



April 4, 2022

Dear Money Management Client:

The pandemic in 2020 was terrible for everyone, but the Federal Reserve (Fed) came to our financial rescue and averted a severe recession. This first quarter of 2022 started horribly, but no rescue seems imminent this time. We began with a lousy macro-economic outlook and topped it off with a potential World War. On the economic side, record levels of inflation are forcing the Fed to begin removing monetary accommodation by raising interest rates and ending their bond buying programs. The late, great Marty Zweig coined the term, “Don’t Fight the Fed” because when they reverse course and begin to tighten credit it typically causes trouble for the economy and equity markets. As the Fed raises rates, the short end often rises faster than the long end and occasionally results in an inverted yield curve. Those inversions, where the two-year interest rates are higher than the ten-year, have preceded every recession, which is why market volatility has been elevated. Daily moves in the S&P index have exceeded 1% nearly every day this year.

Did I mention, wars are also inflationary? Supply chains get disrupted, corn and wheat plantings are delayed or cancelled, energy markets are weaponized. Bottom line, crude oil over \$100 a barrel, consumer price index of +7.9%, unemployment of only 3.6% are what set the stage for multiple 50 basis point hikes by the Fed starting May 4th, despite some signs of slowing growth and a potentially difficult first quarter earnings season. On the positive side, the Fed is raising rates because the economy is robust, so it can take time for the economy to slow or recess. This should give you an idea how confusing the timing of all this can be.

In summary, earnings for the first quarter could be reasonably good and that’s why the market has rebounded a bit, but the forward guidance is what worries us. We admit not to know how all these macro forces play out and that’s why our cash balances are so high. The war adds tremendous uncertainty and potential for an unwelcome “big tail” event. All in, there will be much less risky times to have conviction after some de-escalation of the war and several rate hikes are behind us.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell