CSI Wealth Management

20 E. Foothill Blvd., Ste 100
Arcadia, CA 91006
Tel: (626) 294-0414
Fax: (626) 294-0793
www.csiwealth.org

Month Ending August 2022

Market Commentary

- Stocks retreated in August following strong performance during the month prior. Key technical indicators turned bearish and point to potential further volatility ahead for stocks.
- Following hawkish comments from Fed Chairman Jerome Powell at Jackson Hole, investors anxiously await whether the Fed will raise interest rates by 50 or 75 basis points during its September meeting. The consumer story remains intact, further complicating the appropriate Fed response.
- This month's Q&A spotlights BlackRock, J.P. Morgan, and PIMCO, and their thoughts on duration as it relates to fixed income investing, as well as strategic opportunities for investors.

MARKET RETURNS AS OF AUGUST 31, 2022[1]

Index Total Returns	August (%)	QTD (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
S&P 500 TR USD	-4.08	4.77	-16.14	-11.23	12.39	11.82	13.08
DJ Industrial Average TR USD	-3.72	2.84	-12.01	-9.07	8.33	9.88	11.77
NASDAQ Composite TR USD	-4.53	7.29	-24.07	-21.99	14.98	13.98	15.68
Russell 2000 TR USD	-2.05	8.18	-17.16	-17.88	8.59	6.95	10.01
MSCI EM GR USD	0.45	0.29	-17.23	-21.48	3.10	0.96	3.29
MSCI EAFE GR USD	-4.74	0.02	-19.24	-19.37	2.87	2.12	5.49
Bloomberg US Agg Bond TR USD	-2.83	-0.45	-10.75	-11.52	-2.00	0.52	1.35

August Spotlight: Asset Manager Fixed Income Q&A

This month we are focusing on the topic of duration as it relates to fixed income investments. Duration is expressed in years – the longer the duration, the more sensitive a bond's price will be to changes in interest rates.

Managing the duration of your portfolio is important as we approach a potential inflection point in this rate hiking cycle. The conversation was very different back in March, when the only plausible course of action for the Fed was to raise interest rates. Given that during a period of rising interest rates, long duration fixed income investments experience significant downward price pressure, investors began to favor short duration fixed income investments.

Over the past few months, many investors have slowly started to add duration back into their portfolios. The justification being that prices of longer duration fixed income investments began to look more attractive, and interest rate hikes by the Fed had been nearly fully priced in… or so they thought.

And so, this month we decided to ask some of our key asset management partners about whether they expect to reevaluate the average duration within their portfolios throughout the remainder of 2022. Ultimately the conversations led back to the biggest question of all – where are rates headed?

Q1: How are you presently using duration to express your investment views?

At the start of the year, all three asset managers were short duration to protect their portfolios from substantial downward price pressure, as rate hikes were inevitable. Throughout the year, asset managers have added back to duration, and are now generally neutral when compared to their benchmarks.

- BlackRock model portfolio strategist Eric Mueller shared that they have already added duration into their income strategies, and the team is grappling with whether to remain neutral duration or to continue slowly adding duration.
- JPMorgan investment specialist Michael Stillitano, CFA® highlighted that his team uses actively managed fixed income ETFs to express duration views within their portfolios. The strategies provide the team with exposure to high quality, intermediate-term investment grade bonds that they believe are trading at more reasonable levels following the move higher in rates.
- The PIMCO team acknowledges that while recent increases in rates have made duration more attractive on the margin, they are proceeding with caution given the volatile interest rate environment. While their models and underlying strategies added to duration on the margin broadly, from underweight positions at the end of June as the 10yr hit 3.5%, the fall back to 2.65% at the end of July was evidence of the reason to be wary of significant tactical shifts amid an uncertain environment.

Q2: What economic indicators are you following when monitoring your fixed income investments?

Managers are keeping a close eye on various data points, including inflation, to help guide their expectations about where rates are headed. Rate assumptions are proving critical in building fixed income portfolios that can withstand the next 12-18 months.

