

Month Ending May 2022

Market Commentary

May 2022



- While April's showers didn't bring May flowers, broad equity markets eked out a positive return.
- The Fed indicated they'll be on cruise control this summer, likely hiking rates 50 Basis - Points (BPs) in June and July.
- We are in "wait and see" mode – while a slowdown seems clear, it remains a question whether we're headed for a mid-cycle slowdown or recession.

MARKET RETURNS AS OF MAY 31, 2022¹

Index return	May (%)	QTD (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
S&P 500 TR	0.18	-8.55	-12.76	-0.30	16.44	13.38	14.40
DJ Industrial Average TR	0.33	-4.51	-8.43	-2.65	12.30	11.87	12.91
NASDAQ Composite TR	-1.93	-14.92	-22.53	-11.53	18.44	15.34	16.89
Russell 2000 TR	0.15	-9.77	-16.57	-16.92	9.70	7.72	10.83
MSCI EM GR	0.47	-5.11	-11.68	-19.56	5.36	4.17	4.54
MSCI EAFE GR	0.89	-5.55	-11.02	-9.90	6.93	4.68	7.65
Bloomberg US Agg Bond TR	0.64	-3.17	-8.92	-8.22	0.00	1.18	1.71

MARKETS

Volatility persisted in May, but overall market returns were less bad than in April with the S&P 500 and Dow Jones Industrial Average (DJIA) ending a marginally positive 18bps and 33bps, respectively. The Nasdaq trailed by a relatively wide margin and ended the month down -1.9%.

Many familiar challenges persisted – the war in Ukraine, COVID-19, inflation, rising rates, and ponderance of whether Elon Musk would, in fact, buy Twitter. There was also new market drama: cue stablecoins not being stable. While earnings were solid overall, profit warnings from companies ranging from Snap to Target increased investor concerns about inflation. Rising rates, and the expectation of further rising rates, put pressure on growth-focused companies, causing many technology companies and the tech-heavy Nasdaq index to underperform.

By May 20, the DJIA had notched its longest losing streak since 1932, during Great Depression, and the S&P 500 and the Nasdaq had their longest losing streaks since 2001, at the end of the dot-com bubble.²

While we didn't get flowers, we did get a couple of seedlings. On the last full week of May, markets trended upward on several catalysts including more clarity on future rate hikes and potential signs of cooling inflation in the U.S., with the first deceleration of the measure since November 2020.³

THE FED AND RATES

The Fed has been facing a growth-inflation trade-off. If they hike too much: recession. If they hike too little: runaway inflation.

While we know they don't want to cause a recession, it's clear that the priority is getting inflation under control. On May 17, Federal Chairman Jerome Powell stated at a conference are a number of plausible paths to having a soft or, as I've said, soft-ish landing. And our job isn't to handicap the odds. It is to try to achieve that. The last thing I'll say, though, is that achieving price stability, restoring price stability is an unconditional need. It's something we have to do because really the economy doesn't work for workers or for businesses, or for anybody without price stability."⁴

Until this month, the Fed hadn't raised rates 50bps since the year 2000.⁵ On May 25, Fed minutes gave hints of two more 50bps rate hikes in upcoming months as they assess the upcoming inflation reports.

WHAT'S NEXT?

