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Retirement Watch

SPOTLIGHT SERIES

Inflation, Rising Rates, Falling Stocks, and More, Oh My!: Investment and Economic Review June 2022

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Bull Markets Turn 40

- **Stock, bond bull markets began in 1982**
- **40 years of:**
 - **falling interest rates**
 - **declining inflation/disinflation**
 - **rising profit margins**
 - **rising stock valuations**
 - **stocks outperforming economy**



The Investment Playbook

- **Stocks, bonds not correlated**
- **Commodity prices generally decline**
- **Growth stocks are the investment to hold**
- **The U.S. is the place to invest**
- **King Dollar**
- **“The Fed Put”**: The Fed supports stocks
- **Always buy the dips in stocks**



That 70s Show Rebooted

- **Inflation is back**
- **Fed can't support stock prices**
- **Growth is slowing in U.S. and globally**
- **Bubbles have deflated**
- **Stocks repriced for higher interest rates**
- **Will growth, profit margins, valuations fall?**



Inflation is the Key

- Fed has to tighten until inflation broken
- Inflation: temporary or sticky?
- Investors say it's temporary
- Breakeven inflation rate is falling
- Long-term bonds rates declining
- Housing slowing
- Higher inflation reduces demand



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10-Year Breakeven Inflation



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The Case for Sticky Inflation

- Demand exceeds supply
- Higher wages support demand
- Takes years to increase supply
- Deglobalization hurts supply
- Covid shutdowns linger
- Problems in China
- Supply shock from Ukraine invasion



Stagflation?

- Demand easing a little
- Higher wages still support demand
- Wages increases less than inflation
- Consumers must make choices
- Supports overall inflation
- Higher nominal growth
- Lower real growth



How Much Tightening?

- Question is sustainability of demand
- Less sensitive to tightening
- Businesses can raise prices
- Differs from previous 40 years
- Probably more tightening than usual
- What inflation goal will the Fed accept?



Likely Outlook

- **Sticky inflation, Fed settles**
- **Lower real growth, decent nominal growth**
- **Gradual slowing into 2023, 2024**
- **Steady tightening into 2023, 2024**
- **Mild recession, or steep one?**
- **Fed less concerned about financial assets**



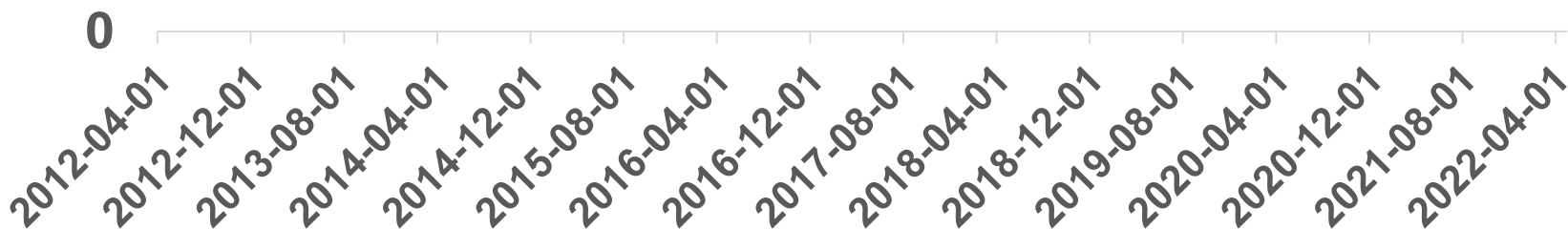
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Monetary Base

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6000000
5000000
4000000
3000000
2000000
1000000
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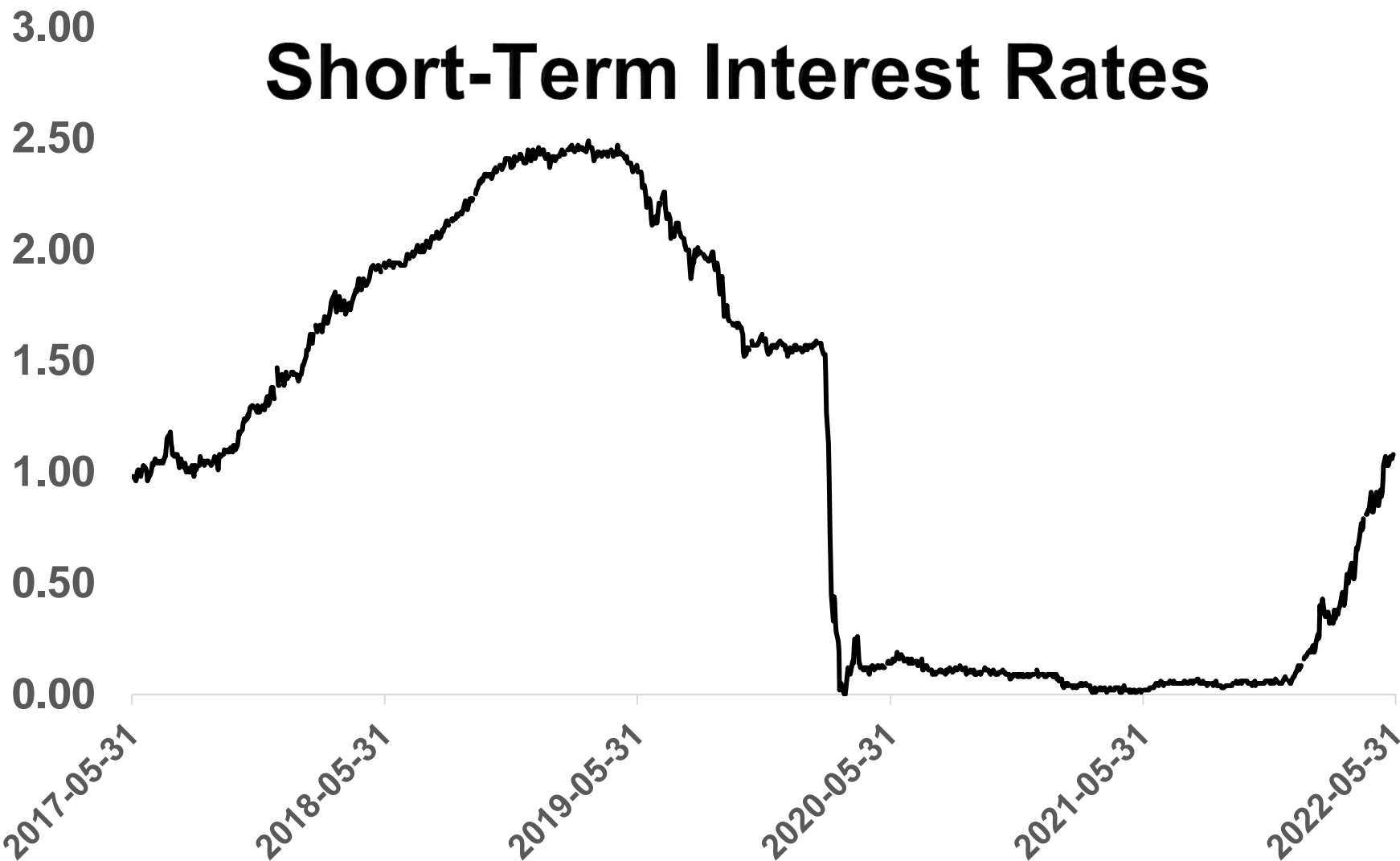


