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S. Harris Financial Group

INNOVATIVE STRATEGIES + PERSONAL FOCUS

Timely Topic

- October 6th, 2022 -

The Roller Coaster Continues

The third quarter proved to be difficult for the market and portfolios, relinquishing all of the market gains made in July and August during the last 5-6 weeks of the quarter. All the major stock indices, along with the broad bond market, closed out the quarter slightly lower than the end of June. Historically during these periods of volatility, we have relied on bonds to reduce the downside of the stock market. While most of the bonds have accomplished this, they have also suffered losses due to the Fed raising interest rates so aggressively. So, what is causing so much volatility in the markets this year? We believe it is the uncertainty around:

- Inflation,
- the resulting rate hikes by the Fed,
- the conflict between the Ukraine and Russia, and
- the upcoming mid-term election.

Of these four causes, we believe inflation (and the resulting interest rate increases) are currently what is weighing heaviest on the markets. Because inflation numbers came in slightly higher than the market expected in September, the Fed raised its baseline interest rate by another 0.75%, and the belief is that it will follow up with an additional 1% increase by the end of the year – likely in November and/or December. Note these expected rate increases are now 1% higher than what was anticipated even a short 3 months ago, which has contributed to the volatility in both the stock and bond markets. We hope that by the end of 2022 we will begin having some clarity on at least one or two of these uncertainties and that the volatility of the stock (and bond) market can therefore be reduced going forward.

The "R" word

Recession is at the top of many people's minds and evokes concern, especially if you are remembering what we experienced in 2020 (the Pandemic recession – a 10.1% loss in gross domestic product (GDP)) or 2008 (the Financial Crisis – a 4.0% loss in GDP). These were the largest recessions since World War II but remember there have been many other recessions since World War II that were shorter and/or less severe than these two most recent recessions.

Keep in mind that the stock market is adjusting prices today for its expectations as to how market and economic situations will play out, while recessions are identified in hindsight. Therefore, as 2020 proved, it is possible that the market can begin its recovery before or during a recession. While we expect more volatility to come this year (until we have some clarity on the issues mentioned above), we think a 2023 recession should be relatively mild, historically speaking, as the labor market remains strong and consumer confidence edges up with slowly reducing prices.

The bottom line

There's no denying that markets are an uncomfortable place to be these days. We are monitoring the situation and your investments, adjusting when we see opportunities to do so. We encourage you to remain focused on your long-term goals and remember that historically the bottom of the market has been when fear and pessimism are at their highest.

If you believe you will have a need for some of your portfolio assets over the next 12 months that aren't already in cash, please give us a call so we can discuss a strategy to help reduce risk as much as possible on the cash needed in the short-term.

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We will continue to navigate these storms together, keeping an eye on your goals, timelines, and tolerance for risk. If you have any questions, please do not hesitate to reach out. As always, we remain grateful for your continuing trust, and hope you know that your well-being remains our top priority.

Sincerely,

The S. Harris Financial Group