



April 3, 2024

Dear Money Management Client:

Another nice quarter is in the books and optimism grows that the FED's previous interest rate hikes have thread the needle, reducing inflation without hurting the economy. Households are growing their assets much faster than their liabilities, so consumer spending remains robust, particularly travel and leisure. We can thank the U.S. stock and bond markets for this good news because they have added \$13.5 trillion in wealth since the Federal Open Market Committee (FOMC) meeting last November.

Unfortunately, the FED's work is not done. Inflation has fallen from 9% in June of 2022 to a still too high reading of 3.2%. Their dual mandate of price stability while maximizing employment is predicated on a 2% inflation rate. Therefore, they will need to keep interest rates higher for longer to achieve their goal. Which will likely result in some slowing of the economy.

The federal funds rate (that's their interest rate tool) is currently in the 5.25-5.5% range. With a "lagging effect" those rates have caused unemployment to climb half a point since April of 2023. History does suggest that when unemployment turns higher, especially from such low levels, the recession watch begins. FOMC members believe they are headed in the right direction and their "dot plot," a chart of their federal funds rate projections, currently anticipates three rate cuts this year. Those projections are basically a guesstimate of what they believe it will take to reach that proverbial "soft landing," where inflation is tamed, and a recession is avoided.

We don't believe the FED will do much rate cutting this year, but since investors are anticipating those rate cuts, we are preparing for a bit of volatility as the year progresses. Getting to their 2% inflation target is going to be complicated by rising oil prices, the Red Sea becoming a war zone, the Key Bridge collapse in Baltimore and the robust spending from all the added wealth.

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 and Kyle Campbell