Email Body 7-18-2022

**Summer Happenings, Economic Turmoil, and a Stock Market Roller Coaster, Part II**

I will physically be out of the office for the next two weeks as my wife and I travel to Alaska. We are trying to hit another National Park and see some different sights this time around. Nevertheless, due to amazing technology I will still be able to answer phone calls and read/return emails and do most things as if I were sitting in my chair in Rancho Bernardo. Hopefully, nothing serious happens and causes the markets to go crazy. Well, I will be praying for that outcome.

THE ECONOMY

We have had an interesting week with both the consumer price index and its cousin, the producer price index both turning in record high readings. The good news is that core inflation (i.e., without food and energy) continues to slowly decline. The reason this is good is that the trend in core inflation usually reflects the future trend of the more volatile food/energy numbers. Of course, that presumes nothing materially interrupts food/energy production or usage. Right now, inflation in these categories represents unusually high demand. Oil and refined product production is near pre-Covid levels. Hopefully, as summer travel and vacation trips wind down, demand will follow and reduce inflation pressures.

Also, out this week retail sales jumped 1% from May and over 8% from June 2021. The markets took this as an indication that a recession may be not as sure a thing as previously thought and rose approximately 2% on Friday. Combining that with below average stock market valuations, continued business earnings growth, low unemployment and a private sector in historically good fiscal shape and you have a recipe for a bear market rally. If inflation recedes and the Federal Reserve can stop raising interest rates at its pre-determined target, a soft-landing (i.e., no recession) may be possible.

These conditions also give the Federal Reserve the ability to accelerate their interest rate increases which could help reduce demand and inflation pressures. The risk is that higher inflation persists, and the Federal Reserve is forced to raise interest rates higher than what they have targeted. In that case, a recession may ensue. How severe depends on how high the interest rates go. My base case in this scenario is that we get a mild recession typically associated with cyclical recessions we have experienced in the past from declining economic conditions.

I recommend that for long-term oriented investments, maintain your current allocation strategies if your risk profiles and time horizons remain long (i.e., 4-5 years or more) and not subject to changing circumstances.

Make sure that funds you know you will need in the short-term are safe to relatively safe from volatility and that your long-term oriented investments are well diversified and subject to risk and volatility levels you are able to be comfortable with. If you have any questions or concerns about these things, please call me to discuss them further.

As a follow-up to my last email, I have attached a brief commentary by AssetMark on what constitutes a recession and what recent recessions in the U.S. have been like. Check out the attachment to this email.

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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