

Weekly Market Commentary October 18th, 2021

Three Quarters Into The Year...Reality vs. Expectations?

Expectations vs. Reality: Checking in on 2021 Views

The "buy the dip" mentality was on display again last week, as has been the case throughout 2021. After the September swoon that produced the first 5% pullback of the year, the stock market has regained its footing, spurred last week by a strong start to corporate earnings season. Most people came into 2021 with a positive outlook, and the market has not disappointed. That said, not everything has gone according to plan. With three quarters of the year in the books, here's a look back at some key investment views from a "2021 Outlook: Back to the Future" that was put out last December, and our assessment of how trends that have played out this year may shape the path ahead.

Our 8 Key Views Coming Into 2021	How It's Going
The U.S. economy gets a boost from the shift to a post-vaccine phase.	GDP growth was strong in the first half of the year but has softened in recent months due to the delta variant and persistent supply-chain disruptions.
Unemployment continues to decline, supporting a consumer comeback.	The labor market has steadily improved, with the unemployment rate falling to its lowest level in 19 months.
The bull market continues with broader shoulders.	The stock market has risen more than 18% year-to-date, with several transitions of leadership, most notably between cyclical and technology investments.
The Fed keeps its policy rate near zero even as the economy improves.	The Fed has held its policy rate at zero, but higher-than-expected inflation is prompting an upcoming transition toward less monetary stimulus.
Longer-term interest rates rise modestly as inflation picks up.	Overall, 10-year yields have risen modestly from the start of the year but have done so in abrupt phases instead of a gradual rise.
The global economy recovers, but geopolitical uncertainties remain a source of volatility.	The global recovery remains intact, but momentum has stalled amid the delta-variant spread along with geopolitical and economic disruptions in China.
Government debt rises to new heights but doesn't come to a head yet.	Government debt surged due to fiscal stimulus, requiring an increase in the debt ceiling that transpired with relatively little market disruption.
The U.S. dollar's rise takes a breather.	The U.S. dollar has risen appreciably this year as inflation pressures and anticipated Fed tapering have led to higher relative interest rates.

Economy

- **Last week:** The September retail sales report showed a 14.3% year-over-year increase in retail spending. This is exceptionally strong by historical standards, reflecting the ongoing rebound in the economy. At the same time, this was half the growth rate seen in May and was the slowest rate of spending growth since March, reflecting the delta-variant-driven lull in consumption.
- **2021:** Coming into the year it was thought that the ongoing reopening of the economy – spurred by the vaccine rollout – would drive strong GDP growth above 4% in 2021. The first half of the year lived up to that view, with GDP growth running well above 6%. The delta variant and supply bottlenecks have created an existing soft patch, with curbed household consumption likely to produce GDP growth closer to 2% in the third quarter.
- **Going forward:** You should anticipate an uptick in activity as we round out the year, with 4%-plus GDP growth still looking achievable. The September retail sales report showed modest gains in food-services spending, suggesting delta-variant restrictions are still holding back overall leisure, entertainment, and services spending growth. Nevertheless, holiday shopping and more than \$2 trillion in accumulated household savings signal to us that consumer spending will see renewed momentum as we move into 2022, supporting a second wind for the economic expansion. Supply disruptions will be a fly in the GDP ointment as we advance, however, holding back growth in the near term. We expect the bottlenecks to begin to clear, though this is likely to transpire well into 2022.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	35,295	1.58%
S&P 500 Index	4,471	1.22%
NASDAQ	14,897	2.17%
MSCI EAFE	2,325	2.60%
10-yr Treasury Yield	1.57%	-1.88%
Gold	\$1,780	1.37%
Bonds	\$114.54	.36%

Source: Reuters/Wall Street Journal

Financial Moves To Make When You Become A Freelancer

You recently lost your job, or your job lost you and now you have decided to take some freelance consulting job to pick up some spare cash. Or you are finally starting that side hustle you've always dreamed of, and your Etsy store is about to be up and running.

You fill out a W-9 to get paid, and a few weeks later a check comes in the mail made

out to you. You are overwhelmed with excitement because this is the first time no taxes have been taken out of your paycheck and you are feeling flush with cash. At some point in 2020, you'll be getting your first 1099's in the mail, but what should you be doing here in 2019 to make sure your ducks are in a row come tax filing time?

The reality is that most of you who earned your first 1099 will likely file Schedule C (sole proprietor) with your first year of income. Some of you may set up an LLC, but you still may be uncertain what you can deduct or how exactly incomes taxes will be paid. The LLC is usually to protect you with limited liability and can have different tax structures beyond being a sole proprietor. Here are the financial moves that will keep your side hustle on the straight and narrow.

