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Good Afternoon,

After a five-week losing streak, markets are rebounding this week as oil prices have dropped sharply from their recent peak. Despite Russia's war on Ukraine and very high inflation numbers, some traders believe stocks have reached attractive prices after declining since January 1st. The Federal Reserve has made their long anticipated first move by raising the Fed Funds rate to 0.25% - still extremely low by historical standards. As we've discussed many times, the Fed will be focusing on inflation and moving to normalize monetary policy. It's important to remember that we've been in an emergency mode for a long time and there will be ripple effects as the economy is weaned off the ultra-easy money cycle.

It wasn't long ago that we were fixated on COVID and its impact on the global economy. As cases in the US continue to decline, it is easy to think we've moved past the pandemic. But we shouldn't be complacent. COVID is rearing its ugly head in China – the largest population on the planet, and a country that chose social isolation and restrictions rather than intense vaccinations. While they've kept their COVID count low, they have very little herd immunity, and an outbreak can spread like wildfire. Perhaps it's already started as case numbers are climbing and industrial centers are shuttering to reduce infection spread. This is potentially bad news for global supply chains. And who knows when the next variant may (or may not) reach the US.

Over several decades, US industries have traded supply chain security for supply chain efficiency. We now feel the impacts as the pandemic and geopolitical events expose the vulnerabilities of sourcing supplies overseas. Corporations are rethinking their strategies and we are likely to see many bring back manufacturing to US soil. It won't happen quickly enough to tamp down the inflationary pressures already in place. We look for this to be a major issue in this fall's mid-term elections. Who hates inflation the most, along with who despises Putin more than whom? Yes, the elections; won't that be fun?

Enjoy this warm weather and have a great week.

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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.

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