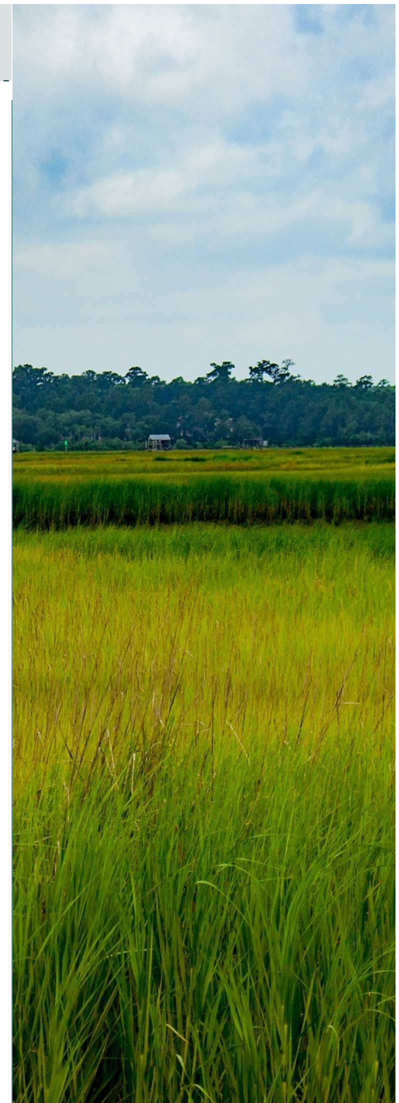

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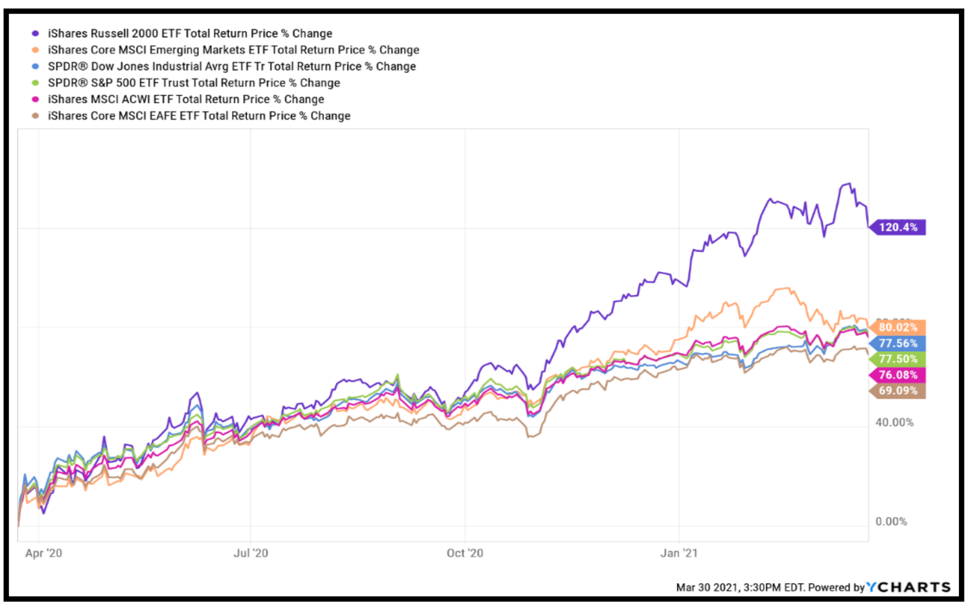
METIS WEALTH MANAGEMENT & PLANNING

The Roaring 20's?

By Robert & Roy Sokolowski

Mark Twain said that history doesn't repeat itself, but it does rhyme. 1920 saw the Spanish Flu epidemic winding down and the start of the roaring twenties. Though there were certainly many factors that contributed to that economic boom time, it's hardly a coincidence that one preceded the other. The sense of relief people felt that the pandemic and World War I were over is something to which we can all relate after experiencing the COVID-19 pandemic. We are increasingly becoming convinced that we may be experiencing a repetition of history, 100 years later. And while our roaring 20's may not last as long, we feel we are poised to witness one of the great periods of economic growth in our lifetimes.

Stocks hit their pandemic bottom almost exactly a year ago on 3/23/2020. The one year returns that followed were nothing short of incredible. While we remained positive a year ago, we count ourselves among those who did not predict that US stocks would be at or near all-time highs just twelve months later.



Early on, investors rightly focused on companies that would do as well or better during the lockdown and social distancing era. This led to large gains in technology companies as people everywhere leveraged these companies' products and services to work remotely and minimize face to face contact. This so-called "COVID Trade" worked very well for most of last year and investors in these stocks saw large gains.

However, the performance disparity between the COVID stocks and the "reopening stocks" began to narrow in late October. As you can see in the chart below, value stocks (such as travel and leisure, industrials, energy, and financials) began to outperform growth stocks around that time period and value has continued to maintain its outperformance.

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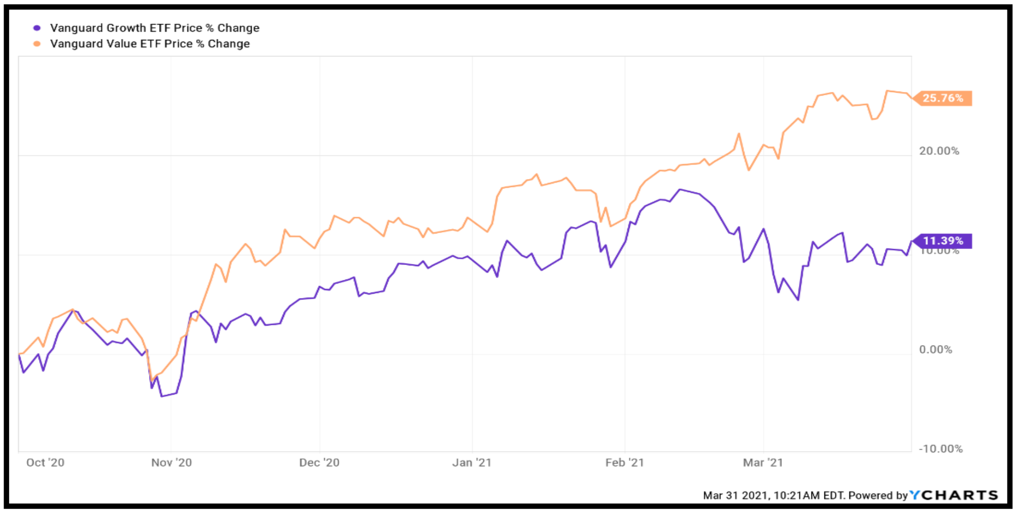
INSIDE THIS ISSUE

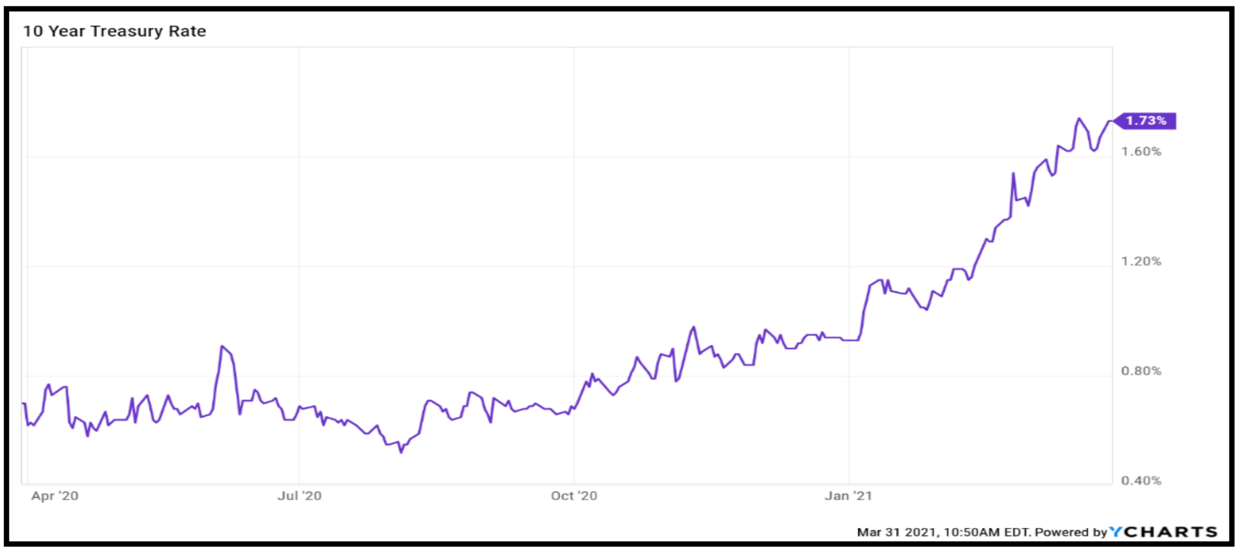
SPECIAL POINTS OF INTEREST

- Federal tax filing date extended to May 17th, 2021.
- Estimated payments are still due April 15th, 2021.
- State tax filing deadlines vary.
- We would love to help your family or friends! Please let us know if anyone in your circle could use financial planning or investment management.



