Two Sides to Every Coin

April 2022

Frankly, it has been an unpleasant start to 2022 in financial markets. Concerns over inflation, a hike in interest rates and, of all things, a land war in Europe has weighed on both stock and bond markets alike to start the year. Fortunately, March saw some rebounding from the lows that were hit at the end of February. Whether this recovery will be sustained through the second quarter is unknown.

Once again, I want to levy a usual reminder that being fearful during downturns can lead to ruin. Believing that somehow this time will be different than every downturn that has come before is likely a path to an undesirable portfolio outcome.

One silver lining is that value stocks are just below breakeven while growth is down double-digits - a sharp reversal of the trend that has prevailed over the past few years.

US		Developed Int'l		Emerging Markets	
YTD		YTD		YTD	
Value	Growth	Value	Growth	Value	Growth
-0.74%	-9.04%	2.54%	-10.69%	-3.51%	-10.98%
-2.40%	-12.63%	-2.91%	-11.53%	-1.66%	-6.90%

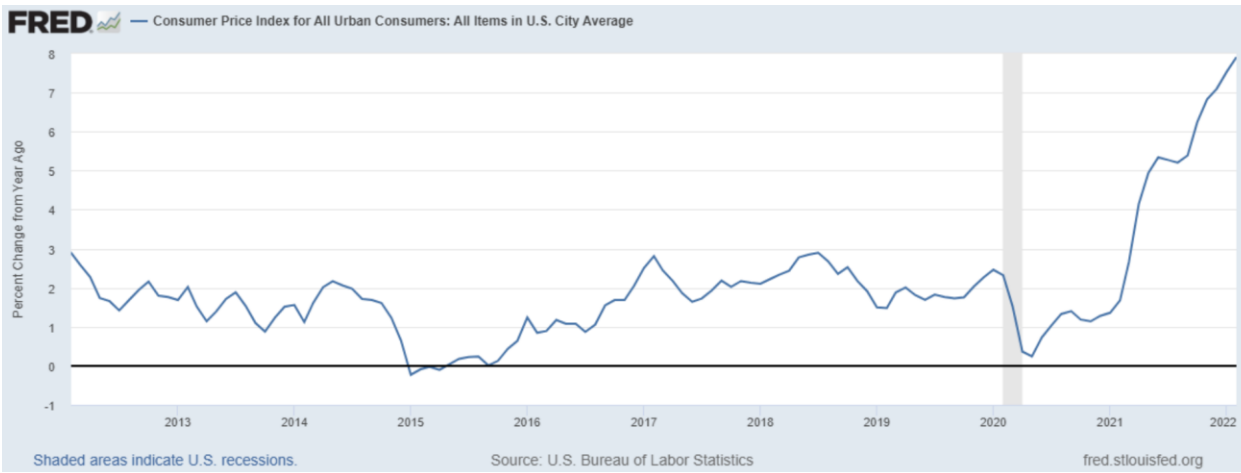
Source: FactSet, data as of 3/31/2022

Inflation… Again… Still…

I know I beat this drum a lot, but it constantly bears reminding. Please try to avoid letting news outlets guide your attitudes on finances, markets, and the economy. Is there a legitimate reason to have concerns about things like inflation and interest rates? Absolutely. Should the magnitude of that concern be at a level that an hour of watching nighttime news would suggest? Not even close.

It doesn't matter on which side of the political aisle you fall. All flavors of news programs are, by design, constructed to tap into your fears and leave you feeling uneasy. Humans are equipped with a behavioral response to danger. We want to be informed of the things that threaten us so that we can take the actions required for self-preservation. As a result, we tune back in, day in and day out, to find out what there is to be afraid of. If there isn't anything to worry about, we'd stop watching. It's not in the interest of any news network to give a signal of calm or safety, irrespective of veracity. They would lose viewers, which would lead to losing ad revenue. Instead, we're fed another reason why inflation signals the end of days and who we should be mad at about it.

The reality is that inflation is still high. FRED data suggests that CPI is now rising at about 8% year-over-year.



Though, I'm sure that number isn't a surprise. Anecdotally, non-finance people in my life have a more accurate quote on inflation at any given moment than I do because the news tells them what it is every day.

What the news often fails to point out is the other side of the economic coin. All of the vitals for the American economy are remarkably strong. Unemployment is near historic lows at 3.8%[1]. Employers continue to increase wages. High (> $30/hr) and middle ($20-30/hr) income earners are seeing wage increases roughly in line with current inflation rates and low (< $20/hr) earners have seen increases of nearly 15%, on average[2]. Retails sales (which can serve as a barometer for household economic health) increased 15.9% over the last year[3]. Revised 2021 GDP reported at 6.9%[4]. Household net worth rose 14.4%[5].

Despite inflation, everything suggests that the average American household is arguably in better shape than it was a year ago.

Other Tax & Economic Updates

After the unexpected collapse of the Build Back Better bill in congress in December, legislators have made some movement on new legislation that affects the treatment of a few retirement provisions which may be applicable to our clients. Most notably, increasing the onset age of Required Minimum Distributions from age 72 to 75 along with enhancements to 401(k) contribution limits and rules.

The bill has already cleared the house with strong bi-partisan support. We'll see if it continues its momentum in the Senate or if significant carve outs stymie things once again. We will obviously stay abreast of the developments and interpret how any legislative changes may impact our financial planning recommendations.

As always, we look forward to our next conversation with you.

[1] Source: US Bureau of Labor Statistics, data as of February 28, 2022.

[2] Source: US Bureau of Labor Statistics, data as of February 28, 2022.

[3] Source: US Census Bureau, data as of February 28, 2022.

[4] Source: US Bureau of Economic Analysis, data as of December 31, 2021.

[5] Source: US Board of Governors of the Federal Reserve System, data as of December 31, 2021.