Yanni & Associates
Investment Advisors, LLC

With the Fed now being considerably more aggressive than originally anticipated, we have made a variety of investment changes on both the stock and bond sides of portfolios. The most recent and significant change involved selling several of our bond holdings and moving those proceeds into short-term Treasury Bills. This now increases our Treasury Bill holdings to approximately 50% of bond positions, which should reduce adverse effects from future interest rate hikes. Our investment philosophy utilizes the best investment vehicle (rather than a mutual fund only approach) thus enabling us to make these types of active portfolio adjustments. Many other investment providers do not offer this type of flexible approach.

THIRD QUARTER – 2022 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

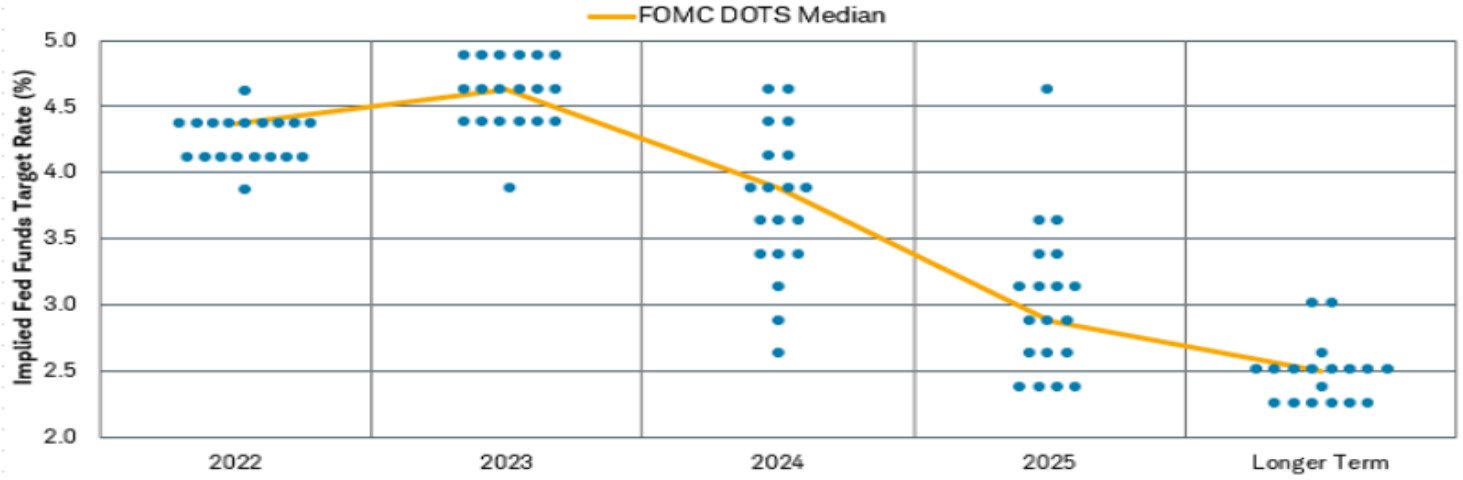
Index:	3Q22	2022
S&P 500	-4.88%	-23.87%
S&P Mid-Cap	-2.46%	-21.52%
S&P Small Cap	-5.20%	-23.16%
Morgan Stanley's EAFE (International Stocks)	-9.36%	-27.09%
Barclay's US Aggregate (Bonds)	-4.75%	-14.61%

ECONOMY & MARKETS:

Heading into the Fall, the major market themes are very similar to our previous quarter summer newsletter:

