Joan K. Norton & Associates
Independent Financial Advisors

FINANCIAL NEWSLETTER UPDATE-May 2022

What is Fueling the 2022 Drop in the Markets –including Bonds?

Change in Fed Policy- We are anticipating 6-8 interest rate increases in 2022. The most recent being .50 bps this past week. Depending on Russia's war on Ukraine, China's lockdown mandates and their uncertain effect on things, we could have fewer/lower % increases as the Fed will not want to hamper growth in the process of realigning their strategy of reigning in inflation. Powell spoke and does not foresee an increase as high as .75 bps. We think the Fed will quickly lift policy rates through 2022 but ultimately will re-assess before going beyond neutral levels that destroy growth and jobs. *Uncertainty.*

Inflation- If the Fed feels that inflation is getting under control it may slow or reduce the hikes. On May 4th, the Fed announced a rather quick unraveling of the balance sheet that could quickly rise to as much as $95B per month. This really stirs up a market used to easy monetary policy. Even with this outlook, should investors adjust their portfolios in response to the Fed's unwinding the balance sheet and interest rate hikes? For most investors, the answer will be no, other than regular rebalancing. *Uncertainty.*

China- What the heck? China's extreme lockdowns to curb Covid-19 infections are taking a significant toll on the economy and rattling global supply chains. With President Xi Jinping under tremendous pressure to support growth, this hopefully won't last for an extended period, but he is currently holding a firm line. Unlocking supply chain issues are key for many reasons. *Uncertainty.*

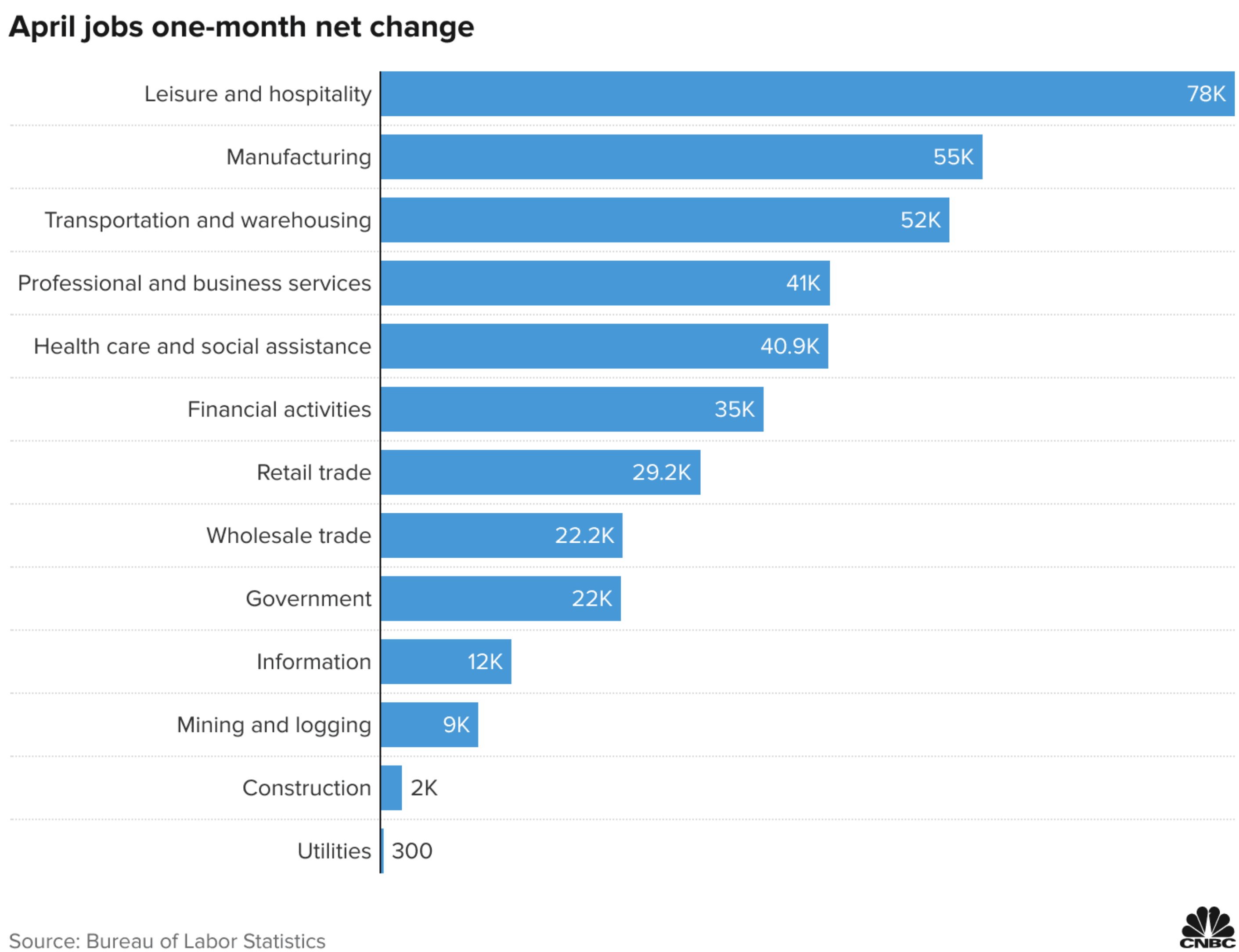
Russia's War- As Russia's war against Ukraine continues heads into it's 3rd month, the situation continues to reap a devastating humanitarian toll --claiming thousands of lives and also straining the global economy. *Uncertainty.*

Germany- Not really effecting the markets, but it is interesting that Germany is building what would be Europe's largest military. With the world becoming more unstable and unpredictable, especially recently, Germany feels it is a necessity. And depending on who takes the White House in 2024, it's difficult to predict what the relationship with the U.S. will be like. *Uncertainty.*

But, an optimist might say, it's the storm before the calm…

When we can get supply chains open and inflation shows at least a trend towards normalcy (ideally 2% by years end, but more likely 4%-5%) we should hopefully see the level of uncertainty lift and volatility lower. Wild 1,000 swings are not normal. While stocks always move up and down, long-term market returns are still based on the same things: dividend yields, earnings growth and change in valuation.

Job resignations (aka "The Great Resignation") are likely to remain high through 2022, and wages are likely to follow. The Great Resignation — the phrase used to describe the unprecedented number of people who quit their jobs last year — was about workers escaping burnout and finding more meaning in their jobs and about seeking employment in places with healthier work cultures. But above all, it was about getting more money, according to survey results released today by Pew Research Center. Simply, higher wages means higher prices and more money in the economy; that (coupled with supply chain issues) means inflationary pressure.



The U.S. economy added 428,000 jobs last month, the Labor Department reported Friday, May 6th, the same gain as in March that followed a jump of 714,000 in February and 504,000 in January. Strong hiring in the hospitality, manufacturing, transportation/warehousing and health-care sectors during April helped the U.S. economy notch its 12th straight month of job gains of 400,000 or more.

Call the office to make an appointment if you have any questions at all.

Thank you as always.

Best,

Joan K. Norton Associates