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Short-Term Interest Rates

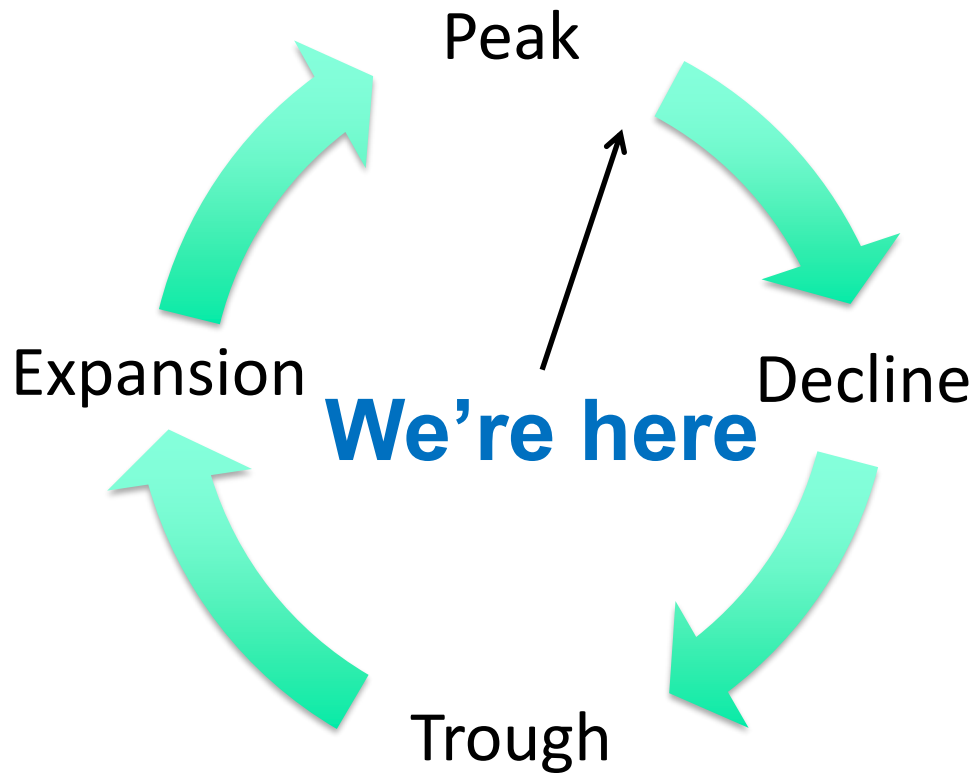


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Market / Economic Cycle

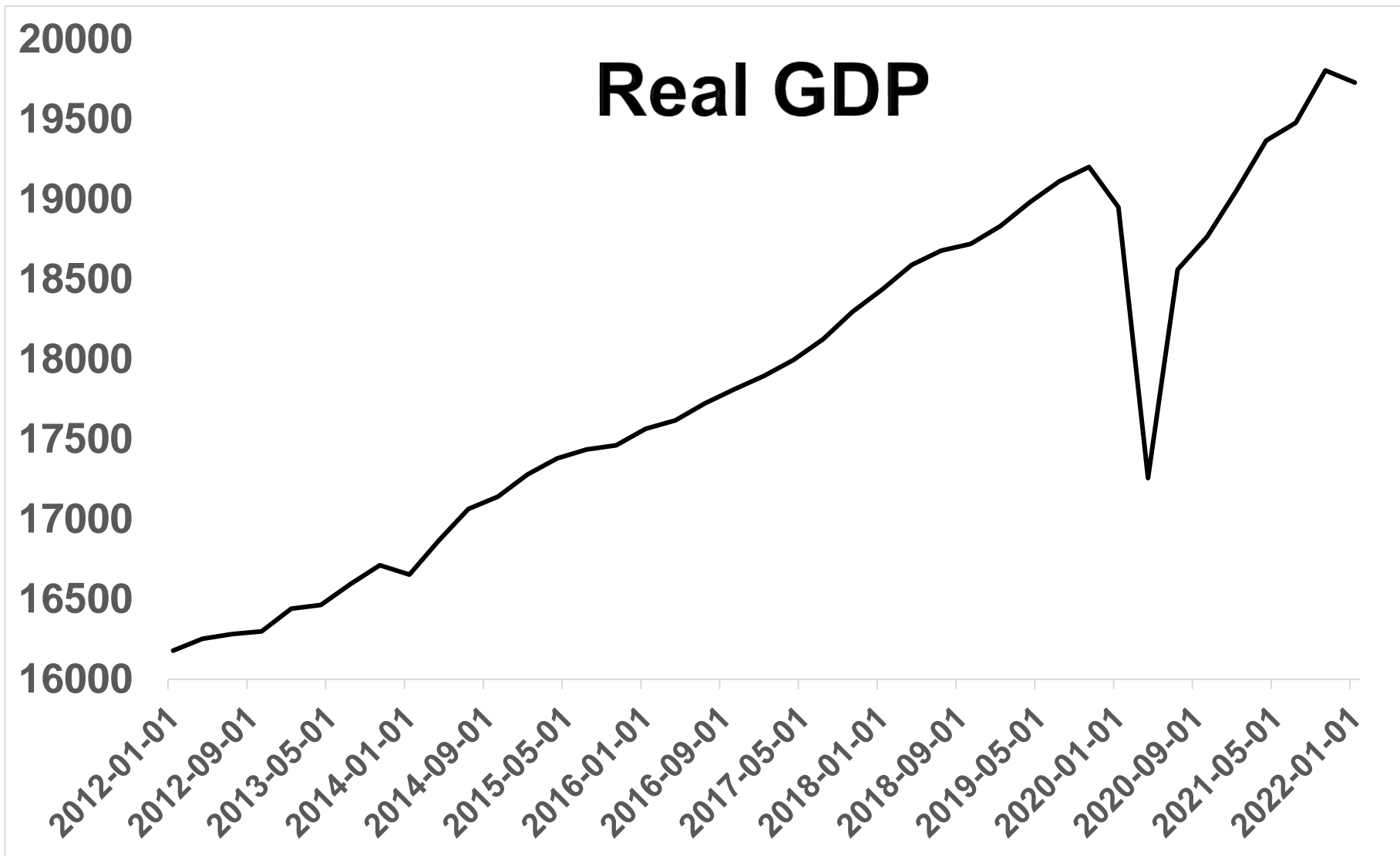




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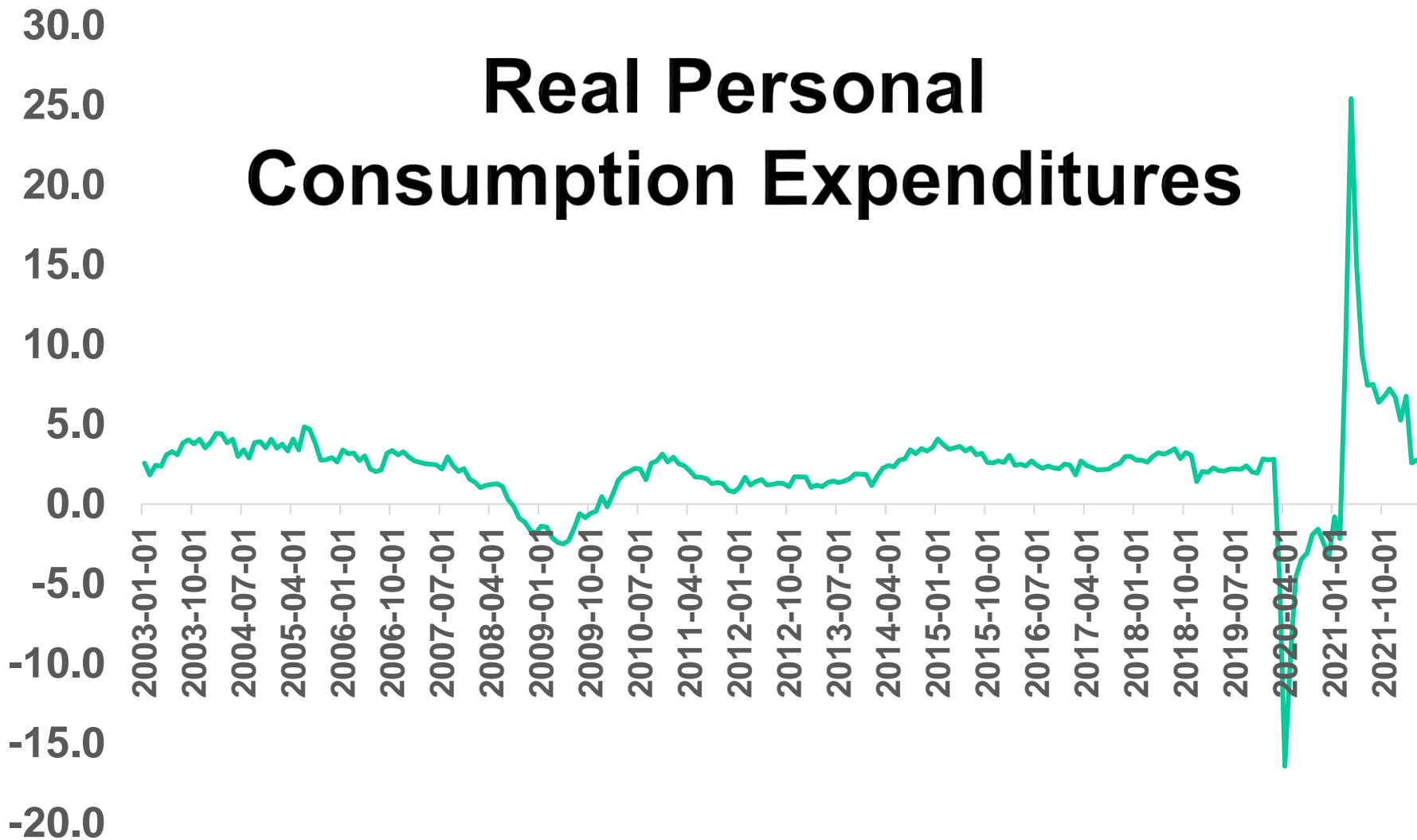
