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Letter from Dan

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Continued challenging news have the markets rattled. Inflation is coming in at 8.5% over the last year. As of May 1, the S&P 500 is down 13% and the Bloomberg US Aggregate Bond is down 10% since the beginning of the year. Tech stocks have been hit the hardest, energy and industrials not as much. A recession is not yet looming, but perhaps expected in 2023. Do we need to take some action, or be really concerned?

Quick comments on topics from last quarter Letter:

Fed action to control inflation: Chairman Powell finally took action last week and hiked interest rates by 0.5%. The markets reacted up then down and down again. Investors are afraid of a recession, which is going to be hard to avoid. We expect more 0.5% increases in June and future months, but not 0.75% hikes. The Fed target for inflation is 3% for early 2023.

Supply chain recovery: Still catching up, progress being made, but hard to see. New COVID-19 shutdowns in China and news from Ukraine do not help.

Russia / Ukraine: Tensions did not ease and war is continuing. Grain and fertilizer shortages will affect food supplies worldwide. Oil and natural gas prices have moved higher- it is good that it is not winter in Europe.

Housing: Mortgage interest rates are over 5%, but home sales have not slowed significantly. Rising interest rates will eventually put a damper on this.

Government action: Nothing to report.

Long term interest rates: The 10 year Treasury rate has increased 1.59% since the beginning of the year- up over 1.25% since last February. The safer part of portfolios has not been safe. Long and short term interest rates will most likely continue to increase, but not at the pace we have had so far in 2022. Not all bonds are losing money- higher rates will help to increase yields over the next few months.

Better news that is not as well known: The economy is showing signs of slowing, perhaps reducing the need for the Fed to raise rates as far. An existing, under used pipeline between Algeria and Italy will be able to supply Europe with some badly needed natural gas to cover shortages. Consumers are spending as if it is 2019, helping airlines, hotels and restaurants. Businesses are still hiring and those that want a job, or a higher paying job, have choices. Even the stock market hitting new lows will eventually bottom out, kicking in the next run higher.

All of this will set the stage for future growth in the economy and the stock market. I will say that it is hard to experience all of this after the good run that we have had over the last 10+ years. I feel that we need to get through the end of the year, when inflation will be less, supply chains will be more repaired, interest rates more stable and our political outlook will be reset for 2 more years. If you do not need money, we can wait for the markets to recover, as before. If you are drawing income, we are working to take from assets that do not hurt you when the recovery arrives. We will do our best to help you through this period- please call us if you have concerns or questions! Spring is here!

Dan

Important Disclosures