Email Body 4-29-2022

**What Is Happening to Cause All of This Volatility?**

I always look forward to moving into the month of May here in San Diego. It just seems to cause me to relax in the knowledge that I will soon be visiting the beaches as well as some of the other outdoor activities available to those of us in southern California. Hopefully, the rest of the country and world can join us in relaxing.

NO FURTHER COVID-19 UPDATE -YES!!

MARKETS AND THE ECONOMY

In my prior emails I indicated that I believed we are currently experiencing a correction and that the probability of a recession (i.e. two consecutive calendar quarters reporting negative GDP) in the next twelve months, while increased, was still not likely. I still believe that to be the case today. The reason this is important is because ultimately, the markets track the economy. Bear markets (i.e. more than 20% decline) generally do not happen absent a recession.

My outlook turns on many factors including my own review of various economic indicators, historical comparisons as well as the review of current positions of several economists and analysts. The facts are that businesses are reporting reasonable sales and earnings growth from the first quarter of 2022, consumer spending is continuing to increase despite higher energy prices, purchasing manager indexes are still in expansion territory, there are 1.7 job openings for every unemployed person, 3.6% unemployment rate, interest rates are still historically low although rising, private sector debt levels are near historic lows, private sector cash levels are at historic highs and debt defaults in the high yield bond market are well below normal levels.

Yet even in this environment, the U.S. Commerce Department yesterday reports its first reading of first quarter GDP as negative 1.4%, annualized. Shock. No one expected this and so far, the only explanation is the impact supply chain bottlenecks have had on producers being unable to manufacture inventory. General consensus (e.g. which was wrong the first time) expects that over the next month as more data is finalized and estimates in this first read are turned into confirmed data points, that the GDP number will be adjusted into positive territory. Time will tell.

My sense is that the economy is on the path to normalization which I define as GDP growth in the 2%-3% range. That is not to say the path will not be rocky. There are plenty of obstacles and risks to deal with including that the Federal Reserve raises rates to far or too fast, supply chain bottlenecks prove more persistent, inflation remains stubbornly high, and Putin follows through on his rhetoric. We can’t know what the future holds but I can say this. Historically, no post-World War II recession has occurred without falling corporate earnings and rising unemployment, both of which are no where evident today. We can only trust that whatever happens, we can deal with it eventually.

So, with that I will go back to my continuing advice that you should always be aware of your own financial situation. Make sure that funds you know you will need in the short-term are safe to relatively safe from volatility and that your long-term oriented investments are well diversified and subject to risk and volatility levels you are able to be comfortable with. If you have any questions or concerns about these things, please call me to discuss them further.

I have attached a brief commentary on the current situation by Brad McMillan. Brad is managing principal and chief investment officer at Commonwealth Financial Network®, where he chairs the Investment committee and is the primary spokesperson for the firm’s investment divisions. Check out the attachment to this email.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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