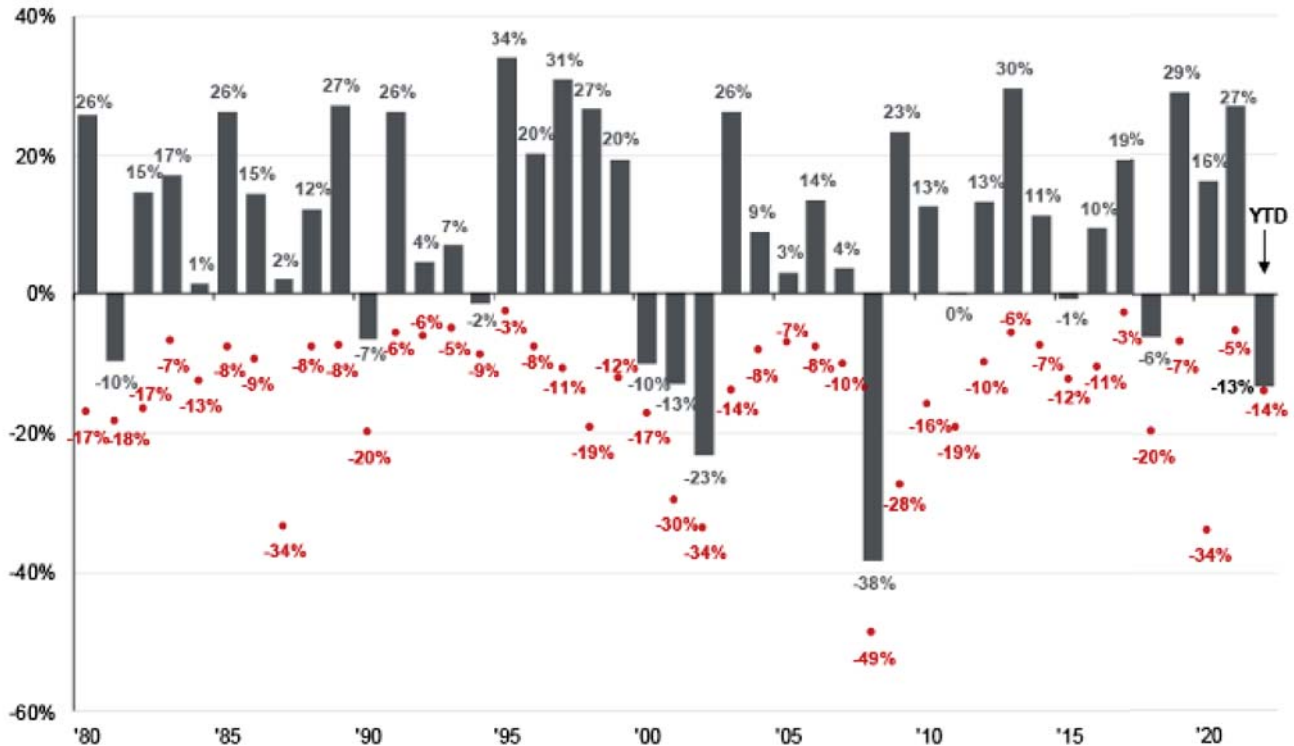
We are in "wait and see" mode – while a slowdown seems clear, it remains a question whether we're headed for a mid-cycle slowdown or recession.

If you're reassessing your portfolio before taking a break for the summer, here are **three considerations**.

- 1) Keep your long-term investments invested for the long term.** Equity investing is not for the faint of heart, but history says equities reward long term investors. In fact, the average intra-year drop of the S&P 500 is 14%, yet in 75% of calendar years it ends positive. Since 1996, investors in the stock market have lost about half their money twice in significant bear markets; yet the market is 3x as high as it was in 1996.⁶

S&P intra-year declines vs. calendar year returns⁷

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



- 2) **Be smart about the ballast in your portfolio.** Consider all your options to diversify equity risk in your portfolio, from fixed income to alternatives. A more active approach in these markets may make sense; while we may be in for a period of sustained rising rates, rates have risen quite a bit already, creating attractive yields and potential opportunities to uncover. Fixed Indexed Annuities could be a possible option.
- 3) **Don't forget that cash carries a different kind of risk.** Inflation risk is very real in today's market environment. While a dollar bill may look and feel the same year over year, its ability to buy the same goods declines significantly as inflation rises.

These are just ideas, not recommendations, and whether they make sense will depend on an individual's personal circumstances.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.



Warren Buffett

"I believe in giving my kids enough so they can do anything, but not so much that they can do nothing"

We are here to help you!

If you do not know how to log into your **Schwab** or **Creative One** portal to check your account balance, holding performance, ect. please call us to schedule a Zoom or In-Office meeting for us to teach you how to do this.

