

SECOND QUARTER – 2022 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	2Q22	2022
S&P 500	-16.10%	-19.96%
S&P Mid-Cap	-15.42%	-19.54%
S&P Small Cap	-14.11%	-18.94%
Morgan Stanley's EAFE (International Stocks)	-14.51%	-19.57%
Barclay's US Aggregate (Bonds)	-4.69%	-10.35%

ECONOMY & MARKETS:

As we progress through the summer of 2022, outlined below are the major themes:

Federal Reserve – Thus far, The Fed increased (short-term) interest rates by 25 basis points (bps), followed by 50, another 75 in June, and now a projection of likely 75-100 bps in July, followed by another 50-75 bps in September (projecting a Fed Funds rate of about **2.75-3.00%**). Current Fed expectations are for the Fed to reach **3.4% by year-end, peaking at 3.75% early next year**. While The Committee started off too slow, it now appears to be front-loading interest rate hikes in an effort to reduce inflation. The thought process is higher interest rates will lower borrowing, reduce spending, and thus lower inflation. Chairman Powell has acknowledged other factors for this high inflation may be unaffected by interest rate increases (China COVID lockdowns, the War in Ukraine, bottlenecks & supply chain issues). During the quarter, the 10-year Treasury rate (long-term) rose from 2.4% to 3.5% and back down to 3%. According to a mid-year Schwab economic report by Liz Ann Saunders, there were 10 recessions associated with the past 13 rate hike cycles, with only three soft-landings. Quoting Liz Ann, “When you add into the mix the Russia/Ukraine war, elevated inflation, growth already under pressure and the Fed simultaneously starting to shrink its nearly \$9 trillion balance sheet, arguably the needle has moved more toward recession... There has never been an inventory backlog of nine months or more without a recession near or underway.” This reminds me of a movie quote in *Cast Away* where upon realizing Tom Hanks may not be rescued, he says to Wilson “*That’s a search area of 500,000 square miles. That’s twice the size of Texas. They may never find us. (lightning strikes!)*” Simply put – chances are, we will have a recession, not a soft-landing.

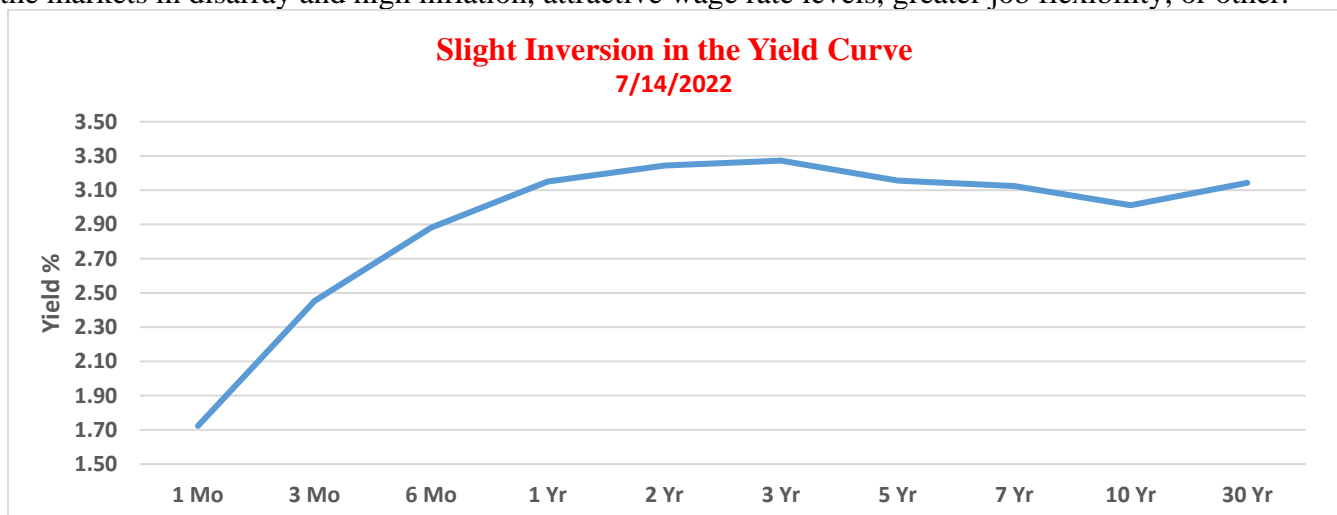
Unemployment – Unemployment remains a “head-scratching” statistic. The latest report showed non-farm payrolls rising by 372,000. Some recent statistics indicate the market participation rate has started to increase, meaning eligible workers who have been actively not returning back to the workforce have now started working again. This could be the result of many things including those workers being forced to return to work with the markets in disarray and high inflation, attractive wage rate levels, greater job flexibility, or other.

