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Advice

Warren Buffett bought more than $41 billion of stocks this past quarter, net of sales and liquidations. He made those investments despite one of the worst monthly performances from stocks in more than a decade. **Like the first three months of the year, markets continued to correct in April, with every index falling.** The Dow Jones Industrial Averages fell the least, with international and emerging markets besting the performance of the S&P 500, and the NASDAQ composite index. Even bonds declined during the month. While bonds have historically been a safe haven in times of stock market declines, this was not true in April as fears of interest rate hikes caused bonds to decline nearly as much as stocks.

For the first four months of the year, every index is down, and what is most surprising is that bonds have fallen more than the Dow Jones Industrial Averages. International and emerging markets outperformed the S&P 500 and the NASDAQ Composite this year-to-date. By the end of April, the NASDAQ composite has entered a bear market, falling more than 20% from its high.

Both stock and bond markets continue to be disturbed by high inflation, rising interest rates, and new fears of a potential recession. The most recent inflation report showed the Consumer Price Index rising by 8.5%, the highest number in nearly 40 years. The causes of inflation are many, and two problems suggest it will continue in the near term. A recent Covid outbreak in China slowed production at many factories as cities were shuttered. This will continue to prevent any meaningful improvement in global supply chain shortages. Additionally, the war in Ukraine will cause shortages of grains and grain oils, steel, and other commodities. Inflationary relief remains unlikely while global shortages persist.

Inflation will continue to put pressure on the Fed to act aggressively, and it is widely expected the Fed will raise interest rates by ½ of 1% when they meet on May 4th. The Fed is also expected to eliminate their purchase of bonds in the open market, something they did for the first time during the Great Recession in 2009, and revived recently to help the economy weather the Covid pandemic. From less than 1% at the end of last year, 10-year interest rates crossed over 3% earlier today. As a percent change, a tripling of interest rates in four months is incredibly uncommon. But a 3% interest rate is not high by historic standards. **Compared with inflation, interest rates are still too low, and are likely to continue to move higher. This makes many investors nervous.**

Finally, some investors believe we are on the cusp of a recession as wages have not kept pace with inflation, and consumers are being forced to spend less on other goods and services when it costs so much more to fill one's gas tank. **We are not in the recession camp, at least not yet. Unemployment remains quite low, corporate earnings are still expanding, there are few signs of credit problems, and consumer savings remain higher than before the pandemic. We would expect the labor market to weaken significantly before a recession takes hold, and that is unlikely over the next few months.**

Our indicators suggest the market is somewhat oversold, as fear has risen to a crescendo. Smart investors, like Buffet are buying stocks. **Without a recession on the immediate horizon, we do not believe it is time to run from the stock market. We continue to favor companies with reasonable valuations, especially those that continue to grow dividends. We will stay disciplined and focused on our client's near- and long-term goals.**

Bennett

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