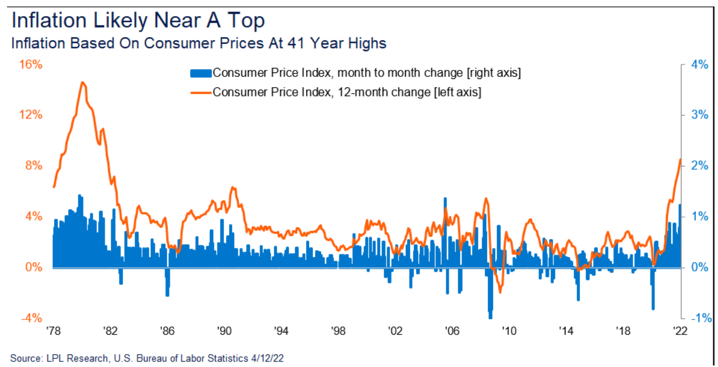
May 2022

THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

Three Reasons Inflation Could Be Near A Peak

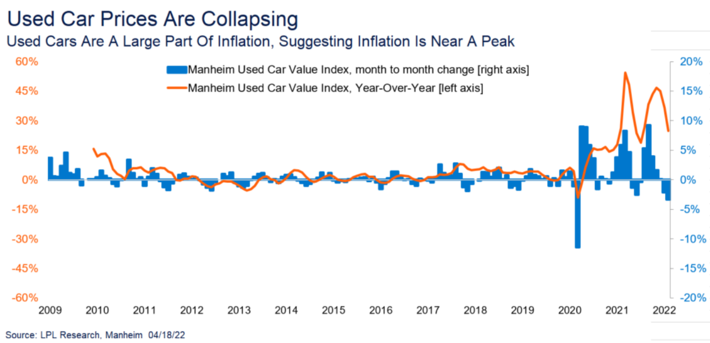
Inflation continues to soar, dominating conversation and stretching consumer wallets. Last week's inflation data saw consumer prices up 8.5% year over year, the most since the early 1980s, while producer prices were up 11.2%, the most ever. What can the Federal Reserve (Fed) do? Will it ever stop? Is this the 1970s all over again? There are many questions, but we do see some potentially good signs.



"Although many fear the light at the end of the tunnel is indeed an oncoming train, we think there are some clues that inflation could be near a major peak and the move lower could be sudden, at least for durable goods" said LPL Financial Chief Market Strategist Ryan Detrick.

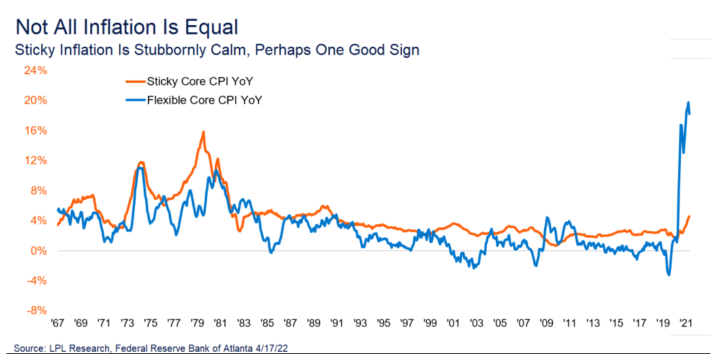
Here are three reasons inflation could be near a peak.

First up, cars and trucks. Few industries have been hit by the pandemic and supply chains issues as hard as the auto industry. The chip shortage has made getting a new car nearly impossible, so the price of used cars and trucks has soared. Just two months ago the price of a used car was up nearly 45% year-over-year (Manheim Used Care Value Index), but the past two months it has come down to 'only' 24.8%. In fact, the month-over-month decline the past two months has been 2.1% and 3.4%, showing some signs the excessive used car pricing could finally be cracking. Given used cars and trucks make up 4% (ok, 4.038% to be precise) of CPI (Consumer Price Index), this could be a big clue inflation is nearing a major peak.



Next up not all inflation is equal. The Atlanta Federal Reserve breaks inflation down into 'sticky' and 'flexible.' As the name would suggest, sticky inflation is a weighted basket of items that change price relatively slowly. Think things like motor vehicle fees, education, public transportation, and motor vehicle insurance. Whereas flexible inflation contains things that move more often, like motor fuel, apparel, dairy, and jewelry.

