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## *Letter from Dan*

*May 2023*

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I waited until after Fed Chairman Powell spoke to write this Letter. The Fed announced last week that they would raise short term rates by another quarter of one percent, which now means that interest rates have gone up by 5% over the last 14 months.

Points that he made in the speech include:

- The Fed is still holding their inflation target over time at 2%
- The rise in interest rates have slowed down the economy to help combat inflation, but we are still above the target of 2%
- The labor market is still extraordinarily tight and is helping to hold the economy out of a recession. We are at a 50 year low for unemployment. Good news is that new labor supply is coming to the market, along with new supply to reduce shortages.
- Credit conditions are tightening with the banking sector challenges, helping to slow the economy.
- Wage increases are going down, helping reduce inflation. Powell did not feel that wage increases were a principal driver of inflation, that supply shortages were the main cause. Supply chains have improved compared to a year ago.
- It would not be appropriate to lower interest rates while inflation is high. Powell indicated that we are much closer to the end of the rate hike period, than the beginning. We should expect the rates to stay higher, longer, to allow inflation to recede to the target rate of 2%.

What does this mean for us?

1. Interest rates are stabilizing. This means that bonds will not have the volatility that they did in 2022. The “safer” part of portfolios should not lose money this year. In fact, it could be the place to be instead of cash in your account moving forward.
2. While we still may have a recession, it appears that it may be mild. Too early to tell yet, but the strength of the economy, high employment and a stable consumer bodes well looking forward.
3. There are still threats out there- China, Ukraine and real estate defaults that could still upset the markets.

What about the debt ceiling legislation? It is true that Congress must pass a bill to allow the government to borrow more to pay its bills. Congress will not allow the US government to default on its debts. However, major discussion will be held to see if future spending can be controlled, or do we just simply raise the debt ceiling? How much political “chicken” will be played out, at our expense?

Barring unforeseen negative surprises, the markets should be higher overall a year from now. It may sound like a broken record, but conditions are slowly improving and so should the bond and stock markets. We can now get some return on our money while it sits in cash. The pandemic is further in the rear view mirror, so people can get out and

about without the fear of the years past. This positive outlook will help move us forward and hopefully back to a level of good prosperity.

Enjoy the summer!

Dan



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