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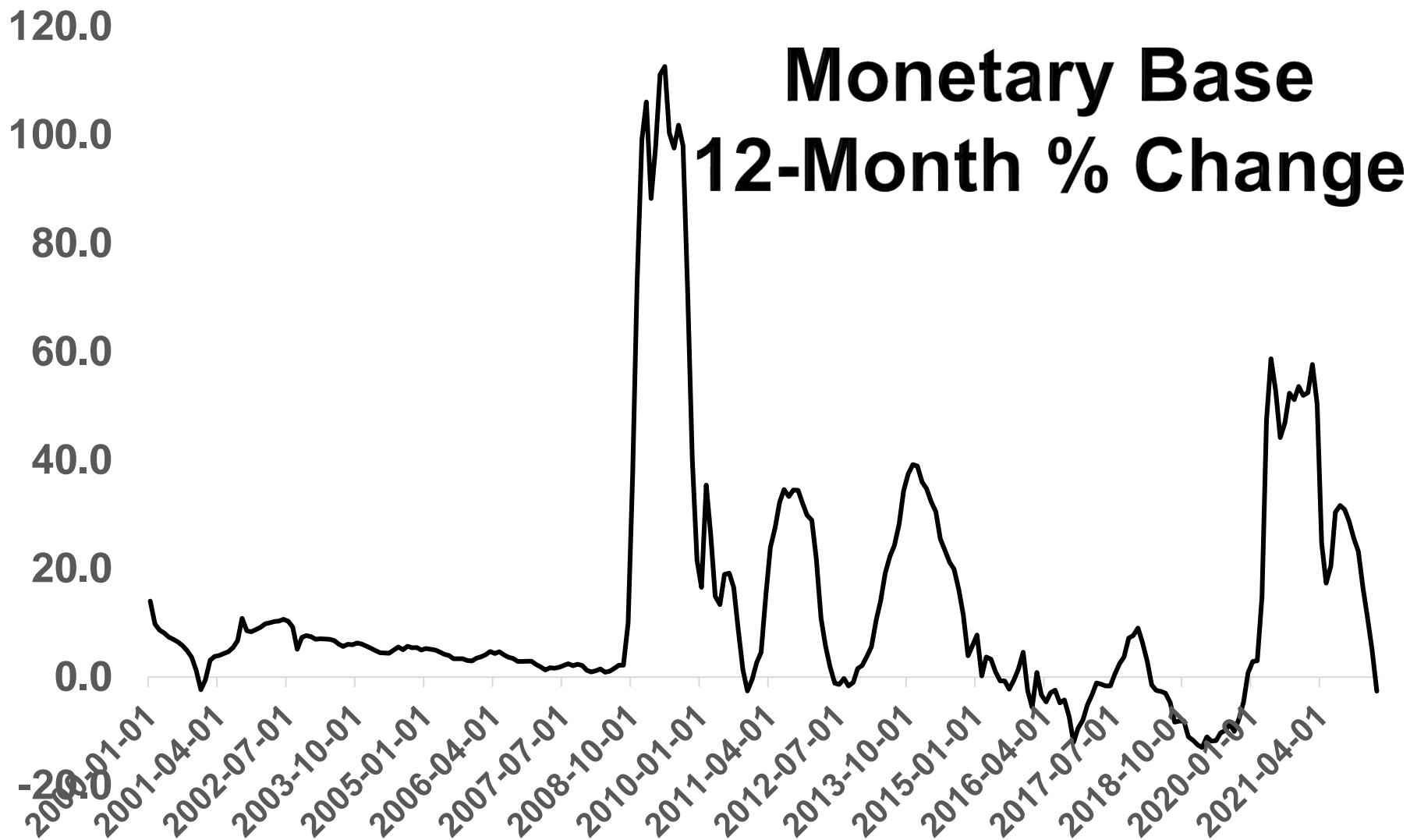
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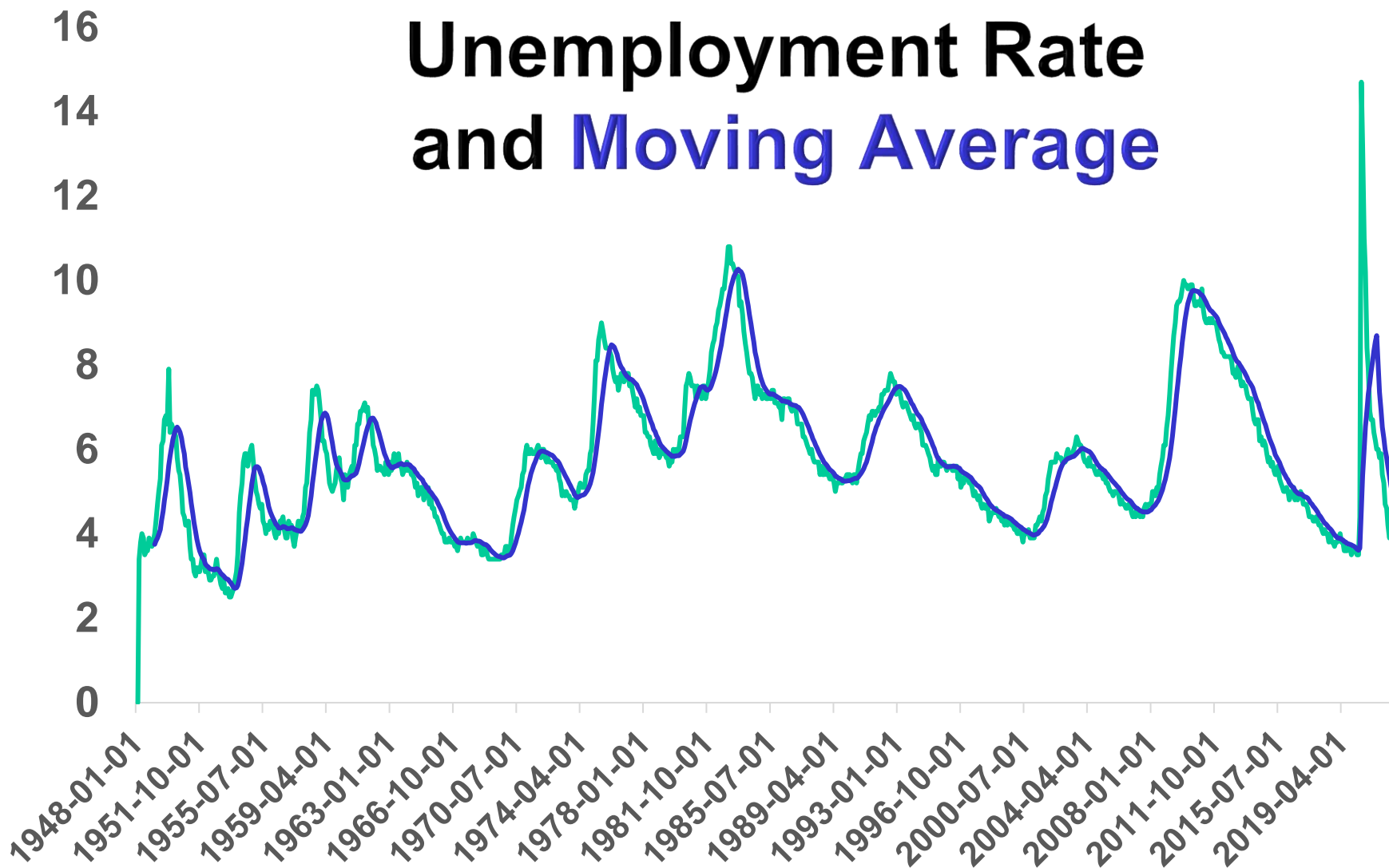


