



The Market Memo – June 2022 Edition

Dear Beavers Wealth Management Family and Friends:

In a more aggressive move to fight inflation than it had spelled out weeks before, the Federal Reserve (Fed) raised the federal funds rate by 0.75% in mid-June – the largest single bump to interest rates since 1994, and the third hike this year. Raising the rate affects the cost of lending across the economy, through which the Fed hopes to put downward pressure on inflation, which remains persistently high. If inflation continues at current rates unchecked, expect further increases in the benchmark interest rate.

This means that, unless some key contributors to the environment change, we should expect some challenging months ahead as the economy slows and we navigate what has become a bear market. The S&P 500 fell 8.39%, even as it was bolstered at the end of the month by a rally. Since January 1, the index is down 20.58%.

Among the other issues that were at play in June:

- Oil prices remained near the eight-year high of \$120 per barrel as the broad embargo on Russian oil is felt across the global economy.
- Major economies are facing some similar issues, energy costs, and inflation, as well as some regional difficulties: a weak yen in Japan, COVID-19 lockdowns in China, a cost-of-living crisis in Europe, and weakening export prices in Latin America.
- Recession still seems unlikely in 2022, though economic projections give above even odds that a very minor recession could occur in the middle of next year.

There is light in this gloom, however. There is early evidence the Fed's interest rate actions are having an effect. Also, strong job growth, wage gains, and abundant savings support consumer spending – approximately 70% of the U.S. gross domestic product. Even as consumer confidence has decreased and retail sales have recently signaled a slowdown, consumers have shown a willingness to spend on services like air travel and hospitality this summer. That's a good sign. At this point, it's not hard to imagine that a shift in one of the major headwinds could provide an off-ramp from this challenging trend.

While down markets are deeply unpleasant, our experience has led us to believe that vigilance, adaptability, and a cool head will see us through and position us for the future. Thank you for your continuing trust in our advice. If you have questions about your investments, the market, or your financial plan, please reach out at your earliest convenience.

Sincerely,

CHRISTOPHER BEAVERS, CRPC®, CPFA