- BlackRock model portfolio strategist Eric Mueller is focused primarily on labor market and earnings data. The team is starting to see the labor market soften and anticipate revisions in earnings, which

should give the Fed comfort knowing that their actions thus far are starting to trickle down to the broader economy.

- Inflation is top of mind for the J.P. Morgan Multi-Asset Solutions Group. Investment specialist Michael Stillitano, CFA® explained that the team breaks up inflation into three parts: services, goods, and commodities. They believe prices of services will remain sticky, that of goods will decline, and that of commodities will remain up in the air. Energy prices remain greatly dependent on the conflict between Russia and Ukraine, and there could be huge recession-related implications if Russia decides to cut off its oil supply.
- PIMCO is also highly focused on inflation and is monitoring headline CPI and its drivers. While short-term inflation expectations have been moderating along with food and energy prices, they still believe Fed officials will be concerned about several underlying negative trends in inflation and wages. According to their economists, core inflation measures as opposed to CPI, such as the Cleveland Fed trimmed mean, New York Fed underlying inflation gauge, Atlanta Fed sticky price measure, historically have been better predictors of future inflation. Year-over-year, these measures have all accelerated in recent months, given the increasing depth and breadth of inflationary pressures across items in the consumer price basket. An additional concern to the Fed, U.S. wage inflation has broadened from the low-wage, low-skill services sectors to a range of industries, occupations, and skill levels.

Q3: Where do you think the 10-Year yield will end this year?

Asset managers have diverging predictions about where rates are headed. BlackRock emerged as the most dovish, J.P. Morgan appeared to be less dovish, and PIMCO recognized the potential for rate surprises to the upside.

- The BlackRock team anticipates that rates will likely remain range bound at 2.75-3.25% for the remainder of the year. BlackRock forecasts that the Fed is going to be very deliberate about adjusting rates close to or in line with what the market expects. The market is currently pricing in a 75 bps move in September and two 25 bps moves in November and December. BlackRock believes a policy pivot in 2023 is now unlikely given the most recent commentary from Fed officials.
- J.P. Morgan comes in slightly more hawkish than BlackRock, predicting that 10-Year yield will end the year at 3.0-3.5%. They think the probability of the Fed cutting rates in 2023 is lower than the market is pricing in.
- While the PIMCO team does not have an explicit target over the horizons, they do believe the market is roughly adjusting appropriately for a base case of tempering inflation heading into 2023 albeit from elevated levels. Rate surprises to the upside reasonably above current market projections in the 3%-4% range are likely to have a meaningful impact on slowing real economic activity and may not be sustainable for long periods of time. However, the significant volatility in inflation and rate markets, means that we are in an environment of where surprises are likely to be more common.

Q4: What trades are you actively thinking about acting on?

Managers are positioning their portfolios more defensively given the volatility in the markets. With that being said, managers are keeping their eyes open for tactical opportunities both domestically and internationally.

- BlackRock model portfolio strategist Eric Mueller expects that if the Fed remains hawkish, the team will look to Treasuries, most likely the "safe-haven" 10-Year, to round out their portfolios. If the Fed begins to lean dovish, the team will look to fallen angel credit opportunities, especially companies that were downgraded from investment grade to high yield during COVID. They would also continue to favor domestic high yield and investment grade corporate bonds over that of emerging markets. This scenario could prove to be a catalyst for equity markets going into 2023.
- JPMorgan investment specialist Michael Stillitano, CFA® believes that the risk-reward profile for China looks very interesting and so, the team recently expressed their view through a dedicated position to Chinese equities. Despite the government's zero tolerance for COVID, China is one of the only countries currently cutting interest rates, and its government has expressed a strong willingness to further stimulate the economy by backing loans.

This month's commentary underscores a key challenge investors face when it comes to making portfolio construction decisions: no one has a crystal ball.

For questions or concerns regarding your portfolio positions, or if you have any changes to your goals, risk tolerance, time horizon, please reach out to your financial professional to schedule a conversation.

creativeOne WEALTH

1. Data from Morningstar as of August 31, 2022. Returns over one year are annualized.

The graphs and charts in this commentary are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than other asset classes. Historical returns were the result of certain market factors and events which may not be repeated in the future. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgement in determining whether investments are appropriate for clients.

