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Letter from Dan

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Here we are, halfway through August and there are still things that I want to do before autumn! Hope your summer has gone well so far.

During the last 3 months, the Fed decided to be much more aggressive fighting inflation by raising the Fed Funds rate twice by 0.75%, bringing their level to 2.25% – 2.50%. Mortgage interest rates have gone up to over 5.5% on a 30 year mortgage, slowing the housing market. Inflation figures were high in June, but should be declining in July as oil prices, used cars and lumber prices have fallen. Not much progress by either side in Ukraine, but a slight escalation is showing as the West supplies more advanced arms to Ukraine. We are technically in a recession with two consecutive quarters of negative GDP, but the economy is still adding new jobs and has very low unemployment numbers.

The stock market was up in July, as investors did not hear the Fed say that they were going to continue raising rates. They did not say they were pausing rate increases either- maybe silence is golden this time. I expect the Fed to raise rates again before the end of the year, but perhaps at a slower pace. It will depend on the inflation figures coming up in the next months. I do not think that we are out of the woods yet- more volatility is most likely in store.

We are still in an interest rate inversion (short term rates higher than long term rates), causing uncertainty in bonds. I expect this uncertainty to continue until the end of the year, when the Fed may be finished with their interest rate hikes. The relationship between long and short term bonds can then begin to correct itself, hopefully by one year from now.

Any action to be taken? If you do not need the money now, best to ride the markets back up, as shown in July. If you need cash now or in the fall, let us know so that we can seek to preserve it for you in your account. Money market rates have risen, so cash can earn again while waiting.

Thanks again for your trust and confidence- things should be brighter by the end of the year!

Dan



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