While consumer savings rates are higher, broad aggregates of consumer, corporate and Treasury debt are elevated and the level of over-indebtedness could be a headwind to faster growth rates in the fullness of time.
- **Real Rates** – The real interest rate is the nominal rate you can receive after considering the effects of inflation and with the U.S. Treasury 10YR at 1.74% with a CPI YoY rate of trailing inflation at 1.70%, the level of the real rate is near 0%. Should the real rate rise to higher levels unsupported by longer-term real growth in the economy, that is an outcome which could weigh on risk assets.

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Daniel P. Burchill
*Security Analyst*

## RMD's Are Back in 2021

Clients who are subject to required minimum distributions (RMD) from retirement accounts were able to skip them in 2020, but RMD's will resume in 2021.

In 2020, the RMD age increased from 70½ to 72 as a result of the SECURE Act (Setting Every Community Up for Security Enhancement Act) and RMD's were waived by the CARES Act (Coronavirus Aid, Relief and Economic Security Act). There is no RMD waiver for 2021. Anyone age 72 or older as of December 31, 2021, must take their IRA required distribution by the end of 2021, unless this is their first RMD, in which case they have until April 1, 2022.

Those clients who do not need to supplement their retirement income may choose to wait until the end of the year for a one-time withdrawal. Those clients who need to supplement income may want to have monthly withdrawals throughout the year to make it easier from a budgeting perspective.

If you do not need the RMD funds, you can reinvest the funds in a taxable account to take advantage of continued growth.

It is very important to withdraw your RMD on an annual basis. If you forget, you will face a 50% tax penalty on any amount not withdrawn.

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Melissa B. Mickley, FPQP®
*Administrative and Marketing Assistant*

## Check-up Time

Once again, it is time to remind you to get certain documents in place or updated.

You have already gathered up the required documents to file your taxes for 2020, so why not continue along a similar path and get the rest of your "house in order."

The documents that I am referring to are as follows:

- Durable Powers-of-Attorney
- Healthcare Proxy
- Last Will and Testament
- Living Will
- Trusts

In addition, certain items, as listed below, need to be reviewed from time to time:

- Beneficiaries of Retirement Plans
- 401(k), 403b Plans, etc.
- Pension Benefits
- Health Insurance
- Life Insurance
- Business Insurance
- Refinance of Mortgage

Planning for now and the future will not only benefit you but also your heirs. As any of the following may apply to you, we suggest that you address them:

- Educational Expenses
- Gifting
- Major Repairs to Your Home
- Purchase/Lease of a Car
- Purchase of a Home/Second Home

If you should require banking or legal advice, etc., for any of the above listed items, we would be happy to furnish you the names of appropriate professionals.

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Ralph H. Roberts, Jr.
*Vice President of Client Services*

## Different Retirement Plans

**401(k)**

The 401(k) is the most well known type of retirement plan available to employees of private companies and is available to millions of workers in the world's largest companies. Contributions are taken directly from paychecks before taxes and no taxes will be paid until you take withdrawals.

An Individual 401(k) is available to self-employed individuals and small business owners. As with the 401(k), withdrawals can be made at 59½ without penalty. Prior to 59½, withdrawals will be assessed an additional 10% fee aside from the regular income taxes due.

**403(b)**

Similar to a 401(k), the 403(b) is only available to employees of a non-profit, school district, religious group or government organization.

**457(b)**

The 457(b) is an option for state and local government employees and like the other plans listed above is funded with pre-tax dollars, *but* withdrawals of funds before the age of 59½ are allowed without paying a 10% penalty on the money.

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Ralph H. Roberts, Jr.
*Vice President of Client Services*

## The American Rescue Plan Act of 2021

Congress passed the $1.9 trillion American Rescue Plan Act of 2021 (ARPA) on March 11, 2021. This historic legislation has many provisions relevant to small and mid-sized businesses. The following summary includes important provisions:

**Emergency Paid Sick Leave (EPSL)** - ARPA made several changes to the Emergency Paid Sick Leave benefit established by the Families First Coronavirus Response Act (FFCRA) and modified by the Pandemic Relief Package in December 2020. The ARPA:

- Extends the voluntary EPSL and offsetting federal tax credits through September 30, 2021.
- Restarts the EPSL bank of sick leave, giving employees a new 2-week/10-day/80-hour allotment of paid sick time to use even if they used or exhausted paid sick leave from April 1, 2020 through March 31, 2021. Any days utilized prior to April 1, 2021 will not count toward the new covered period nor will unused time prior to April 1, 2021 carry over into the next coverage period.