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

Returns shown are total returns of indices. Returns over one year are annualized. Past performance is no guarantee of future returns.

This material has been prepared for information and educational purposes and should not be construed as a solicitation for the purchase or sell of any investment. The content is developed from sources believed to be reliable. This information is not intended to be investment, legal or tax advice. Investing involves risk, including the loss of principal. No investment strategy can guarantee a profit or protect against loss in a period of declining values. Investment advisory services offered by duly registered individuals on behalf of CreativeOne Wealth, LLC a Registered Investment Adviser.

CSI, California Senior Information, Inc. and CreativeOne Wealth do not offer annuities or insurance. Richard Anthony Miller is a CA Insurance Agent, License #0066327 and Investment Adviser Representative - CCDR #281213 with CreativeOne Wealth. CSI, California Senior Information, Inc. Are not affiliated companies.

If you will be **72 years Or over in 2022** – READ THIS

Have you taken out ALL your Required Minimum Distributions for 2022?

Most people are aware the NEW age to begin Required Minimum Distributions (RMDs) is the year you turn 72. The age to start to one's RMDs used to be in the year you turned 70 ½ years of age, but this changed during COVID.

The IRS did modify the RMD Table slightly after COVID.

Check out: https://www.irs.gov/publications/p590b#en_US_2021_publink100090310 (look up the, **"Uniform Lifetime Table"**; used for computing RMD from your personal IRA and your spouse beneficiary isn't 10 years younger – otherwise can use different table.

Did you know?

You can add up all the IRAs you have and take money from just one IRA provided it meets the TOTAL for all your IRAs RMDs.

Example: Let's say you are 72 on June 1, 2022. You'll need to compute the RMD for each IRA and add them together to arrive at the minimum (Total) for 2022.

	Balance of IRAs on 12/31/2020	IRS RMD Factor (age based – here 72)	Dollar Amount of RMD
IRA #1 for	$ 100,000	27.4	$ 3,649.64
IRA #2 for	$ 50,000	27.4	$ 1,824.82
IRA #3 for	$ 25,000	27.4	$ 912.41
		Total RMD	= $ 6,386.87

Since all the above accounts are IRAs (not 401k, 403b, 457 + IRAs) - You can take $ 6,386.87 from Any of Your IRAs (#1, #2 or #3).

Be aware you can't comingle 401k, 403b, 457 accounts with IRAs to do the above strategy. The IRS **does not allow** this convenient method in meeting RMDs for IRAs.

Therefore, we encourage all retirees to consider reviewing their 401k, 403b, and 457 retirement plans to determine if moving to an IRA is right for them. Call us today if you have a 401(K), 403(b) and/or 457 and we'll help you determine if moving them into an IRA for flexibility, investment options, less hassle at RMD time if this makes sense. As your Fiduciary we'll explain fees, options, advantages, and disadvantages so you can decide what to do.

The deadline for taking out RMDs is Dec. 31st each year.

Please be aware that Failure to take out an RMD can trigger a 50% Penalty – Ouch!

If you are Not 100% sure you've taken out your 2022 RMDs – Call us today to schedule a zoom or in-office appointment. CSI (626) 294-0414.

Please contact us NO LATER THAN December 1st of this year if you want us to assist you in completing your RMDs. Most custodians for IRAs, 401ks and the like need at least 15 business days minimum to complete your distributions.

We are here to make this what can be complicated, confusing, and annoying stuff easy and simple.

Rick Miller
Your Trusted Advisor for Life!

P.S. Do you have a friend or co-worker about to retire that has questions? You have permission to introduce us to help them. Call me to talk about how to introduce them. CSI (626) 664-2341

Warren Buffett

"I insist on a lot of time being spent, almost every day, to just sit and think. That is very uncommon in American business. I read and think. So I do more reading and thinking, and make less impulse decisions than most people in business. I do it because I like this kind of life."

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 perfomance, 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**