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Unemployment Rate and Moving Average



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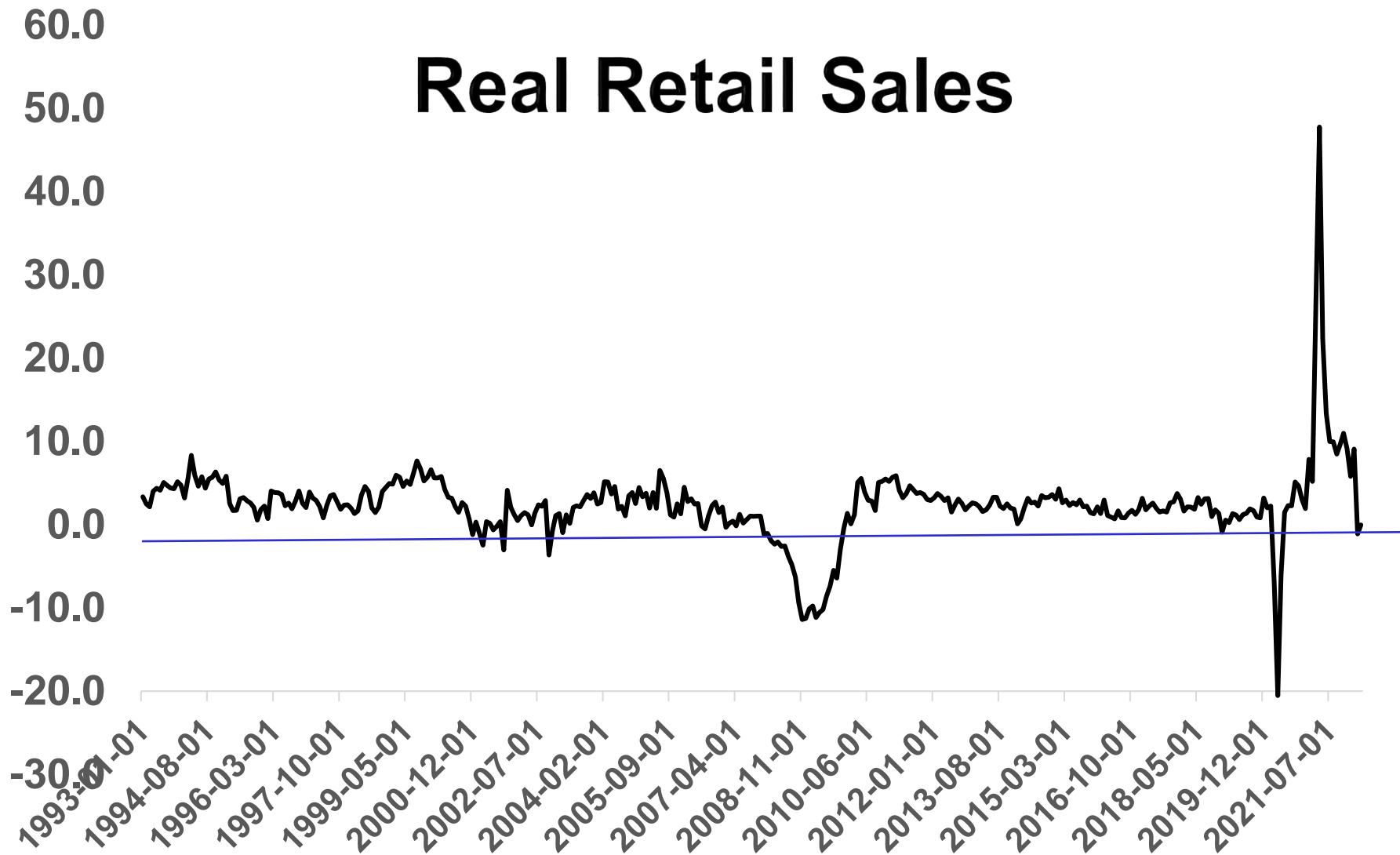


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Real Retail Sales



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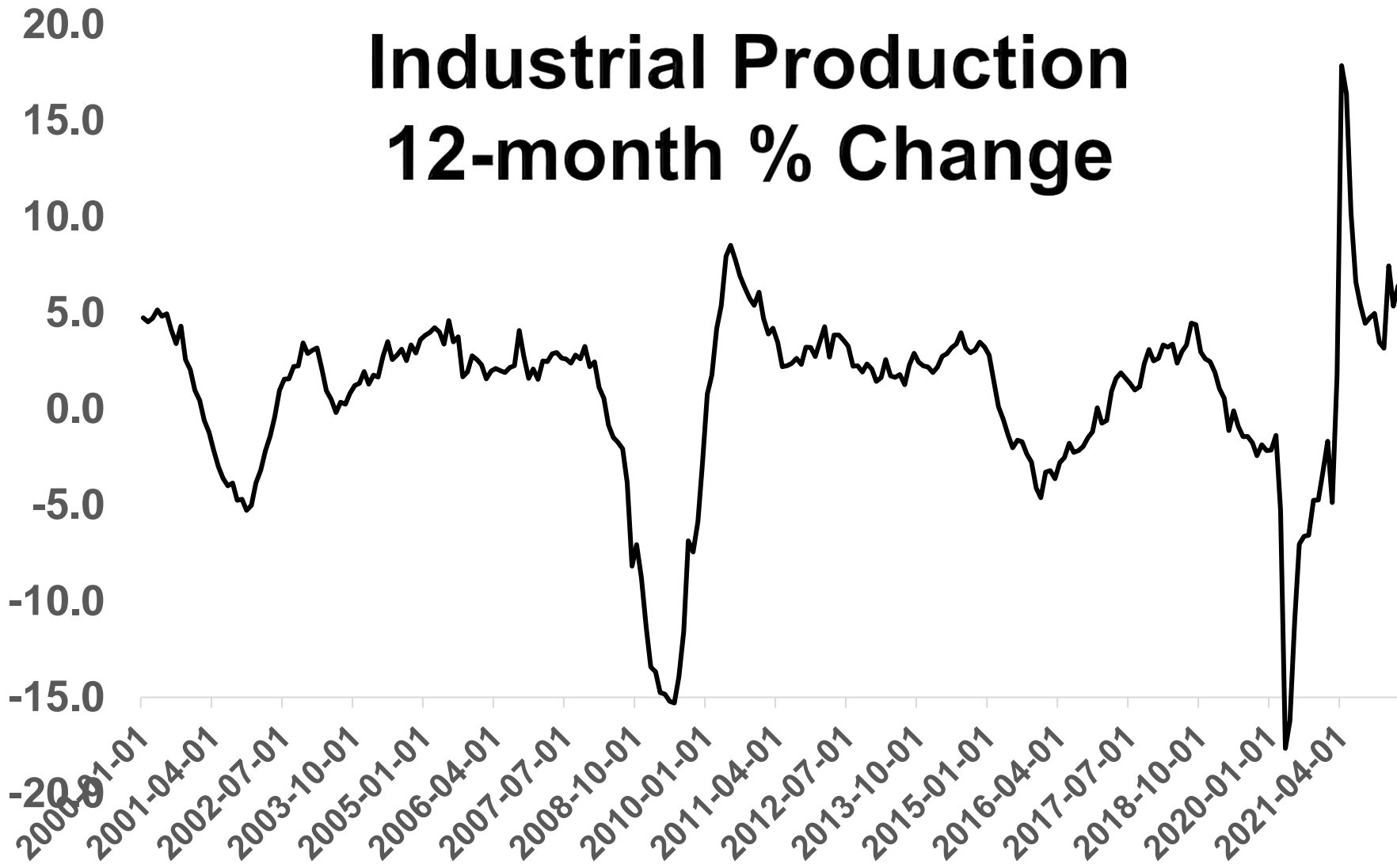


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Industrial Production 12-month % Change



