InnoVise FAMILY WEALTH ADVISORS

Innovation Fueling Advice

Few of us are old enough to have first-hand memories of a ground war in Europe. We've seen movie accounts, but it's truly heartbreaking to see the devastation of war through real-time reporting. In the late 1960s - early 70s, the evening news reports helped turn our nation against the war in Viet Nam. Today, social media has similarly helped turn global sentiment against Vladimir Putin and his invasion.

We wish the people of Ukraine a quick end to this unprovoked, empire-building invasion. They have shown amazing skill and bravery in the face of an exceptionally well-equipped army. We hope the hundreds of thousands of Ukrainian refugees can soon return to their homes, and democracy can be restored.

THE ECONOMY

There is little doubt that the Fed has not responded to inflationary pressures sufficiently, and now finds itself trying to play catch-up. **The Fed will likely raise interest rates on March 16, and additional rate increases are expected through the rest of this year**.

However, the invasion of Ukraine complicates the Fed's options. On one hand, inflationary pressures are likely to accelerate as oil from Russia and grain from Ukraine can no longer reach global markets. On the other, economic sanctions intended to slow the Russian economy appear likely to have a significant negative impact on European economies as well. The concern that raising interest rates to fight inflation may exacerbate slowing economies caused by sanctions and a ground war in Europe means the Fed may need to take a more nuanced approach to inflation mitigation in the near future.

We remain impressed with the strength of the U.S. economy. The impact from Omicron seems less than we feared, and many more sectors of the economy are returning to pre-pandemic levels - with some far above 2019 activity. Corporate earnings have expanded handsomely, and corporate profit margins are holding up quite well. Companies have been able to protect margins by passing along price increases, although it is unclear how much more inflation will be tolerated by consumers, especially as wages continue to lag inflationary pressures.

THE MARKETS

The correction continues, and in many ways, the invasion of Ukraine has done little to alter the market's changing dynamics. Market leadership continues to shift away from the growth stocks that led from the pandemic bottom in 2020 through 2021. Growth stocks remain solidly in correction territory - down more than 10% so far this year. Virtually all market indices were down again in February. The best performance was by the narrow Dow Jones Industrial Average and the international markets (yes, even with the Ukrainian invasion). Within the economic sectors, only the energy sector is up year-to-date following the rapid advance of oil prices due to fears, now realized, of supply disruption.

We continue to focus on stocks that are more economically sensitive. Our affinity for dividends is even more important today than over the past few years. Valuation also is increasingly important as companies that are priced very aggressively are correcting, even though they are able to grow revenue and earnings. We continue to prefer corporate bonds and bonds with shorter maturities. **While recessionary risks may have increased somewhat, our base case calls for continued strong economic activity, which will drive corporate earnings higher, and typically results in higher stock prices.**

Bennett

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