Any team member can book a convinient day/time for you **(626) 294-0414**



Past performance is no guarantee of future returns.

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The information here is not intended to constitute an investment recommendation or advice.

1. Data from Morningstar unless otherwise specified. Returns over one year are annualized.
2. Reuters May 20, 2022. <https://www.reuters.com/markets/us/sp-500-pace-confirm-bear-market-falls-20-record-close-2022-05-20/>
3. Reuters May 27, 2022. <https://www.reuters.com/markets/europe/cooking-us-inflation-builds-case-september-slowdown-fed-rate-hikes-2022-05-27/>
4. WSJ May 17, 2022. <https://www.wsj.com/articles/transcript-fed-chairman-jerome-powell-at-the-wsj-future-of-everything-festival-11652821738>
5. CNBC May 4, 2022. <https://www.cnbc.com/2022/05/04/fed-raises-rates-by-half-a-percentage-point-the-biggest-hike-in-two-decades-to-fight-inflation.html>
6. JPMorgan Asset Management Guide to the Markets accessed on 5/31/2022. https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets?gclid=EAlaIqobChMh4K33vWO-AIVtIRaBR1YcgHfEAAAYASABEgl3APD_BwE&gclid=aw.ds
7. JPMorgan Asset Management Principles of Long Term Investing accessed on 5/31/2022. <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/principles-for-investing/>

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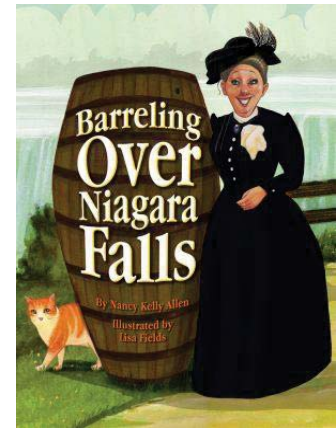
Now That's Just NUTS!

Dear Friend,

My wife Laura and I just returned from a fantastic trip to **Niagara Falls**. Here are some words that come to mind when describing these awe-inspiring falls:

Incredible Unbelievable Marvelous Beautiful

Dana, our tour guide, shared the story of **Annie Edson Taylor** who on her 63rd birthday (October 24, 1901), went over Horseshoe Falls in a custom-built barrel. She did this to gain notoriety and 'cash in' on the fame; she imagined making money by giving talks around the U.S., as "The First Ever Woman to Go Over the Falls and Live".



At the time, she was financially in a bad way, and she didn't want to live out the rest of her life as a poor, broke widow. Okay, let's make some popcorn. This sounds like a movie trailer, doesn't it?

I won't ruin the story other than to say she did live through this foolish daredevil feat... but it never did make her rich or famous.

If you don't agree that this lady was crazy bonkers and a bit NUTS, I have a portion of the Brooklyn Bridge I'd like to sell you.

Now here's how this wild story can help someone you care about from going to such extreme measures in planning for their future.

At times, we can all get a little NUTS

Let's face it, life can throw us all a curve ball every once in a while, with a new challenge or obstacle. This is why I created the "**59-Minute Clarity Experience**" designed to help people from Going Nuts about their financial well-being.

Imagine a process designed to guide people to gain clarity and confidence about the next steps when dealing with a financial issue that is either positive or negative - such as managing a 401K to live-off OR how to pay for long-term care for an ill loved one.

I've developed a short in-office experience to help individuals and couples develop a clear perspective on the 'right approach' based on their parameters, including an action plan.

No other person in So. Cal., that I'm aware of, provides anything close to this unique, tailor-made consulting service.

For someone you care about, you have my permission to share this offer to meet with me (currently at No Charge) for their, "59-Minute Clarity Experience".

Please help you friends avoid doing something Just NUTS, like going over Niagara Falls in a Barrel. Cause, it doesn't always end well!

Best Wishes,

A handwritten signature in black ink, appearing to read "Rick Miller", followed by a long horizontal flourish.

Rick Miller

Call our office today for your No Charge
"59-Minute Clarity Experience"
(626) 294-0414