When will the stock market bottom? We are looking for one of two signs:

1. Inflation softens a bit. *Some signs point to a strong possibility June may be the peak month for inflation* (however, we will not likely see the 2.0-2.5% levels the Committee wants anytime soon).
2. The Fed provides guidance they are close to the end of their rate-hike cycle.

➔ While its more probable to encounter #1 first, #2 will provide greater market stability. Our definition of stability is a significant reduction in the extreme volatile trading days (both on the up-and-downside). It then may take considerable time to reapproach January, 2022 levels.

Slight Inversion in the Yield Curve
7/14/2022



<i>Economic Statistics</i>	<i>Most Recent</i>	<i>Previous report</i>
▪ GDP growth rate	1Q22 down -1.6%	4Q21 up 6.9%
▪ Inflation (CPI)	June up 9.1%	May up 8.6%
Core CPI (<i>excludes food & energy</i>)	June up 5.9%	May up 6.0%
▪ Unemployment rate	June up 3.6%	May up 3.6%
▪ S&P 500 Forward P/E ratio	16.30	19.20

For our July Newsletter, we normally take a break from specific topics and will once again feature:

Financial Trivia Questionnaire

- According to a February 2022 Wall Street Journal research article, which of the four largest airlines is considered “the worst”?
 - Delta Airlines
 - United Airlines
 - Southwest Airlines
 - American Airlines
- If your son/daughter wants to buy a new car, how much can you give as an individual without paying a gift tax in 2022?
 - \$20,000
 - \$12,000
 - \$16,000
 - \$15,000
- Which investment has performed the worst since January, 2022:
 - S&P 500
 - MSCI EAFE (International stock index)
 - Bitcoin
 - The Russian Ruble
- What is a P/E ratio?
 - Number of outstanding shares
 - Relationship between a company’s stock price and earnings per share
 - Relationship between a company’s stock price and its market value
- What is diversification?
 - Putting majority of your funds in one investment to maximize returns
 - The spreading of investments across different investments (bonds, stocks & commodities) to reduce risk
 - Consolidating your assets into index annuities and high brokerage commission products
- Which type of bond is considered safest?
 - Corporate Bonds
 - High Yield Bonds
 - US Treasuries
 - Municipal Bonds

7. Economics question – Since the start of the bear market, only a few investments have gone up (oil until recently, interest rates, and the U.S. Dollar). Is a stronger dollar good for U.S. imports or exports?
- A. Imports
 - B. Exports
 - C. Neither
 - D. Both
8. You can upload documents on our “Tamarac Client Portal” for YAIA team to review?
- A. True
 - B. False
9. A few ways to mitigate a Cybersecurity incident are:
- A. Create long, complex passwords using uppercase, lowercase & symbols
 - B. Do not click on unsecured links
 - C. When giving your computer or other portable devices to your grandchildren, make sure to completely wipe out the data
 - D. A & B
 - E. All the above
10. Which countries are part of Organization of the Petroleum Exporting Countries (OPEC)?
- A. Saudi Arabia, Iran, Russia, Iraq
 - B. Iraq, Kuwait, Venezuela, Saudi Arabia
 - C. Iraq, Iran, Yemen, Oman
 - D. Russia, Venezuela, Saudi Arabia, Iraq
11. What is Russia’s largest export?
- A. Oil
 - B. Gas
 - C. Gold
 - D. Agriculture
12. Who is Russia’s largest trade partner?
- A. Germany
 - B. China
 - C. United States
 - D. Belarus
13. What is the oldest stock listed on the New York Stock Exchange (NYSE)?
- A. New York Gas Light
 - B. Coca Cola
 - C. Kraft Foods
 - D. J.C. Penney
14. Which country is hosting the 2022 FIFA World Cup?
- A. Iran
 - B. Qatar
 - C. Saudi Arabia
 - D. United Arab Emirates
15. Which soccer teams will the USA play in the 2022 FIFA World Cup?
- A. England
 - B. Ukraine
 - C. Iran
 - D. Wales

Answer Key:

1. D

2. C

3. C

4. B

5. B

6. C

7. A

8. A

9. E

10. B

11. A

12. B

13. A *“Now known as Consolidated Edison Inc.”*

14. B

15. A, C, &D