Starting last fall and continuing into the first quarter of this year, investors have been squarely focused on the reopening. To wit, stocks like Hyatt Hotels, Southwest Airlines, John Deere and Exxon Mobil are all up between roughly 50% and 70% since November 1st of last year. These stocks all depend heavily on the reopening and broad-based economic growth.

The outperformance of value over growth is not simply a reopening story, however. This paradigm shift occurred in the context of rising interest rates, and since the beginning of the year, an additional acceleration in the upward rate of change in rates. As you can see below, yields on the benchmark ten year treasury were drifting downward until ultimately bottoming on August 4th 2020 at 0.52%. Rates moved higher until the end of 2020 before starting to rise even more rapidly at the start of 2021.



As we have mentioned previously, there is a mathematical effect on the price of stocks when interest rates change. We know that an increase in interest rates reduces stock prices, all else equal, and that interest rate changes affect the price of growth stocks more than value stocks. However, we must understand why interest rates are rising to determine the net effect on stock prices.

So why are interest rates rising? And why are they starting to rise at a faster rate? Here are the most likely explanations:

Economic Growth: As the economy reopens and strengthens, the prospects look better for companies thereby increasing demand for stocks and decreasing demand for bonds. As bond prices fall, yields rise. This explanation carries a lot of weight and is helpful for stocks.

Inflation: The federal government and the federal reserve have each injected trillions of dollars worth of cash into the economy. So far, much of this has gone into savings or debt repayment. As people get back to "normal," they will begin to spend this cash and many investors believe this will spark inflation. Knowing that more significant inflation may be coming, bond investors are demanding more yield to offset the effects of inflation.

Debt: Annual federal budget deficits narrowed from 2010 to 2015, but began to widen again beginning in 2016. In 2020, the deficit exploded as the government responded to the pandemic. Congress recently passed the $1.9 Trillion "American Rescue Plan" which will add to these deficits. The merits of each of the relief and stimulus bills can be debated, but the sheer amount of federal government debt outstanding is certainly starting to worry some investors. These investors would therefore seek a higher interest rate to compensate for a higher level of anticipated risk.

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The Roaring 20's? (continued from page 1&2)

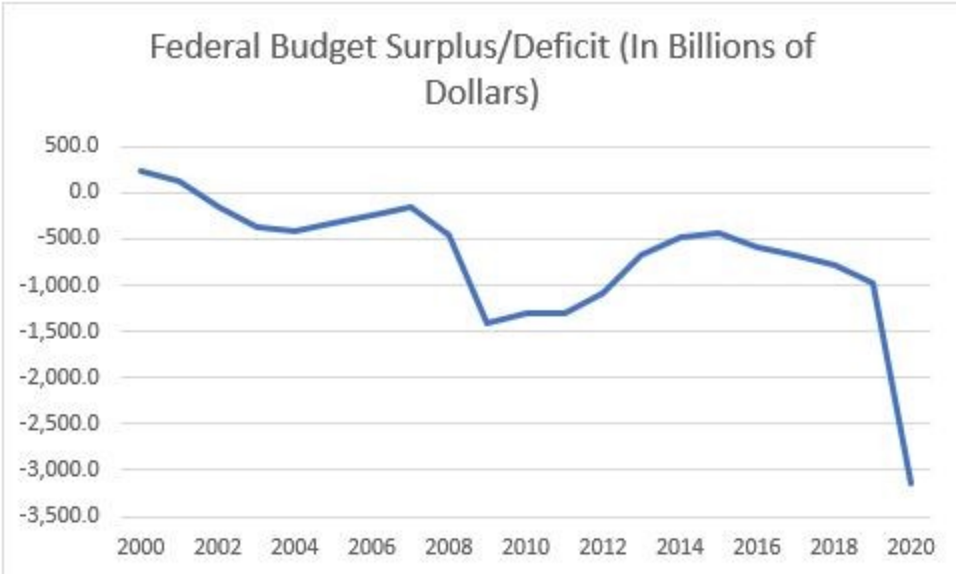

Figure 1 Source: Congressional Budget Office

Encouragingly, the market is telling us to expect broad-based economic growth. With the incredible amount of fiscal and monetary stimlus that has been injected into the system and the largely successful vaccine rollout in the United States, it's difficult to imagine another scenario. We continue to see evidence of pent-up demand, especially for travel. At the moment, however, it appears most other countries are significantly behind the US both in vaccine administration and growth prospects. In our opinion, this will hamper global growth, but bodes well for the US comparatively.

At the end of 2020, we began to take profits in some of the top performing stocks- keeping in mind this would need to be carefully managed to avoid unnecessarily large capital gains in 2020. As such, we delayed some of these sales until 2021 and took profits again at the beginning of March. This proved to be a prudent strategy, as these growth names tended to underperform the broader market in the first quarter. We now feel we are back to more reasonable position sizes in these names. Using the proceeds from these sales, we have been looking for opportunities to purchase stocks (at levels we feel are reasonable) that stand to benefit the most as the economy reopens.