As the LPL Chart of the Day shows, during the 1970s we saw both sticky and flexible core inflation soar, but thus far only flexible core inflation has moved significantly higher during this bout of inflation. Could this mean that flexible inflation could come back down just as quickly?



The final reason inflation could be near a major peak is the major backlogs we've seen at various ports is finally thawing. The ports of Los Angeles and Long Beach backlogs are nearing September 2021 levels, while the cost of shipping is also coming down and very quickly.

In fact, shipping rates from Shanghai to LA, New York, or Rotterdam are down 28% on average from the peak last year. Shipping rates were between $1,000 and $3,000 pre-pandemic, so there could be a long ways for this to continue to fall and it won't happen overnight, but this is another very positive clue that inflation could be nearing a major peak.

IMPORTANT DISCLOSURES

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. For more information on the risks associated with the strategies and product types discussed please visit https://lplresearch.com/Risks

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

Unless otherwise stated LPL Financial and the third party persons and firms mentioned are not affiliates of each other and make no representation with respect to each other. Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

Securities and advisory services offered through LPL Financial, a registered investment advisor and broker-dealer. Member FINRA/SIPC.

Tracking # 1-05268528

Three Charts that Explain Why the US isn't on the Brink of a Recession

Fears of a US recession are the most widespread since the coronavirus locked down the economy in early 2020, but the latest data suggests there's little to worry about.

With the Russia-Ukraine conflict roiling supply chains and lifting inflation even higher, economists' outlooks toward the recovery are weakening fast. Growth will very likely come in below initial forecasts, but that doesn't mean the US is plunging into a new downturn. By nearly all measures, the economy is still roaring back to life, and at a much better pace than seen after the Great Recession.

"We are a bit more remote from the immediate effects of the war compared to Europe, but we will be feeling them over time," Federal Reserve Chair Jerome Powell said during a panel discussion on Thursday. "But the US economy is very strong, performing very well. By most forecasts, we'll have another strong growth year this year."

Markets reporter Sam Ro was even simpler when detailing his optimistic outlook in a Sunday newsletter.

"Despite high inflation, rising interest rates, and geopolitical uncertainty, the economy most certainly doesn't seem to be headed for a recession any time soon," he wrote.

The US rebound is alive and well, from breakneck job creation to Americans' record-breaking spending spree. Here are three charts detailing the strength of the economic recovery amid new recession warnings.

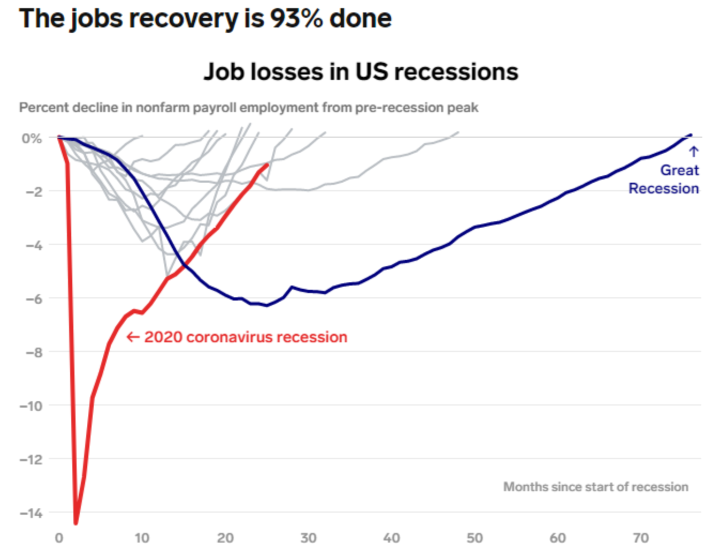


Chart: Andy Kiersz/Insider Source: Bureau of Labor Statistics via FRED; chart follows method of Bill McBride at calculatedrisk.com

The labor market has flashed some of the most bullish indicators of how the country is rebounding.

Recent data showed the US adding 431,000 nonfarm payrolls in March, a sum that's still more than double the pre-pandemic average despite high inflation and the labor shortage. The unemployment rate also fell more than expected to 3.6%, nearly hitting the record lows seen before the coronavirus recession started.

The economy has now recovered about 93% of the jobs it lost during initial lockdowns. It took just 25 months to reach that level of progress, an extraordinary speed when compared to other post-war recoveries. By comparison, it took the same period during the recovery from the 2008 financial crisis just to hit the labor market's lowest point.

