

August 18, 2022

Good Morning,

Stocks continued to rally last week with strong advances in all the major indices. We've now recovered about half of the declines suffered in the 1st half of the year. We don't believe these strong upward moves will be sustained and markets are likely to level off as investors wait for more clarity on inflation, corporate earnings, and economic data. The sharp drop in the spring presented oversold conditions in several sectors and investors finally felt comfortable enough to grab some bargain prices.

While we wait for the Fed to make its next move with interest rates, it's important to understand what they're not doing, as well. The Fed owns trillions of dollars of US Treasury bonds, much more than the historical average. To normalize their balance sheet, the Fed will let maturing bonds "roll off" without being reinvested. As bonds mature, and by not reinvesting, the money the Fed receives as principal payments is removed from the economy, shrinking the money supply. This exercise is known as quantitative tightening and will serve to further slow an overheated economy and inflation.

The "Inflation Reduction Act of 2022" was signed into law this week by President Biden. Originally introduced as the "Build Back Better Act" with 2,465 pages and \$3.5 trillion of new spending, the bill was tabled, revived, renamed, then diced and sliced into a 755-page document approved on a party line vote August 7th. It includes all kinds of things that weren't in the original proposal and represents a mishmash of controversial ingredients added (and deleted) to make it palatable for Congress. Kind of like when I try to follow a recipe in the kitchen.

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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.

Have a delicious week!

Wade

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