In the fixed income portion of portfolios, as yields have risen we have resumed purchasing real bonds (rather than bond funds) where appropriate. When we do purchase real bonds, we have limited the maturity to no more than five years to maintain a reasonable level of risk should yields continue to rise. Furthermore, we have started to slightly underweight our bond positions in some accounts. For example a 60-40 asset allocation may only hold 37% bonds at the moment. This reflects our perception of the current risk/reward tradeoff in the bond market.

All told, we feel good about the overall shape of the economy and the markets, especially considering where we were a year ago. The federal government and the federal reserve have put consumers in a very strong position and we foresee tremendous economic growth in the U.S. for at least the rest of the year and probably well into 2022.

Market Index	Q1 Total Return	Year to Date Total Return	1 Year Total Return
S&P 500	6.17%	6.17%	63.57%
DJIA	8.29%	8.29%	60.93%
NASDAQ Comp	2.95%	2.95%	81.39%
MSCI EAFE	3.6%	3.6%	49.1%
Russell 2000	12.7%	12.7%	109.6%

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Highlights from the American Rescue Plan *By Jenn Sokolowski*

By signing the 1.9 trillion-dollar economic stimulus bill on March 11, 2021, President Biden signaled the government's willingness to provide unprecedented relief to families and workers impacted by the COVID-19 crisis. In addition to the expanded economic impact payments of $1400 per individual and $2800 per couple, families are also eligible for $1400 payments for each of their dependents if they fall under the economic guidelines (AGI of $75,000 for single and $150,00 for married couples filing jointly). This brief article focuses primarily on the items that may provide assistance to individuals and families.

Temporary Changes to Child Tax Credit for 2021

The Child Tax Credit received an upgrade and currently, all of these changes are for 2021. Taxpayers with children under the age of 17 typically receive $2,000 per child as a tax credit. The American Rescue Plan increases those amounts to $3,000 per child and if you have kids under the age of 6, you will receive $3,600 due to the enhanced maximum credit for 2021.

There are lower phaseout limits than typically used for the Child Tax Credit. Taxpayers that are Married Filing Jointly (MFJ) will begin to phase out at $150,000 and singles filers will phase out at $75,000. This is for the increased amounts only. The $2,000 credit will still phase out above $400,000 (MFJ) and $200,000 (single) as it usually does. Married couples that file jointly that make between $150,000 and $400,000 will still be able to claim a $2,000 tax credit for each child under 17 years old.

The IRS has been instructed to pay 50% of the Child Tax Credit to taxpayers in installments from July 1st-December 31st. These payments will be based on your most recent tax filing, which in July for most people will be their 2020 return. This may feel a lot like the stimulus payments many have received over the last year, but there is a huge difference: clawbacks. If the IRS has paid out more than you should have received, when you file your 2021 taxes you will have to pay back the excess. Your 2021 tax liability will increase by the amount that was overpaid to you as an advance payment of the Child Tax Credit. If you think you may fall into this category, you will want to speak with your CPA for the best way to handle this as the specifics get complicated and they will be able to help you plan ahead.

Child & Dependent Care Tax Credit

There were also some enhancements for this widely used tax credit that benefits parents. This credit may also be used by those who care for a dependent adult who can't care for themself. Typically, this credit is calculated using a maximum of $3,000 in expenses for one child or $6,000 for two or more qualifying children and multiplying that by the taxpayer's "applicable percentage" which is determined by your income. Qualifying children are 13 or younger for the entire tax year. Both the eligible expense amount and the applicable percentage will be increased for 2021.

Normally the applicable percentage is 35% but is phased out very quickly starting at $15,000 in income to a 20% floor at $45,000 in income (regardless of filing status). For 2021 the Applicable Percentage is increased to 50% and does not begin phasing out un $125,000 (regardless of filing status). Someone making $100,000 with two qualifying children would be able to claim $8,000 in 2021 compared to $1,200 in a typical year.

High-earning taxpayers, however, will likely see a reduction in the amount that they can claim for the Child and Dependent Tax Credit for 2021. Those with Adjusted Gross Income (AGI) exceeding $440,000 will receive no tax credit for 2021. The credit is phased out from $400,000 to $440,000 in income.

What About 2021 RMDs?

RMD relief was not a part of the American Rescue Plan, so as it stands now RMDs will need to be taken before the end of 2021. Typically, we process these for clients toward the end of the year.

This is may not be the last piece of COVID related legislation we see this year. We will stay up to date and continue to communicate the pieces that impact your personal finances the most. If you have any questions regarding your specific situation don't hesitate to contact us!