The return to the pre-pandemic jobs count is also set to happen three times faster than the employment recovery of the early 2010s. While job growth is likely to slow as the country gets closer to full employment, the labor market's V-shaped rebound and unusually strong demand for workers suggest the US is far from another downturn.

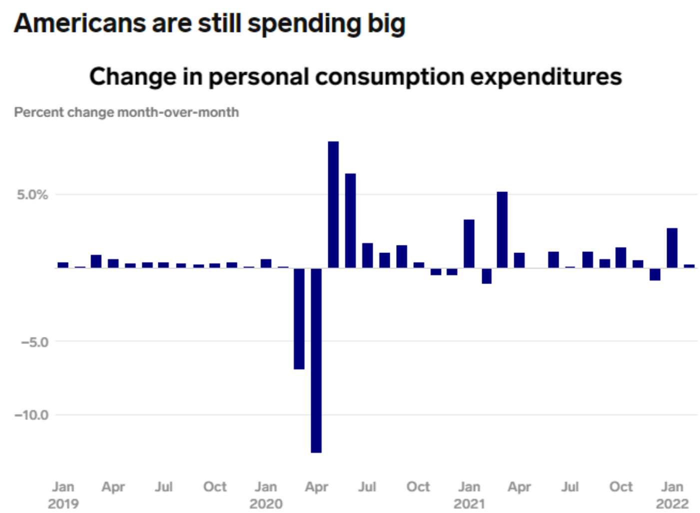


Chart: Madison Hoff/Insider Source: US Bureau of Economic Analysis via FRED

Consumer spending counts for about 70% of economic activity, making it a crucial fuel for the economy as it returns to pre-pandemic health. The fastest inflation in 41 years raised concerns that high prices would curb shoppers' spending spree, but data shows the boom lasting well into 2022.

Personal consumption expenditures — the most sweeping measure of Americans' spending activity — rose 0.2% in February to a record-high $16.7 trillion, the Bureau of Economic Analysis said on March 31. That followed a massive 2.7% leap in February.

The improvement doesn't just extend the rally, but keeps it handily above the pre-pandemic trend. Government stimulus and pent-up savings boosted spending as the economy reopened in early 2021. Yet the streak has held strong even as aid dried up and inflation soared. There may be new risks on the horizon, but Americans are still spending like the economy just reopened.

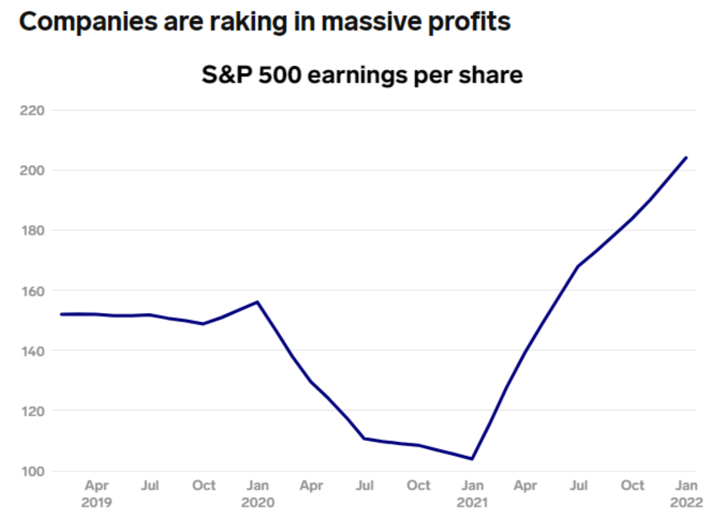


Chart: Madison Hoff/Insider Source: S&P via multpl.com

The massive spending seen throughout the recovery has also buoyed the measure that Wall Street cares about the most: corporate earnings.

About a fifth of S&P 500 companies have reported first-quarter earnings so far, and the results show little sign of a weakening economy. Seventy-nine percent of companies that have reported their latest figures beat earnings-per-share forecasts, and 69% reported stronger-than-expected revenues, according to FactSet.

More broadly, companies are raking in much bigger profits than they did before the pandemic. S&P 500 earnings per share hit a record $204 at the end of 2021, up more than a third from pre-crisis levels. If first-quarter reports continue to beat forecasts, that figure will climb to even loftier all-time highs.

