Weekly Market Commentary
April 12, 2021

The Markets

Investors didn't stumble over inflation last week. Why not?

Inflation – rising prices of goods and services – can be measured in a variety of ways. For example, the Consumer Price Index considers changes in the amount consumers pay for goods and services – a bag of carrots, a gallon of gas, or a doctor's appointment. The Producer Price Index (PPI), on the other hand, considers changes in the amount producers – such as farmers, manufacturers, or physicians – charge for goods and services.

Last week, the *Bureau of Labor Statistics* reported the PPI increased by 1 percent month-over-month in March 2021. It was twice the increase forecast by economists. On a year-over-year basis, the PPI was up 4.2 percent, which was the biggest gain since 2011, reported Reade Pickert of *Bloomberg*.

It's important to pay attention to comparisons. The year-over-year PPI reflected prices from last March, after the pandemic had affected demand and prices dropped lower. *Bloomberg* explained the phenomenon may continue for several months:

> "Given major inflation metrics declined at the start of the pandemic, year-over-year figures will quickly accelerate – a development referred to as the base effect. The upward distortion will also appear in the closely-watched consumer price index report on Tuesday."

Last week, Fed Chair Jerome Powell talked about inflation, too. He didn't focus on year-over-year comparisons. Powell told an *International Monetary Fund* panel inflation may increase as the U.S. economy reopens because supplies are tight. However, he expects the increase to be relatively short-lived. "Persistent inflation that goes up year after year…tends to be dictated by underlying inflation dynamics in the economy, as opposed to things like bottlenecks. The nature of a bottleneck is that it can be resolved."

Powell emphasized price stability is one of the Fed's mandates and, if inflation becomes concerning, the Fed will act. The Fed's other mandate, full employment, is the more pressing concern. Powell said, "The unemployment rate of the bottom quartile of earners is still 20 percent. The higher end of the labor market has virtually recovered, but not the people in the bottom 20 percent…It amounts to nine or 10 million people…who were working in February of 2020 and are now unemployed."

Last week, the Standard & Poor's 500 Index opened above 4,000 for the first time and finished the week higher, reported Alexandra Scaggs, Barbara Kollmeyer, and Jacob Sonenshine of *Barron's*.

(The one-year numbers in the scorecard below remain noteworthy. They reflect the strong recovery of U.S. stocks from last year's coronavirus downturn to the present day.)

Data as of 4/9/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.7%	9.9%	48.0%	16.5%	15.1%	12.0%
Dow Jones Global ex-U.S.	1.1	5.2	46.0	4.7	8.0	2.7

10-year Treasury Note (Yield Only)	1.7	NA	0.7	2.8	1.7	3.6
Gold (per ounce)	0.9	-7.8	3.6	9.3	6.8	1.7
Bloomberg Commodity Index	0.2	7.7	32.4	-1.5	1.2	-7.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; Federal Reserve Bank of St. Louis; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

APRIL IS FINANCIAL LITERACY MONTH. It's also National Canine Fitness, National Fresh Celery, and International Guitar Month (among so many other designations), but let's not get distracted.

So, what is financial literacy? In 2008, the *President's Advisory Council on Financial Literacy* defined financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being." A lot of skills fall into that category, including budgeting, saving, and investing.

One aspect of financial literacy that is becoming more important is the way memory and aging affect financial decision making. Prior to the pandemic, the *FINRA Investor Education Foundation* and the *Rush Memory and Aging Project* explored this issue from several perspectives and discovered:

- **Confidence in financial literacy appears to be good for brain health**. One study found "…confidence in financial literacy is associated with a decreased risk of Alzheimer's dementia and slower decline in cognition, above and beyond objectively measured financial literacy…While it is not completely clear why this relationship exists, it could be that confident people are motivated to engage with the world and actively seek to acquire new information."

- **Overconfidence about financial knowledge may lead to risky financial behaviors**. Older Americans are responsible for a significant portion of our country's wealth. Common wisdom holds that risk tolerance declines with age. However, a separate study found this was not always the case. In particular, overconfident people – those who believed their financial knowledge was higher than it actually was – reported being more tolerant of risk. There was no evidence overconfidence made them more susceptible to scams or fraud.

- **Loneliness in tandem with low cognition can lead to poor decisions**. A third study found loneliness, on its own, generally doesn't appear to result in poorer decision making. However, loneliness in older people with low cognition may result in poor financial (and healthcare) decisions. The study accounted for differences in depressive symptoms, social network size, medical conditions, and income.

Financial decisions often become more complex as we get older. From retirement plans to estate plans, and from the cost of prescription drug benefits to the expense of chronic disease management, older Americans are asked to weigh outcomes and make financial (and healthcare) decisions. Being financial literate can help – and so can understanding the factors that may affect decision making as we age.

Weekly Focus – Think About It

“It's paradoxical that the idea of living a long life appeals to everyone, but the idea of getting old doesn't appeal to anyone.”

--Andy Rooney, American television writer

Best regards,

James E. Tyrrell II, CFP® , ChFC

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client’s portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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