

04/06/22

Good Morning,

Markets rallied at the end of March, but not enough to save Q1 of 2022 from being the first negative calendar quarter for stocks in two years. Bonds also had a difficult quarter as rising interest rates pushed bond prices down. Consequently, balanced portfolios (stocks and bonds) declined as well. Most sectors pulled back, with the glaring exception of energy, as oil (and gasoline) prices rose dramatically with Russia's war on Ukraine, and after steady increases throughout the later half of last year. The dislocation of supply and demand continues within nearly all industries and inflation remains the most pressing concern for the economy.

While inflation is easy to measure after the fact, it is much more difficult to predict. The same holds true for the effectiveness of pending Fed action to fight it. Recent signals from the Fed indicate they are going to get aggressive with interest rate hikes which could have the effect of stifling inflation quickly. Or we may be in for a protracted Fed effort that could last a year or more. And some economists believe we have seen peak inflation and it will begin to decline, even without Fed action. We just don't know, and in the meantime, investment markets will remain jittery.

One strategy we won't be using to fight inflation is "price freezing". President Nixon, faced with rising inflation, implemented what was to be a 90-day freeze on prices and wages on 8/15/1971, controls that were largely kept in place until April 1974. The price control strategy did not work. From 1974-1981, inflation (using the "Consumer Price Index" as the measurement) averaged +9.3% per year for the 8 years.

And Major League Baseball starts tomorrow. Go Reds!

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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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