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Good Afternoon,

Stocks continue to gyrate with intra-day trading sessions seeing indices move up and down several percentage points. While Q1 corporate earnings are just beginning to be reported, most have been strong so far. But markets have trouble mounting a sustained rally over concerns about inflation and rising interest rates. The Fed will likely raise the Fund Funds Rate by .5% next month and will also begin “Quantitative Tightening” by not reinvesting maturing Treasury Bonds into newly issued bonds. These actions will increase the cost of borrowing with the goal of slowing consumer demand, and thereby inflation. It has been 40 years since we’ve seen inflation numbers at these levels.

Inflation and economic comparisons are being made to the mid-1970’s, but I always feel some perspective is needed. For the nine years from 1973-1981, inflation (using the “Consumer Price Index”) averaged +9.2% per year. For the nine years from 2012 to 2020, inflation averaged +1.6% per year (source: Bureau of Labor Statistics). The recent spike in inflation was caused by the reaction to the pandemic – shutting down the economy and supply chains, then dumping trillions into consumers’ pockets to buy goods that became harder to get and more expensive to produce. And while the Fed has been slow to react, they are moving now rather than waiting years like they did in the 70’s. Avoiding hitting the brakes too hard and sending the US economy into recession will be the slippery slope the Fed must navigate.

Last but not least, but definitely last, are my Cincinnati Reds. After starting the season with two wins, they have lost their last 10 games in a row. I am now taking recommendations for a new team to cheer for and am easily persuaded by lavish gifts and all-expense paid trips to the home games of my next favorite team. Please be advised that if I begin to pull for your team, they will immediately stink. So be careful and have a great week!

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

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