Email Body 3-14-2022

**It’s the Economy (Fill In The Blank)**

I hope you had a great weekend and took advantage of the reasonable weather we experienced in San Diego. There is always bad news to see, but there is also some good news.

COVID-19 UPDATE

Covid case levels, hospitalizations, and deaths at County, State and National levels continue to drop precipitously. Most, if not all, states and local government entities have dropped most restrictions as we move into this endemic phase. This is excellent news for the economy of the U.S. and the rest of the world.

THE ECONOMY

The broad stock market closed down last Friday falling a total of 13% since the high reached on January 3rd. By tripping the 10% threshold we are officially in correction territory, and no one is sure that the market has found its floor. History indicates that corrections in volatile election years are often steeper than 10%. However, absent a recession which usually sees the market falling more than 20%, a recovery is likely. Since 1950, there have been 21 market corrections without a recession. These corrections averaged 15% and were generally, good buying opportunities.

The nature of the stock market is that 10%-plus corrections are a fact of life. The equity markets average a 10%+ correction every 410 days. We’ve gone over 630 days since the last one. So, what we are currently experiencing is not out of line. The good news is that corporate and household balance sheets show a pile of cash totaling $19 trillion built up over the pandemic. That is up more than 35% since 2019.

My base case for the markets is slowing economic growth, higher inflation, and lower average returns than what we have experienced in the last few years. I expect the markets to be volatile due to the continuing supply chain issues, inflation, and especially as the conflict in the Ukraine plays out. The U.S. is in a better position than Europe as our “growth cushion” from the strong restart momentum is larger. The Federal Reserve Bank and other central banks will still have to raise rates to fight inflation, however, they will do so at a slower pace than previously anticipated. Since central banks will be less aggressive at combating inflation, expect governments to increase fiscal stimulus to achieve energy security and increase defense capability.

The primary risks to the markets have moved away from the central banks slamming the brakes by raising interest rates to escalation of the war in Ukraine and energy supply shocks. Energy prices are now driving growth in GDP down, rather than rising as result of increasing GDP. Increasing the supply of energy is becoming more important by the day.

Our strategists are reacting to these developments by moving equity exposure to developed markets and increasing exposure in bonds to shorter maturities and inflation-linked securities. Stocks continue to be an excellent inflation hedge, particularly those with strong earnings momentum and barriers to entry into their industries.

Given my base case of slowing GDP growth but recession unlikely at this stage, maintaining current allocation strategies is appropriate as long as investment time horizons are long-term (i.e. 4-5 years or more). Investment assets with shorter time frames must be exposed to less risk.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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