# MARKET UPDATE

APRIL 26, 2022

## RECESSION TALK

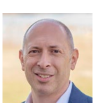
Market volatility has picked up again, after recovering in the weeks after Russia's invasion of Ukraine in late February. There have been three primary drivers of this volatility; 1. Rising prices. Inflation readings continue to be elevated, which has been exacerbated by the spike in oil prices due to the war in Ukraine. 2. Recession Fears. With a general slowing of the economy coupled with a Fed tightening policy, we have seen an inversion of the yield curve. Often this portends a recession. 3. Earnings. We are in the heart of Q1 2022 earnings season and some of the results have been disappointing. As of 4/26, Growth stocks are down 20% YTD, International stocks are down 13% YTD, Bonds are down 9% YTD and Value stocks are down 5% YTD.

Unfortunately, there has been no place to hide this year, except cash. But with an 8% inflation reading, cash is not a viable long-term investment. Our portfolios continue to be positioned with short duration in Fixed Income and a Value tilt in Equities. We are overweight US and underweight International. While most portfolios are down, the current positioning has helped dampen the impact. Our average balanced portfolio is down less than a comparable moderate indexed portfolio so far this year.

What about this recession talk? There are valid reasons why some folks on the Street are calling for a recession either late 2022 or early 2023. Most reference the inverted yield curve, slowing growth and higher rates. But there are plenty of anecdotes that would suggest that economic growth, while slowing out of the COVID shutdown bounce, is sustainable. Spending in general, but specifically on travel, is very strong. This is both on the corporate and individual side. Company earnings are mixed, but almost 80% of the S&P500 so far has beaten their earnings estimates. Yes, the Fed will take aggressive action to raise rates and attack inflation. But we believe that the economy can grow even with the series of rate hikes ahead. A hard-landing recession seems to be priced into markets and we think is less likely than the other scenarios. The more likely scenario: moderating inflation as oil trades back to $70/barrel (Dec 2021 levels), GDP growth slows to 2% (trend growth from 2009-2020) and rates trend back to 3-4%. Time will tell, but we are confident that both monetary policy along with natural market supply/demand factors will engineer a new baseline of inflation and growth in which markets will be priced. Elevated valuations in Growth stocks have subsided, but we still see value in Value. Stay the course.

Regards.

Jason



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