**Emergency Paid Family Leave (EPFL)** - the following changes made under ARPA:

- Modifies EPFL family leave to provide pay (up to $200/day) for the first two weeks that was previously unpaid. The new EPFL provides 12 weeks of paid family leave (instead of the previous 10 weeks), thereby increasing the maximum benefit from $10,000 to $12,000 per individual.
- Expands the qualifying reasons that leave can be taken to include all of the reasons that EPSL can be used, including where an employee is subject to a quarantine or isolation order, is experiencing symptoms of COVID-19 or is caring for a sick individual. In addition, ARPA adds new categories for eligible EPFL leave to include time absent from work due to:
  - The employee seeking or waiting for the results of a COVID-19 test or diagnosis
  - The employee recovering from an illness
  - The employee getting a COVID-19 vaccination
  - The employee recovering from the side effects of receiving a COVID-19 vaccination

**COBRA 100% Premium Subsidy** - ARPA mandates that from April 1 to September 30, 2021, employers with 20 or more employees who offer medical coverage and are subject to COBRA must provide a 100% COBRA subsidy to any employee who loses employer-covered health coverage due to involuntary termination or involuntary reduction in hours. Employers must also offer a new COBRA enrollment period beginning April 1, 2021 for employees who previously declined or dropped COBRA coverage and are still within their maximum COBRA coverage period.

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Suzanne M. Valicenti
*President/CEO*
*Valicenti Insurance Services, Inc.*

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*The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.*

## Investment Strategy

The first quarter of 2021 saw a historic vaccine rollout in the U.S. and abroad. While the first quarter had challenges, the COVID-19 vaccine gave renewed optimism that it would allow economies to reopen safely, perhaps sooner than anticipated.

While concerns ranging from the potential for future inflation, continued elevated unemployment numbers and speed at which the vaccines were rolled out, just to name a few, the U.S. markets remained volatile but continued an upward trajectory buoyed by additional aid passed by Congress. While the path forward still has challenges, U.S. markets are anticipating a strong reopening, improving corporate earnings and a resilient consumer as we head into the spring and summer months.

These conditions should favor U.S. equities going forward as we continue to focus on companies with strong balance sheets, reasonable earnings growth and stable cash flow, with a target of 50-65% equities, 20-30% fixed income and 5% in cash. Our asset mix will vary based on client risk levels, income needs and specific directives.

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Jeffrey S. Naylor
*Executive Vice President/CFO*

## DRIP Plans

You may have heard the term DRIP Plans and wondered what they are. First, let us define what DRIP stands for. It is a dividend reinvestment plan.

When you buy the stock of a company that has a DRIP and pays a dividend, you have the option to reinvest your dividends using them to buy additional shares of that same stock at the market price. You then start earning dividends on the new shares in addition to the dividends being paid on the shares you already own. Going forward, the dividends are turned into more shares and, over time, the number of shares you own and the size of the dividends received will gradually increase without you doing anything.

Like most actions, there are advantages and disadvantages to dividend reinvestment plans. The advantages to being in a DRIP are that you can increase the number of shares you own without any fees. You automatically invest without having to think about it and by investing the dividends, you increase the size of your investment; therefore, increasing the dividends you receive each time.

The disadvantages to investing your dividends are that you may need the dividend income, your concentration in the one stock may disrupt the asset allocation in your portfolio and you may not want to buy the stock at that time because it is overvalued.

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Ralph H. Roberts, Jr.
*Vice President of Client Services*

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## IRS Updates

WASHINGTON — To help taxpayers, the Internal Revenue Service announced on March 31, 2021 that it will take steps to automatically refund money this spring and summer to people who filed their tax return reporting unemployment compensation before the recent changes made by the American Rescue Plan.

The legislation, signed on March 11, allows taxpayers who earned less than $150,000 in modified adjusted gross income to exclude unemployment compensation up to $20,400 if married filing jointly and $10,200 for all other eligible taxpayers. The legislation excludes only 2020 unemployment benefits from taxes.

Because the change occurred after some people filed their taxes, the IRS will take steps in the spring and summer to make the appropriate change to their return, which may result in a refund. The first refunds are expected to be made in May and will continue into the summer.

For those taxpayers who already have filed and figured their tax based on the full amount of unemployment compensation, the IRS will determine the correct taxable amount of unemployment compensation and tax. Any resulting overpayment of tax will be either refunded or applied to other outstanding taxes owed.

For those who have already filed, the IRS will do these recalculations in two phases, starting with those taxpayers eligible for the up to $10,200 exclusion. The IRS will then adjust returns for those married filing jointly taxpayers who are eligible for the up to $20,400 exclusion and others with more complex returns.

There is no need for taxpayers to file an amended return unless the calculations make the taxpayer newly eligible for additional federal credits and deductions not already included on the original tax return.

For example, the IRS can adjust returns for those taxpayers who claimed the Earned Income Tax Credit (EITC) and, because the exclusion changed the income level, may now be eligible for an increase in the EITC amount, which may result in a larger refund. However, taxpayers would have to file an amended return if they did not originally claim the EITC or other credits but now are eligible because the exclusion changed their income.

These taxpayers may want to review their state tax returns as well.

According to the U.S. Department of Labor, Office of Employment and Training (ETA), over 23 million U.S. workers nationwide filed for unemployment last year. For the first time, some self-employed workers qualified for unemployed benefits as well. The IRS is working to determine how many workers affected by the tax change already have filed their tax returns.

The new IRS guidance also includes details for those eligible taxpayers who have not yet filed.

The IRS has worked with the tax return preparation software industry to reflect these updates so people who choose to file electronically simply need to respond to the related questions when electronically preparing their tax returns.

*Source: IRS.gov*

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