Email Body 9-9-2022

**Quick Note on Recent Market Activity**

As we enter this rainy weekend, I just wanted to take a little time to provide some insight into what is happening in the markets recently and to share a note from Brad McMillan. Do your best to stay dry and cool.

The financial markets more than anything else are priced based on expectations for the near future. As such, performance in the short-term is largely a function of whether the expectations are exceeded, met or fallen short of. The year 2022 is no different. The markets declined in the first half of the year largely on the expectation of higher interest rates. Bottoming in June the markets rallied into August on expectations that the Federal Reserve would start lowering interest rates sooner rather than later. Jerome Powell, chairman of the Federal Reserve blew that expectation up last week in Jackson Hole and the markets promptly dropped.

However, in the last three days the markets have rallied both because of excitement surrounding Apple’s new releases as well as news of oil prices dropping. Other economic data points continue to show growth, albeit slowing. Going forward I continue to expect stocks to slosh around like in a washing machine. Through the end of the year the markets will continue to react to new data about inflation, interest rates, earnings, consumer spending, employment and Federal Reserve actions, among other things. The market hates uncertainty and will continue to move back and forth until inflation begins to trend down, interest rates top out and geopolitical responses (e.g. sanctions, etc.) to the crisis in eastern Europe appear to be close to resolving.

Going forward “expectations” as indicated by bond and commodity markets, seem to think these trends will begin showing themselves in the second half of next year. For example, the yield on a one-year Treasury note currently sits at 3.60%. The bid/ask yield to maturity on a one-year Treasury Inflation Protected security (i.e. TIPS) is about 1.70%. This implies an expected inflation rate of less then 2.00% in one year’s time. The spread on five-year notes and TIPS is about 2.30%. Now the markets could be wrong, but historically they are usually not that far off. The take-away here is that inflation is expected drop in the not to distant future and with it, interest rates as well. This will be good news for consumers, companies and the financial markets.

I have included an attachment written by Brad McMillan where he discusses why the markets are reacting they way they are. I agree with him that what is happening is well within normal bounds and that while volatility is the order of the day, there is no real concern for the long-term outlook. Brad is managing principal and chief investment officer at Commonwealth Financial Network®, where he chairs the Investment committee and is the primary spokesperson for the firm’s investment divisions. 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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