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Letter from Dan

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I was wondering if I should write this Letter before or after the mid-term elections and decided to wait until after. The election will have an impact on future markets, but keep in mind that the Fed will have the stronger hand in shaping the markets.

In their November meeting, Chairman Powell of the Fed was very clear in his message: Inflation is still not under control and the Fed will continue to raise rates. They may not increase short term rates at a .75% clip each time, but will most likely go longer and higher than anticipated. Does this mean that 2023 will be like 2022 for the markets? Not necessarily at all.

First, interest rates will not increase as quickly, or by as many percentage points in 2023. Also, income through interest or dividends is significantly higher than a year ago. Money market accounts are paying over 3% and bond funds have distributable income of 6% or higher. This gives advisors tools to use to help the safer part of your portfolio have a better chance of a gain than in 2022. For the stock market, supply chains are not as stretched, inventories are higher and the consumer is still spending. Unemployment numbers are still historically low. The economy is still growing and business expectations are positive. The markets are not as overpriced as they may have been at the end of 2021.

Inflation still is the main issue. Wage increases given by employers to keep employees in a tight labor market is not helping the Fed lower inflation. We think that the target is to reduce spending, thus slowing the economy and getting things back in line. Rates for new mortgages have increased to the point where the pace of new home sales have dropped and refinancing has completely dried up. There still is some demand for remodeling and redecorating, but that is beginning to slow down too. People are travelling, especially overseas. So, you can see that the Fed will have their work cut out for them, and the “long and higher” talk from them will continue.

The strong dollar also has a role here. Did you know that the dollar has reached a 20 year high compared to the other six large currencies in the world? This actually helps keep oil prices lower here than what they would be otherwise and reduces cost of overseas travel. It also makes our products more expensive to export and puts pressure on developing countries to pay their debts. Inflation pressures will be higher overseas, as our Fed raises interest rates faster than other countries may be able to manage. This makes it all more complicated.

Finally, the elections. The Republicans likely have taken over the House and the Senate remained with the Democrats in a closely contested vote. This will most likely lead to split government and not many bills of any controversy passed. This may be an acceptable result, to enable the economy and the markets to work it all out with less uncertainty. Two years to the presidential election is not far away.

There are bright spots. Evidence suggests that manufacturing jobs are coming back to the US as we now appear willing to pay more to have products made in the USA. Car prices are falling, as inventories rise. Fundamentals are sound, leading to upside opportunities in the stock market. Patience continues to be the hard part, as the markets will continue to gyrate up and down.

We will stay diligent for you and do our best to keep you in the best position for your portfolios and planning as we work through this phase in the markets.

Dan

Important Disclosures