- Make sure you set up a business account and a business credit card. It's incredibly important to have an immediate separation of church and state. You never want to run the business expenses through a personal checking account or your personal credit card. It will be confusing to someone (i.e.- the IRS) looking at your business to understand why you would pay for business expenses through a personal account. This is especially going to be true when it comes to things like meals, entertainment, and travel.
- Set up an estimated tax payment account. Ideally, you will want to take somewhere between 25% to 30% of your check and put the money in a separate tax account. Depending on your other w-2 income from your family and the actual expenses you have in the business, you'll ultimately have a better idea after a full year where your real tax liability will stand. In year number two, you'll get used to paying estimated taxes. It's always better to err on the higher side of 30% so you can be safe rather than sorry.
- Keep track of all startup costs. Did you have any specific equipment, furniture, or other items that needed to be bought to start your business or necessary for you to do your freelancing job? Did you have to purchase a new car for the business? Did you specifically build a dedicated home office? Some or all of these expenses may be deductible to your business. You may also want to have a billing system set up through a program such as FreshBooks or QuickBooks to keep track of all your business income and expenses.
- Driving your car. Make sure you keep a log of all of the miles that you drove during the course of the year that was attributable to your business. You may actually deduct the expenses related to the upkeep of the car or the mileage which will be key to look at during tax time. Generally, you cannot take the mileage and the wear and tear in the same year for car expenses.
- All of your marketing costs including business cards, stationery, supplies, mailing costs, and much more may be able to be deducted from your bottom line. What you should consider is having business accounts at the car wash, the office supply store, your bulk warehouses, etc. to be sure that the business is clearly paying for business expenses.
- Ongoing education for your income. If there was ongoing education, continuing CE credits, licenses, and much more may be able to be deducted as well.
- You should look into all and any necessary insurance you may need. Not all freelancers need to have insurance protection, but if you are in a business where you could be sued then errors and omission insurance could be necessary. If you are storing important client information, you may need to

investigate cyber liability insurance.

- You should make sure that you have a standard contract that you can use with people you are doing freelancing work with rather than having an arm's length handshake deal. Specify the work expectations, the rate of pay, the length of time the contract will exist, and overall terms. If you have work that is going to be proprietary, then specify who gets to keep the work product and have a non-disclosure agreement (NDA) if it makes sense.

These expenses are not a complete list, but just a few you should look at to help you start a smart freelancing business. Get it all straight, and you will do what most business owners want to do which is pay as little tax as possible and keep as much of your bottom line to plan for your financial future!

Earnings Highlights This Week

(source: CNBC)

American Airlines- American Airlines forecast on Tuesday a smaller-than-expected adjusted net loss for the third quarter. The U.S. airline hopes to take advantage of holiday season demand from travelers who did not see friends and family last year. Dipping Covid-19 cases have now raised industry hopes that passengers would be more confident to fly again.

Walgreens- Walgreens Boots Alliance beat expectations on fiscal fourth-quarter earnings and revenue, as it got a lift from Covid-19 shots and tests and saw rebounding demand for over-the-counter medications. The drugstore chain administered nearly double the number of Covid-19 vaccines that is expected during the three-month period.

The company will hold an investor day on Thursday, where it will lay out plans for the year ahead.

Domino's- The pizza chain's third-quarter revenue fell short of estimates and its U.S. same-store sales turned negative. The company did top analysts' estimates for its third-quarter earnings. Executives said staffing troubles and the lack of stimulus checks hurt U.S. sales.

Wells Fargo- Wells Fargo's jump in profit was boosted by a release of its credit loss reserves as the recovery from the coronavirus pandemic accelerated in 2021. The bank posted earnings per share of \$1.22, adjusted, topping the consensus estimate of 99 cents per share, according to Refinitiv.

News and Notes:

What Can We Learn About Management From Ted Lasso?

Why are so many people quitting their jobs right now?

- This may be the era of 'the great discontent' and not 'the great resignation'. 4.3 million people quitting – is equivalent to 3% of the workforce.
- Over 50% of exiting employees who quit say their manager or organization could have done something to prevent them from leaving.
- Higher pay would appear to be the big issue, but abuse from a boss or mental health issues due to a boss is a big issue.

What management lessons can leaders learn from Ted Lasso that could help them from having employees quit?

- **Treat people with respect-** the golden rule
- **Becoming an eternal optimist** – is optimism learned?
- **Be a "goldfish"** – Have a ten-second memory
- **Be a mentor-** Help people get up the ladder

- **Take time to get to know your players- it's more than a paycheck**

Will people start returning to work soon?

- This trend will continue. People are in a serious period of self and life reflection.
- This is the real law of supply and demand we are witnessing when it comes to minimum wage.
- Money isn't the only issue. Working conditions, child-care issues, and items like paid family leave are table stakes now.

From the team at J M Brown Financial Partners

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