April 2021

CAPSTONE PACIFIC
INVESTMENT STRATEGIES INC

# THE CAPSTONE QUARTERLY

Happy Spring! We hope this year has been off to a great start for you and are also hopeful that 2021 brings back some sense of normalcy. Volatility is back in the markets and we are seeing some of the long-term trends shift. In this newsletter, Bryce discusses below what we might be able to expect going forward and Casey gives a brief overview of the recent stimulus package that was passed.

## BRYCE'S POINT OF VIEW

Bryce Pease, CFP®
*Chief Investment Officer*

### Where are the markets going next?

Tuesday, March 23rd marked the first anniversary since the market bottom last year. It has also been one year since the World Health Organization declared a pandemic and one year since we realized how much we take toilet paper for granted. While our day-to-day lives have changed from being in shutdown to having some mild level of normalcy over this past year, the US equity markets have fared well. There was definitely some turbulence along the way, but our domestic markets continue to lead the pack.

Within the past few weeks, we have seen a shift away from the technology sector, which has dominated much of the last four years. Especially in 2020 where we saw the whole world rely on companies like Amazon, Zoom and PayPal. The recent rotation away from the technology sector has opened the door for other opportunities like Energy (mainly oil companies like Exxon and Chevron) and Consumer Discretionary (things that do well in a growing economy like retail, automotive and entertainment).

Last year's market crash was sudden, swift, and deep but it didn't last very long. Three things helped to propel the markets to this remarkable turnaround: low interest rates, federal stimulus, and the expectation of an economic recovery. The low interest rates help people buy homes and encourage businesses to invest more in themselves (like hiring more workers). The two federal stimulus packages in 2020 had positive impacts on retail sales and consumer spending, but we think much of the market's rise is due to the expectation of a market recovery. Expectation that the pandemic will end, society will re-open and the demand to travel, to eat out, and to catch a movie in theaters will return. The more that the society re-opens, it should lead in turn to more jobs, more consumer spending, and the greater the company earnings. Greater earnings, of course, can usually lead to higher stock prices.

Growing too fast, too quickly however is what economists refer to as "overheating". When an economy overheats, it essentially no longer has the capacity to meet all the demand it faces from consumers. Some producers will not be able to keep up, and others to keep up with the demand will be forced to raise prices. For example, if everyone suddenly decides to fly to that vacation spot they have been putting off for a year, the cost of airfare could skyrocket.

If the economy were to grow too quickly, prices would rise across the board – this is essentially inflation. And when inflation gets too high it makes it harder for people to buy the goods and services they

## Did you know?

The IRS extended the tax filing deadline to May 17, 2021, as well as the deadline to contribute to individual Traditional IRAs and Roth IRAs. This relief does not apply to estimated tax payments made quarterly to the IRS by people whose income is not subject to income tax withholding. Please let us know if you still need any of your tax documents.

Capstone Pacific is on social media!

Follow us on LinkedIn®: www.linkedin.com/company/capstonepacific

FaceBook®: @capstonepacific or www.facebook.com/capstonepacific

need (or want). So, we don't think we are out of the woods quite yet. The Federal Reserve could raise interest rates because inflation goes up. Here at Capstone Pacific, we don't focus on guessing what the Fed will do, or anyone else. We don't have a crystal ball. That is why with our strategy we analyze and try to take advantage of long-term market trends relying on the laws of supply and demand.

Historically, an improving economy leads to a stronger stock market. If that happens in 2021, wonderful! But if interest rate fears worsen and volatility goes up, we are ready to play defense.

## CASEY'S CORNER

Casey Morris, CFP®

### American Rescue Plan Act of 2021

Roughly one year ago, Congress passed the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act. It was a massive $2 trillion stimulus package designed to help boost the economy. Another round of stimulus was passed in December helping retail sales jump; however, many are still out of a job making it difficult to make rent, pay off debts, or even buy groceries. With this in mind, Congress recently passed a third round of stimulus called the American Rescue Plan Act of 2021. Below is a breakdown of some of the parts to the Act, some of the information may apply to you and some may not.

1. Direct Payments

What is the quickest way to ensure people get the money they need? Pay them directly. Many taxpayers will receive another direct payment to help them cover expenses.

- Individuals who make up to $75,000 will receive $1,400.
- Heads of Household (single parents, for example) who make up to $112,500 will receive $1,400.
- Married couples filing a joint tax return who made up to $150,000 will each receive $1,400 for a total of $2,800.

On top of this, each taxpayer will receive an additional check for $1,400 for each dependent they have, including adult dependents. Note that the IRS will base the income amounts on your 2020 tax return, or your 2019 tax return if you have not filed your 2020 return yet. And the payments disappear entirely for individuals who made more than $80,000, heads of household that earn more than $120,000, and married couples earning more than $160,000.

2. Tax Credits

The Act expands several tax credits, one of which is the child tax credit that has been expanded for the 2021 tax year. Households with children can claim a tax credit of $3,600 per child under the age of 6, and $3,000 per child between the ages of 6-17. These amounts are reduced for individuals earning more than $75,000 per year or married couples making more than $150,000 per year. In addition, the child tax credit is now fully refundable. Meaning, in certain situations eligible households can receive half of this benefit in 2021.

3. Unemployment

The COVID-related unemployment benefits were extended. Specifically, unemployed workers will continue to receive weekly $300 benefits through September 6th of this year. Also, the first $10,200 of unemployment benefits received in 2020 will not be taxable for workers in households earning less than $150,000.

The American Rescue Plan Act of 2021 is a massive bill and this message only scratched the surface. Time will tell whether even more stimulus will be proposed. But for the time being, this should go a long way to propping up the economy.

## FINALLY…

You may have seen our recent disclosure notice come through your mailbox, announcing Casey as part owner of Capstone Pacific. Casey has been with the company for 14 years now and has become one of the primary contacts for our clients. At this time, she owns a very small piece of the company with the goal in mind of increasing ownership in the future. Don't worry, Bryce isn't going anywhere. He still promises to be here for another 30 years.

We've also added another team member here in our office. Jacob Price is currently attending Mt. San Antonio College and his principal duties will entail helping us communicate with you. I'm sure you will find him to be courteous, pleasant, and eager to help you. If you happen to call in and Jacob answers, please help us welcome him to Capstone Pacific!

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser's performance, we always appreciate it when you pass on our name.