



ELSER FINANCIAL PLANNING, INC.

2nd Quarter 2022 Investment Newsletter

Inflation and the Economy

- ◇ On June 15th, the Federal Reserve increased the federal funds rate by 0.75% to fight inflation. This was the largest increase since 1994, and the third increase of the year. Fed Chairman Jerome Powell indicated that rates are anticipated to be increased an additional 1.75% prior to yearend.
- ◇ The Consumer Price Index increased 8.6% from May 2021 to May 2022. “Core inflation,” which excludes food and energy, rose 6%. On a positive note, it seems that spending on services – including restaurants and travel – is normalizing.
- ◇ While the U.S. inflation rate is almost four times what it was two years ago, the U.S. is not alone in its fight against inflation as global economies respond to the pandemic and its after-effects. The U.S. ranks 19th in percentage change of inflation since 2020 based on [a study of 44 advanced economies by PEW Research Center](#).
- ◇ 30-year fixed mortgage rates averaged 5.7% as of 6/30/2022, which was up from 3.2% in January, but lower than the 52-week high of 6.1%. The median single family existing-home sale price exceeded \$400,000 for the first time in May.

Market Overview

- ◇ It is common for the stock market to have a 5% market correction three times each year, a 10% market correction once each year, a 15% market correction every 3 years, and a 30% decline each decade. History repeatedly suggests that these occasional downturns provide the opportunity to buy assets at lower prices.
- ◇ In the first two quarters, Netflix (NFLX) was down almost 70%, Amazon (AMZN) was down more than 30%, and Meta/Facebook (META) was down almost 50%. Cryptocurrencies have also seen substantial declines, with Bitcoin down around 57% through June. Market corrections, such as we are experiencing this year, remind us that overconcentration in a specific stock, sector, or asset can negatively affect long-term growth. Any asset can experience substantial declines, no matter how established the company or notable the name.
- ◇ In December of 2021, many major market “forecasters” saw great returns ahead for stocks in 2022. Following initial declines in the first quarter, some said that the “sell-off” had run its course, after which markets declined further. As predicting the stock market has proven to be an exercise in futility, our philosophy continues to be that staying invested, maintaining appropriate diversification, and utilizing a disciplined rebalancing strategy are keys to long-term growth.
- ◇ Value stocks have significantly outperformed Growth stocks this year. The Russell 3000 Growth index declined 28.2% YTD through June, while the Russell 3000 Value index declined 13.2%.

Market Index Returns

	<u>2nd Quarter</u>	<u>2022 YTD</u>
S&P 500 (Large Cap)	-16.1%	-20.0%
Russell 2000 (Small Cap)	-17.2%	-23.4%
MSCI International Index	-14.4%	-18.5%
MSCI Emerging Markets	-11.3%	-17.5%
U.S. REIT Index (Commercial Real Estate)	-18.1%	-21.1%
Bloomberg Commodity Index	-5.7%	18.4%
BofA 1-3 yr Corporate & Government Bond Index	-0.6%	-3.2%

We sincerely appreciate your business and referrals.