

MONTHLY ECONOMIC UPDATE

May 2022

MONTHLY QUOTE

“There will come a time when you believe everything is finished; that will be the beginning.”

- Louis L'Amour

MONTHLY TIP

Starting a small business? A written plan is handy for forecasting, budgeting, and presenting your idea to potential investors. A written plan is far preferable to one you keep in your head.

THE MONTH IN BRIEF

U.S. Markets

April was a challenging month for investors as losses in mega-cap technology companies and high-valuation stocks spilled over to the broader market.

The Dow Jones Industrial Average lost 4.91 percent while the Standard & Poor's 500 Index dropped 8.80 percent. The Nasdaq Composite fell 13.26 percent.¹

Challenging Month

Stocks struggled all month as investors grew increasingly skittish over a stream of hawkish comments by Federal Reserve officials.

Fed Chair Jerome Powell unnerved investors when he suggested that it may be appropriate to consider front-end loading rate hikes. A few weeks earlier, Fed governor Lael Brainard, considered one of the Fed's more dovish members, implied that the Fed could take a more aggressive monetary tightening approach.

Fed Watching Inflation

Inflation continued to be an overhang on the market. March's Consumer Price Index (CPI) was 8.5 percent year-over-year, the fastest pace since December 1981, while the Producer Price Index reflected continuing price pressures in the pipeline, picked up 11.2 percent from a year ago—a new all-time high.²

The combination of a tightening monetary policy and hot inflation drove bond yields higher, with the 10-year Treasury Note yield moving from 2.32 percent at March-end to 2.89 percent by the close of April.³

Upbeat Earnings

The first-quarter earnings season got off to a mostly positive start. Of the 55 percent of the S&P 500 companies reporting earnings so far, 80 percent have beaten Wall Street analysts' earnings estimates. Companies appear to be navigating accelerating inflation, shaky consumer confidence, higher rates, and supply chain challenges.⁴

Markets closed out April with a volatile week, reflecting the general investor unease that weighed on markets all month.

Sector Scorecard

Only one sector managed to post a gain: Consumer Staples (+2.31 percent). The remaining sectors moved lower, with losses in Energy (-1.69 percent), Real Estate (-3.56 percent), Utilities (-4.30 percent), Communications Services (-14.13 percent), Consumer Discretionary (-11.96 percent), Financials (-9.94 percent), Health Care (-4.89 percent), Industrials (-7.61 percent), Materials (-3.54 percent), and Technology (-11.02 percent).⁵

What Investors May Be Talking About in May

In May, investors will be adjusting to the most recent Fed decision about short-term rates and looking for clues about what to expect at the next few Federal Open Market Committee (FOMC) meetings. The two upcoming meetings will be held in fairly quick succession: June 14–15 and July 26–27.⁶

While the markets may have already priced in some of the Fed's plans for higher rates, it's unclear how investors will react when governors provide guidance for the rest of the year.

The Retirement Reality Check

Little things to keep in mind for life after work.

Decades ago, there was a book entitled *What They Don't Teach You at Harvard Business School*. Perhaps someday, another book will appear to discuss certain aspects of the retirement experience that go unrecognized - the "fine print", if you will. Here are some little things that can be frequently overlooked.

How will you save *in* retirement? More and more baby boomers are retiring with the hope that they can become centenarians. That may prove true thanks to healthcare advances and generally healthier lifestyles.

We all save for retirement; with our increasing longevity, we will also need to save *in* retirement for the (presumed) decades ahead. That means more than budgeting; it means investing with growth and tax efficiency in mind year after year.

Could your cash flow be more important than your savings? While the #1 retirement fear is someday running out of money, your income stream may actually prove more important than your retirement nest egg. How great will the income stream be from your accumulated wealth?⁷

You might have heard of the 4% rule, the concept that retirees should plan to withdraw 4% of the funds in their retirement account balance for each year of retirement. The truth is, figuring out how much money you can or should withdraw each year from your retirement account is a complicated calculation that's often best left to a financial professional.⁸

Opinions vary, and your strategy should always take into account your unique situation. For example, some research suggests that 3.3% is a better goal than 4%. That means, assuming a \$1 million account balance, you'd withdraw \$33,000 instead of \$40,000 during your first year of retirement. A \$7,000 annual difference could present you with significant budgeting decisions to make.⁸

What will you begin doing in retirement? In the classic retirement dream, every day feels like a Saturday. Your reward for decades of work is 24/7 freedom. But might all that freedom leave you bored?

Impossible, you say? It happens. Some people retire with only a vague idea of "what's next". After a few months or years, they find themselves in the doldrums. Shouldn't they be doing something with all that time on their hands?

A goal-oriented retirement has its virtues. Purpose leads to objectives, objectives lead to strategies, and strategies can impart some structure and order to your days and weeks – and that can help cure retirement listlessness.

Will your spouse want to live the way that you live? Many couples retire with shared goals, but they find that their ambitions and day-to-day routines differ. Over time, this dissonance can be aggravating. A conversation or two may help you iron out potential conflicts. While your spouse's "picture" of retirement will not simply be a mental photocopy of your own, the variance in retirement visions may surprise you.

When should you (and your spouse) claim Social Security benefits? "As soon as possible" may not be the wisest answer. An analysis is needed. Talk with the financial professional you trust and run the numbers.

If you can wait and apply for Social Security strategically, you might realize as much as hundreds of thousands of dollars more in benefits over your lifetimes.

The Fed

On April 6th, the minutes from March's FOMC meeting were released. These pointed to a growing consensus for one or more future rate hikes of 50 basis points and a general agreement on a framework for reducing the Fed's balance sheet by \$95 billion per month.

The balance sheet reduction is likely to begin in May and be phased in over three months.⁹

During the FOMC meeting, the participants concluded, "Ukraine was perceived as adding to the uncertainty around the outlook for economic activity and inflation, as the conflict carried the risk of further exacerbating supply chain disruptions and of putting additional upward pressure on inflation by boosting the prices for energy, food, and other key commodities."¹⁰

MARKET INDEX Y-T-D CHANGE April 2022

MARKET INDEX	Y-T-D CHANGE	April 2022
DJIA	-9.25%	-4.91%
NASDAQ	-21.16%	-13.26%
S&P 500	-13.31%	-8.80%

BOND YIELD Y-T-D April 2022

BOND YIELD	Y-T-D	April 2022
10 YR TREASURY	1.38%	2.89%

Sources: Yahoo Finance, April 30, 2022.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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