



Daniel Kutzke
Partner - Financial Advisor
dan@northstarfp.net
507-281-6650

www.northstarfp.net

Letter from Dan

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I will take the risk of sounding like a broken record, but the story driving the markets is still inflation and interest rates. The stock market had a strong February and March, but inflation figures ticked upward in early April, moving the markets lower. The good news is that recent inflation numbers are more level, and the stock market has recovered much of the losses in May.

We should expect short term interest rates to remain about at current levels for the next few months, perhaps even until the end of the year. The Fed has moved back from its thought of lowering three times this year to maybe one or two. If the Fed does not lower in June or July, I find them hard pressed to reduce rates before the elections. This means that money market rates will likely not fall, helping those who want safety in their portfolios. Long term rates have risen since the beginning of the year by about 0.75 percent, but recently have fallen off their highs. Mortgage rates are over 7% and are holding steady. Big auctions of government bonds to support government spending and to replace maturing bonds also have contributed to increase 10-year Treasury rates. If interest rates become stable at these rates, it will be tougher for borrowers, but will be at levels that can keep the economy stable.

Consumers have been one of the bright spots for the economy. Because unemployment remains very low, people still have money to spend. But credit card interest rates have skyrocketed to 20% or more, causing pain for those who do not pay off their balances. We can expect there to be some cracks in consumer financial health as we move forward through the summer months.

The wars in the Middle East and Ukraine are very concerning, especially from the human toll that is being taken. I cannot see much immediate effect on the stock market here but if either war would expand, there would be negative consequences. Let's hope both conflicts can lead to peace- but Ukraine will most likely continue longer.

The fall elections appear to be a rematch between President Biden and former President Trump. Setting aside any thoughts that you have about the two men, the markets are not taking on more stress right now, but most likely will become more volatile as we get closer to November. I do not fear a big drop in stocks- the economy and consumers are still fine. But again, expect volatility to increase into the fall.

Spring has been good after a rather mild winter! I hope that you have summer plans that will be positive and memorable!

Dan



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959 34th Avenue NW Rochester, MN 55901 507-281-6650*