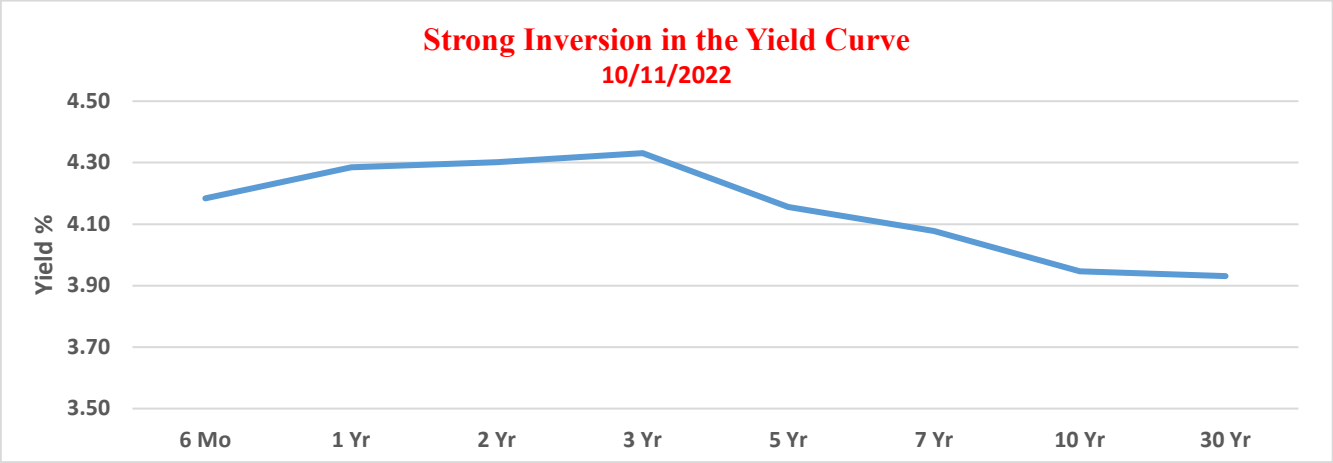
Federal Reserve & Inflation – In September, the Fed increased short-term interest rates by another 0.75%. Thus far, they have now increased short-term interest rates by a total of 3.0%. June's market expectations for a peak rate (terminal rate) have now increased from 3.75% to 4.6%, implying another 1.5% of additional rate hikes. The Fed publishes a quarterly table summarizing each member's expectation of interest rate predictions. This is coined the "dot-plot" and the most recent one is displayed below. September's CPI was reported at 8.2% (ex-food & energy aka "core" was 6.6%). While the September CPI is below the 9.1% high reported in June, the ongoing high monthly figures cloud the Fed's path of future interest rate decisions. The continued challenge the Fed faces is slowing inflation while not coming in with a "soft-landing". Perhaps, the government will consider reducing spending. Probably not… At this point, it would seem a bit illogical that we will look back at this time period without it being labeled a recession. The yield curve on page two now shows a much stronger inversion.

FOMC Dot Plot, as of 9/21/2022



Source: Federal Reserve, Summary of Economic Projections, September 21, 2022.

Unemployment & Earnings – The September unemployment came in at 3.5% with 263,000 non-farm payrolls; wage growth was reported at 5% year-over-year. These figures continue to show a tight unemployment situation. As discussed in the past, it is widely known that employers are struggling to fill many job openings, particularly at restaurants. Earnings revisions have continued to be reduced; the forward market P/E is 15.8 below its five year and ten-year averages of 18.5 and 17.1, respectively.



Economic Statistics	*Most recent report*
▪ GDP growth rate	2Q22 down -0.6%
▪ Inflation (CPI)	September up 8.2%
Core CPI *(excludes food & energy)*	September up 6.6%
▪ Unemployment rate	September up 3.5%
▪ S&P 500 Forward P/E ratio	15.8

As many of you may know, our Senior Analyst Komal Motwani, CFP® has actively published several articles in many different major publications. We wanted to take this opportunity to share one of her recent articles published in INSURANCE NEWSNET, **"What a roaring dollar means to the global economy".**

As the dollar has continued its ascent, we thought incorporating this specific article into our third quarter newsletter was very timely.

Please note that the Article was published in July, 2022 thus some of the economic data may have changed since July. Here are some of the updates:

- Annual inflation in Euro area increased to 10% in September of 2022 (double-digit pace).
- ECB recently announced a 75-bps increase in their September meeting (bringing it to 1.25%) and may increase interest rates by another 75-bps in their October's meeting.

