

September 22, 2022

Good Afternoon,

As expected, the Federal Reserve raised the Fed Funds rate another 0.75% yesterday. Initially, stocks rallied sharply as the Fed lowered its expectations for economic growth and increased its unemployment projections. These data points would indicate a slowing economy, lower inflation, and a chance that interest rates won't go as high as expected. However, in Chairman Powell's press conference, his responses were interpreted to mean the Fed will be vigilant in efforts to combat inflation and that rates will be higher for longer. That upset the stock market and the rally gave way to a sharp drop. It now appears we will test the June lows for stocks as emotions remain high among traders.

What can we expect as the Fed continues to raise interest rates? Here's what we think will happen: new home building will slow, and existing home prices will drop; material prices will begin to come down; unemployment will slowly rise, and wage growth will slow; supply will catch up with demand; GDP will decline, and we are likely to experience a recession. Bad news, but that's ok. These would all be indications that inflation is coming under control and that the Fed will be able to stop raising rates. So once again, as odd as it seems, bad news is good. Historically, stocks bottom out six months before the economy. That means the market will begin to recover long before the economy turns the corner.

Are interest rates really that high right now? If you took out a mortgage in 1982, it's likely you were paying more than 15% interest on a 30-year loan. Today's rate is closer to 6.9%. While cleaning out some old files, I recently found my mortgage note from 1990. Our 20-year loan rate was 10.87%. We need to maintain perspective and remember that the economy and markets go through cycles and the pendulum always swings too high and too low. And don't listen to all the talking heads on your screens. My friend told me that television may insult your intelligence, but nothing rubs it in like a computer.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

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.

Have a great week and welcome to Fall!

Wade

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