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Good Afternoon,

Stocks have made a brave recovery from the January lows but are still caught in the choppy waters of volatility. Inflation is still the big concern, and we can see that in the yield on the 10-Year Treasury note which has reached 2% for the first time since July 2019. With Congress and the Fed flooding the economy with cash over the past two years (initially to prevent a pandemic depression), it's been like an open bar at a never-ending wedding for businesses and consumers. Now the open bar is about to close, and it's hard to go from Wild Turkey to cold turkey overnight. But interest rates will need to rise to slow an accelerating economy and corresponding rise in inflation.

It's important to note that interest rates have risen sharply since last fall when the Fed announced they would slowly reduce their monthly bond purchases and likely begin raising the Fed Funds rate in 2022. In reality, the Fed is still buying bonds (ending in March) and they have not raised rates yet. The Fed has effectively moved rates without really doing much other than announcing intended changes to their policies. Kind of like vaccinations - which may allow them to move less aggressively this year.

Again, perspective is important. The average interest rate paid by the US government on its interest-bearing debt was 1.565% at the end of December. Two years prior (December 2019) it was 2.429% and was 4.508% as of December 2004 (source: Treasury Department). Clearly, we are still in an historically low interest rate environment despite the headlines that may indicate otherwise. Inflation data for the balance of the year will determine just how high rates will climb.

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As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

We hope you are getting a chance to enjoy the Olympics, which NBC inserts briefly between commercials. And maybe the Cincinnati Bengals can show the Reds how to win the big game this Sunday in the Super Bowl! Enjoy your week,

*Wade*

Wade A. Sarkis, CFP®, AIF®  
Managing Partner  
Canandaigua Financial Group  
45 Ontario Street  
Canandaigua, NY 14424  
(585) 396-2720

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