The article was originally written for an Investment Professionals audience.

However, to help define some of the terms, here is a glossary:

- **ECB** – European Central Bank
- **Bps** – Basis points
- **Hawkish** – Advocating an aggressive policy stance. Policymakers will attempt to keep the inflation low by increasing interest rates
- **Dovish** – Advocating looser monetary policy. Policymakers will attempt to encourage economic growth by lowering interest rates
- **Parity** – state of being equal (1:1) or worth the same amount. Derived from Latin word "par" which means equal
- **Dollar Peg** – according to "the balance" a financial website,
  "A dollar peg is when a country maintains its currency's value at a fixed exchange rate to the U.S. dollar. The country's central bank controls the value of its currency so that it rises and falls along with the dollar. At least 66 countries either peg their currencies to the dollar or use the dollar as their legal tender."
- **Tandem** – together; one behind another
- **Purchasing Power** – the value of money in terms of how many goods or services can be purchased with one unit of currency. Higher inflation decreases the purchasing power
- **Intrinsic Value** – security's actual worth

From The Field Exclusive News

July 26, 2022 From The Field Exclusive News

What a roaring dollar means to the global economy

By Komal Motwani

Amid the chaos of slowing economies and recession fears, volatile stock markets and increasing oil prices, the dollar is gaining popularity and momentum. So how much does the strong dollar impact price increases for commodities and products?

The dollar is continuing to hold its strength as investors flock to the safety of the currency amid global recession concerns. Another reason that has caused the dollar to advance is the hawkish Federal Reserve and their determination to bring the four-decade high inflation down by increasing the interest rates. Higher interest rates lead to an increase in investments. Where countries such as Japan still have a dovish stance on monetary policies, the U.S. is an attractive market for income/yield generators.

In contrast, the euro recently slumped to its lowest in 20 years due to concerns that the European Central Bank may not be able to raise the rates to tame inflation. (The annual inflation rate in Europe increased to 8.6% in June.). At its June meeting, the ECB confirmed its intention to hike its key interest rate by 25 bps by its July meeting.

The euro continues its decent toward parity with the dollar amid recession fears. The dollar is also continuing to rise against the Japanese yen and other currencies.

While a strong dollar stands positive for U.S. imports, it is not quite beneficial for the exports. Emerging market economies are adversely impacted as well due to dollar peg, higher foreign currency payments, and higher cost of goods and services. Commodities are usually priced in U.S. dollars. Oil, wheat, corn, gold and other metals trade in U.S. dollars. A surge in the dollar makes

commodities more expensive.

Today, we are facing unprecedented global issues around the globe. The war in Ukraine, the COVID-19 pandemic, supply chain disruptions, food shortages and climatic changes are a few to name. The global shortages and sanctions have led commodity prices to work in tandem with the increase in the dollar. In a normal scenario, the increase in the dollar should hurt the demand and commodity prices. Conventionally, the strengthening dollar must move commodity prices lower and increase the purchasing power (somewhat an inverse relationship). Technically, a strong dollar should be a problem for oil markets. Historically, a tightening cycle in the U.S. has likely resulted in strengthening the dollar.

In current market scenarios, gold, for example has not been able to provide a good inflation and recession hedge, one of the reasons being a strong dollar. Gold is priced in dollars, and gold is considered to be a safe haven during times of geopolitical turmoil.

The recent ban on Russian gold imports technically should have benefited gold prices. Gold is an asset and hence other factors such as demand also impact the intrinsic value of the commodity. However, compared to other commodities, gold is still not trading as volatile and can be perceived as a recession hedge with a small allocation in a diversified portfolio.

Komal Motwani, CFP, is a senior investment analyst with Yanni & Associates Investment Advisors in Wexford, Pa. She has more than 10 years of experience in the field of investments and financial planning. She may be contacted at komal.motwani@innfeedback.com.