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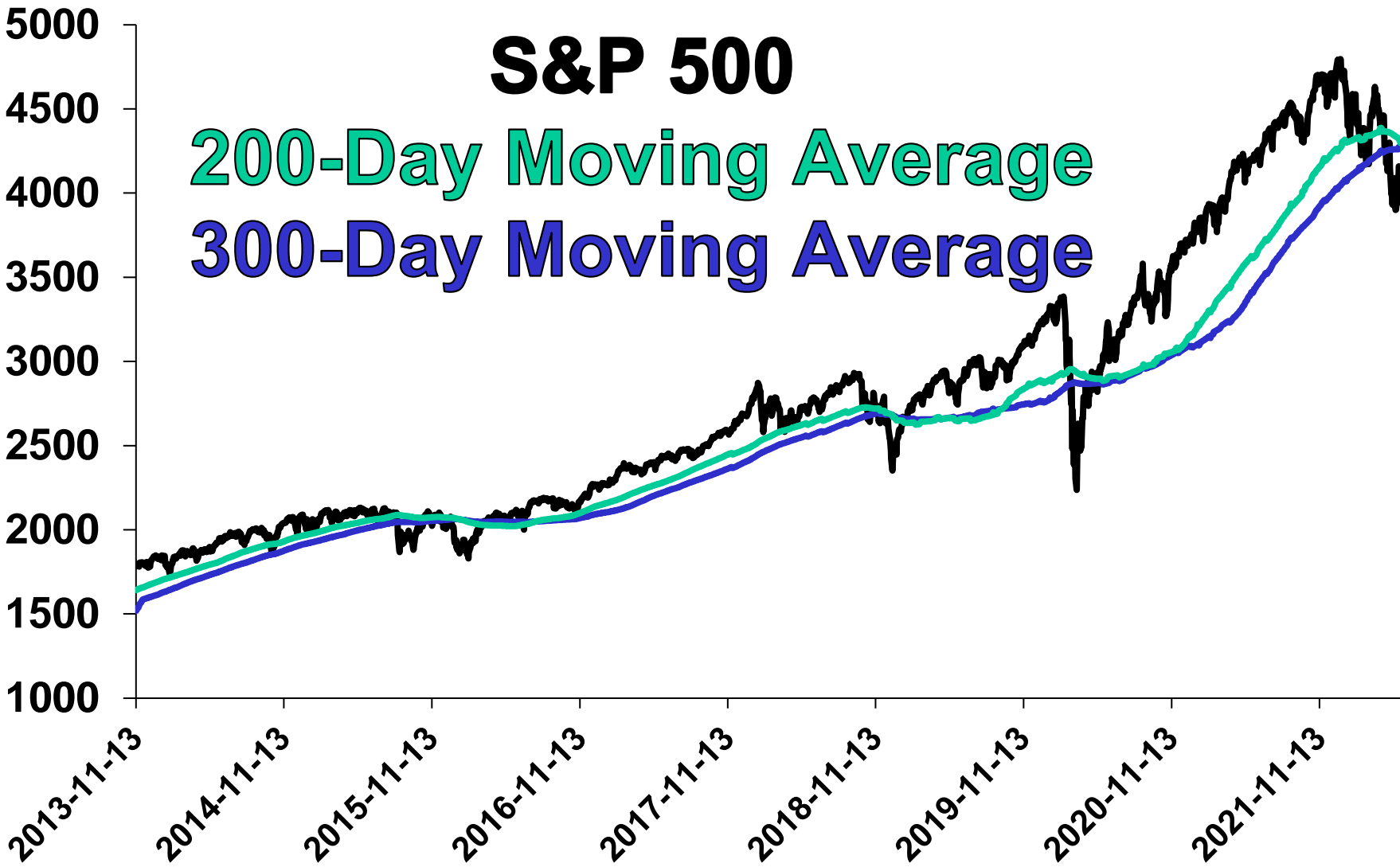
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S&P 500

200-Day Moving Average

300-Day Moving Average



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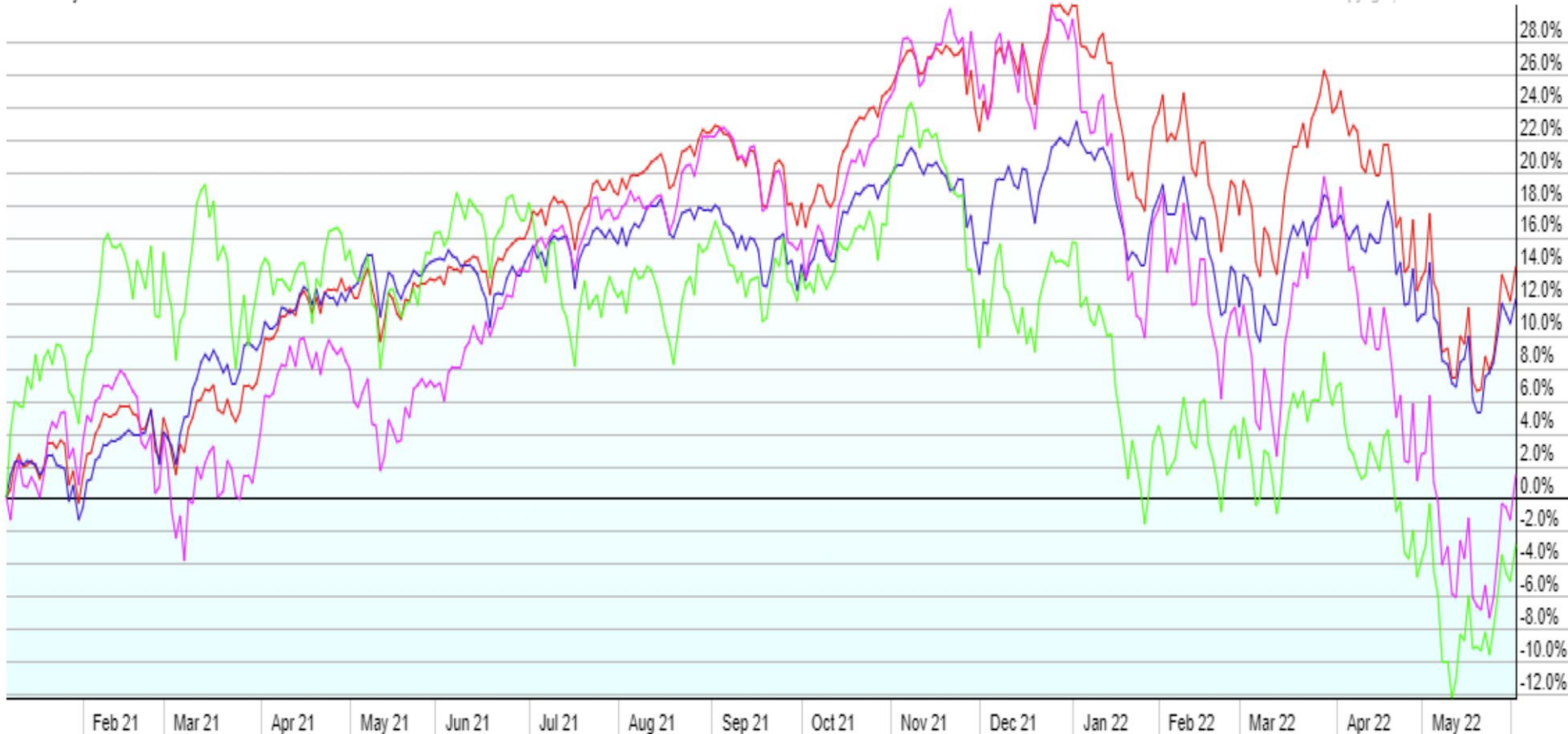
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U.S. Stocks

