

MARKET Perspectives

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Financial Markets Are Volatile



During times of substantial market volatility, it is normal to feel stressed, anxious, or worried. These are trying and uncertain times for everyone. If you are feeling concerned about your portfolio or your

account, we invite you to contact us. We want to hear from you to address any concerns, revisit your goals, and make certain we are on track to accomplishing them.

What is creating this volatility?



The root of market volatility is uncertainty; increasing inflation, rising interest rates, supply chain issues, recession fears and Russia's invasion into Ukraine. However, one of the most significant worries in

today's market is how the inflation problem will be dealt with.

Markets are unsure how the Federal Reserve will respond to this pervasive problem, but we know

they are taking it very seriously. Comments from key Fed officials say that it is of paramount importance to get inflation down and more aggressive moves may be necessary.

While these uncertainties are causing a volatile reaction in both the stock and bond markets that does not mean that the fundamentals that underpin them reflect this sentiment. The U.S. BLS statistics show a strong labor market with a new 1.7 million jobs during the first three months of this year, and business openings at a record high. Corporate earnings also continue to come in higher than expectations.

Consumer demand remains strong, which leads us to believe that the economy is not contracting.

The U.S. BLS shows increased consumer spending from the fourth quarter of 2021 to the first quarter of 2022. If the economy was weak, consumers would shy away from discretionary purchases. When it comes to travel and consumer purchases, airlines are seeing strong demand, and retail sales are robust. This can certainly change, but that is what we are seeing now.

It seems that while we may complain about inflation, we complain while in line to make a purchase. One thing we are watching closely is incomes are not keeping up with inflation. In other words,

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wage gains are lower than inflation which means consumer's purchasing power may be impacted if inflation numbers do not get better. This could eventually result in resistance to higher prices, just as the Fed is lifting rates and raising the cost of money.

When Will Markets Stabilize?

It is our opinion that markets may have priced in the negative sentiment felt from inflation concerns, slowing global growth, and the ongoing war in Ukraine.

Are we at or near a bottom? As famed investor Warren Buffet likes to respond, "We have no idea." And those persuasive and eloquent analysts on the financial news networks may be smart, but they don't have a crystal ball either.

Realistically, investors want signs that inflation has not only peaked, but is going back down because lower inflation numbers would likely reduce the need for steep interest rate hikes. The Fed is hoping to slow inflation without tipping the economy into a recession, but they will need lots of skill and some luck. A strong dollar may reduce import price inflation, but the Fed will need more help from the supply chain. The supply chain issues continue to persist and new COVID lockdowns in China are exacerbating this problem. Many of those obstacles will resolve themselves, but it may take a while.

What We Do Know....

Successful investors are disciplined and refuse to let excess optimism or pessimism guide their decisions. We are maintaining our disciplined approach and constantly reviewing recommended asset allocations. These asset allocations are 'guardrails,' that protect against emotion based decision making. They prevent investors from lurching into riskier assets when stocks are rising, and exiting investments prematurely when stocks are falling. As markets sell off, rebalancing can help by adding to your positions when stocks or bonds are down. In other words, we refer to the old adage, "buy low, sell high."

If you have questions or would like to talk, we are only an email or phone call away.

Sincerely,

Jim, Rob & Laura



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