STRAIGHT TALK

1st Quarter 2022

Michael F. Bisaro AIF®, President & CEO
Steven F. Mosshart AIF®, Chief Investment Strategist
Sonny Mehra, Director of Research

2022
Market Returns

Domestic Large
S&P 500
-4.60%

Domestic Small
Russell 2000
-7.53%

Intl Developed
MSCI EAFE
-5.91%

Emerging Markets
MSCI EM
-6.97%

Fixed Income
Bloomberg US
Aggregate Bond
-5.93%

**Returns are from Morningstar, with dividends reinvested, and are through 03/31/22*

Everything is connected. In a grand sense what we saw during the first quarter is largely in line with our thoughts about the global order, particularly as it relates to the economy and markets. Of course, where geopolitics is concerned, there is an element of unpredictability. Russia's war in Ukraine is a tragedy and will have long-lasting ramifications. From a human perspective, our hearts go out to the people of Ukraine and we continue to hope for peace and justice. From an economic standpoint, the actions that have taken place only further cement the fracturing of a period of globalization that has generally been in place for decades. Disruption is a word that is often used to describe new technologies that challenge existing industries. In our view, disruption can now be applied across geopolitics, economics, and markets. While this might sound ominous, we see incredible opportunities across many areas.

The war in Ukraine will add to inflationary pressures in the short term, as the world adjusts to supply shocks in energy and agriculture among other areas. However, we believe that there is a chance that inflation figures are in the process of peaking and will gradually move lower. How long it takes for inflation to move to a more comfortable level remains a key question, and we continue to expect that inflation will trend higher in the coming years than it did pre-pandemic. The Fed has signaled that their focus is to combat inflation, and they are rapidly moving away from the easing that we saw during the worst of Covid. The possibility of 0.50% rate hikes at the coming meetings, combined with plans to reduce their bond holdings, will add pressure to markets and is largely responsible for recent volatility. Remember, it was not long ago that they were talking about no rate hikes at all this year. In that sense, Q1 was a period of adjustment for markets, and the volatility and losses that occurred reflect that.

Inflation and interest rate movements have brought about questions of a slowing economy and possible recession. Energy prices, a hot housing market, and even a brief inversion of the yield curve (negative spread between 2 & 10-year treasury rates) have also been areas of concern. We do not believe that the economy will enter a recession this year, but the risks of one have undoubtedly risen. Barring another spike in energy prices, consumers can likely stomach rising rates. In housing and the economy in general, we do not see the excesses that might cause more worry. If anything, challenged supply dynamics have been restraining the economy. Additionally, we have seen earnings revisions to the upside, albeit modestly, but the fact that earnings are holding up so well despite all of the headwinds is a positive for equity markets.

From a longer-term perspective, we see many opportunities for western economies. The evolution of globalization to a possibly more regionalized model will create the chance to increase manufacturing. We have already seen examples of this in Intel and Taiwan Semiconductor's plans to invest billions in US chip production facilities. Meanwhile, the West will likely push for energy independence, providing a boost to the prospect of domestic fossil fuel production in the short-term and renewables longer term. Europe will certainly spend more on defense going forward and the unity that has built up recently could pave the way for more cooperation and a loosening of budget restrictions in the European Union.

For better or worse we are in a period of upheaval. While it can look ugly at times from an investment perspective, there are reasons for excitement. The changes taking place will set the stage for years of investment growth across sectors and industries, and despite any negative headlines, the US remains a source of innovation across the world. We understand that there are many questions these days, please do not hesitate to contact us if you would like to discuss anything.

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www.straightline.com
866-401-5238
info@straightline.com