■ S&P 500 SPDRs ■ SPDR DJIA ■ Russell 2000 iShr ■ Invesco QQQ

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Value vs. Growth

■ S&P 500 SPDRs
 ■ SPDR S&P 500 Grwth
 ■ SPDR S&P 500 Val
 ■ Invesco S&P 500 EW

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Global Stock Indexes

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Emerging Market Stocks

■ iShares MSCI Em Mkts ■ iShs Latin Amer 40 ■ iShares Asia 50

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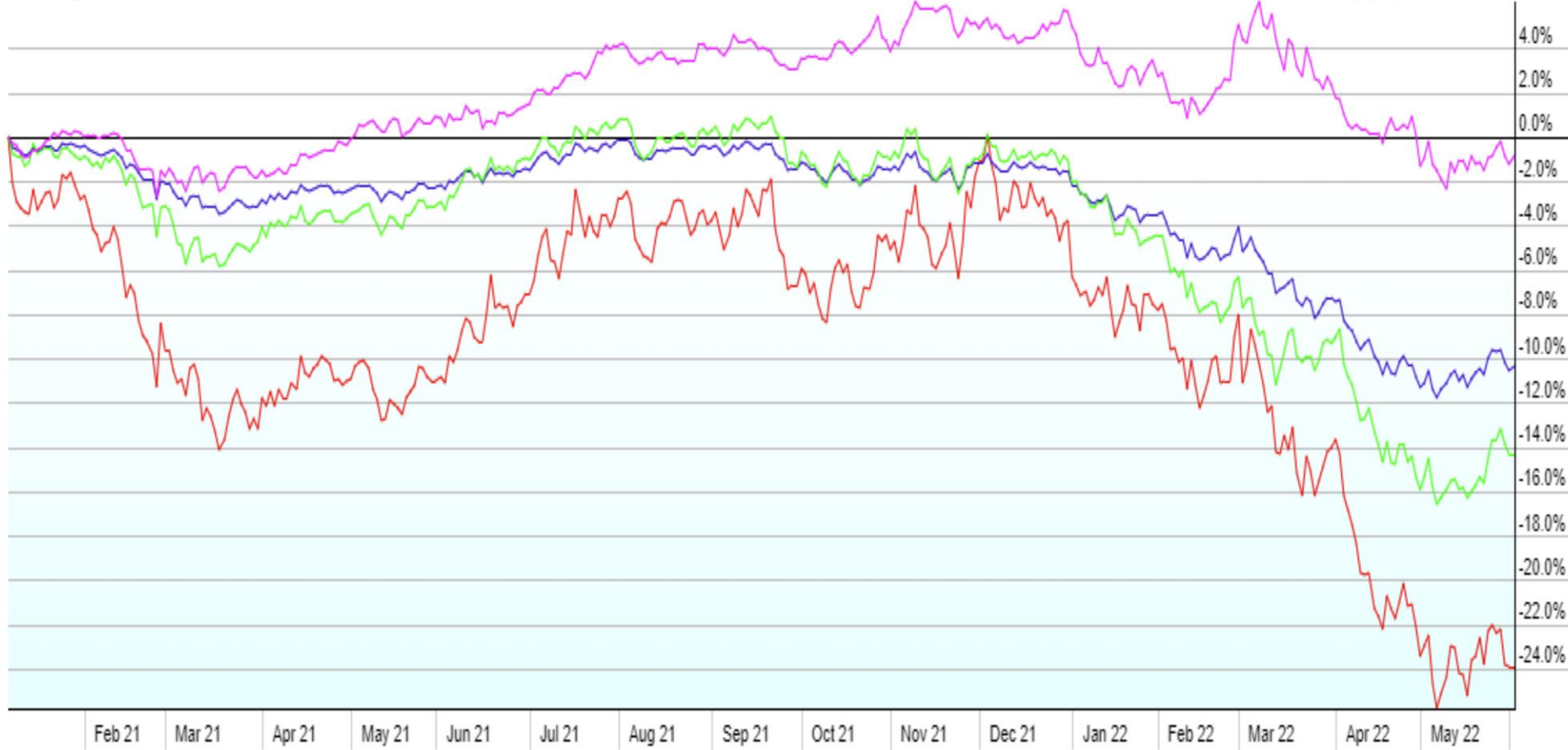
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U.S. Bonds

■ iShs 20+ yr Tr Bnd ■ iShs US Aggregate Bd ■ iShs iBoxx \$ IG CpBd ■ iShs TIPS Bond

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Commodities

■ iShs S&P GSCI Cmdty ■ iPath Blmbrg Commod ■ iShares Gold

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U.S. Dollar

Invesco DB USD Bull

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What Does This Mean for Assets?

- **Bad for financial assets**
- **Lower valuations**
- **Commodities should do well**
- **Invest in cash flow**
- **Diversification, flexibility should help**
- **Will there be a lost decade?**



Long-Term Factors to Consider

- **Enormous debt**
- **Internal conflicts**
- **Geopolitical conflicts, especially China**
- **Rise of nationalism**
- **Acts of nature/climate change**
- **Demographics**
- **Are we running out of commodities**