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We hope that this update finds you well.

Recently the narrative of the markets has switched from peak to persistent inflation.

This began last Friday with the surprisingly high read for the United States Consumer Price Index. This increased market volatility and led to sharp declines in the bond and equity markets. Assets that do not have tangible earnings have come under extreme pressure; cryptocurrencies, speculative technologies and bio-techs especially.

The stimulus, used to get us through the pandemic, caused extreme liquidity which drove up asset prices and led to speculative behavior. This is now unwinding. The shutdown in China which has affected supply chains and the Russian invasion of Ukraine which has driven up the price of oil has added to U.S. inflation which reached 8.6% for the past 12 months. The process of stabilizing and cooling inflation is now the principle goal of central banks. This means raising interest rates to slow the economy as was seen by the recent 75 basis point hike in the United States.

The concern is that this tightening becomes too restrictive and causes a recession. With the recent rate hike we are seeing that the expected rates are more in line with the projections and this may help to stabilize markets. It is important to note that some imbalances that have helped drive inflation appear to be easing. Lumber prices have fallen, housing prices appear to be rolling over with sales and prices falling and there are indications that supply chains are slowly unclogging.

Corporate earnings need to be priced accordingly as this process gets underway. This will likely lead to more volatility as we seek to find a multiple for earnings that will reflect economic conditions. The challenge is that we don't know what level is accurate at this point with so many factors unclear. Rising input costs are leading to higher prices and corporate pricing power will be tested as the economy cools with rates on the rise. There are some positive factors that remain. Employment remains strong and consumers are still buying, especially in the travel and leisure sectors. If we face a recession it will likely be milder because we are coming from a position of strength.

The markets are in the process of finding a bottom and this can take time. In the meantime it is important to focus on equities with solid earnings that have stable and growing dividends so that cash flow remains strong. There will be opportunities to rebalance and take advantage of disruptions as we go forward. We have structured portfolios to allow for this. Income should remain constant while we get through the volatility and see better days on the horizon.

As always if you have any questions or just want to touch base, we are just a phone call or e-mail away.

Take care and enjoy the season.

Best Always,

The Andras Group

To contact your advisor, email info@researchcapital.com.