The stock market isn't the best economic indicator for forecasting a recession, but with companies notching record profits and spending still on the rise, the recovery is looking plenty healthy across the board.

Title: 3 charts that explain why the US isn't on the brink of a recession
Author:Ben Winck and Madison Hoff
Source: https://www.businessinsider.com/recession-outlook-unlikely-three-charts-show-economic-recovery-going-strong-2022-4#companies-are-raking-in-massive-profits-3

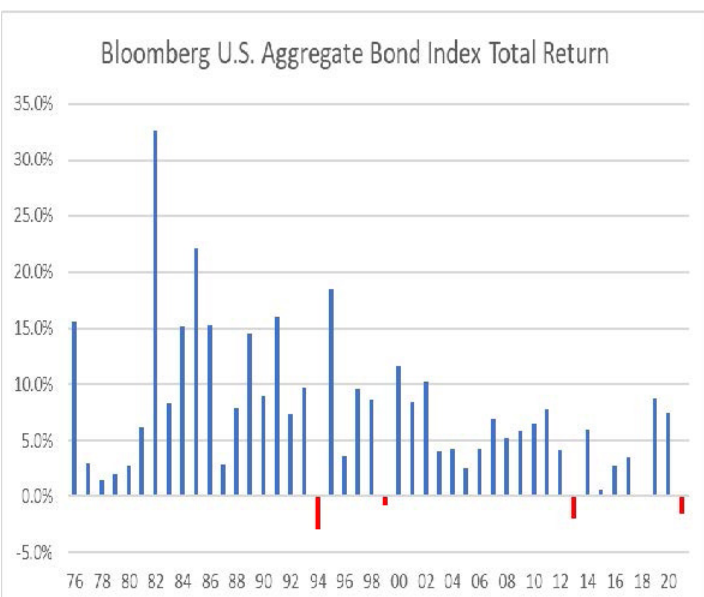
Should Investors Bail on Bonds?

Bonds are off to a rough start in 2022. The Bloomberg US Aggregate Bond Index, the proxy for core US bonds, has declined nearly 6% in the first three months of 2022. This loss is compounded by those from 2021, when the index returned -1.5% for the year[1].

Bond investors have been schooled in the simple principle that when interest rates go up, bond prices go down. Going forward, as the Fed (Federal Reserve) embarks on an aggressive path to tame inflation by raising interest rates, investors may be left wondering whether they should simply bail on bonds.

Are Bonds Losses Common?

To understand the implications of recent bond returns, it is important to gain historical context of the index. For fixed income, negative annual returns are rare. Since its inception in 1976, the Bloomberg US Aggregate Bond Index has only ended with negative return four times—in other words, less than 10% of the time. This was despite periods of both rising and falling interest rates.

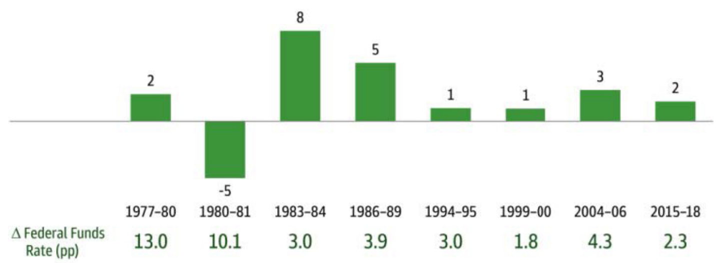


Source: Fact Set

Bonds During Past Rising Rate Environments

Looking specifically at periods of rising interest rates sheds additional light. Since 1976, there have been eight sustained periods when the Fed increased interest rates, which are highlighted below[2].

Bloomberg US Aggregate Bond Index Total Return During Fed Tightening Cycle (%)



Source: Goldman Sachs Asset Management

It's important to note that no two periods of rising interest rate cycles have been the same. For example, in the 1977 cycle, the federal funds rate rose 13% from its starting level amid elevated inflation, while the 1999 cycle saw a rise of just 1.8% with modest inflationary pressures. Despite the variation, with one notable exception, the total return for core bonds during past Fed interest rate hikes has always been positive.

The notable exception to the rule above was the rising interest rate period of June 1980 through July 1981. Over just 13 months, the Fed doubled the funds rate from 10% to 20%[3]. The bond market lost 5% during that cycle, surprising bond investors who hadn't expected interest rates to move so fast. Yet, a patient investor didn't have to wait long to recover the losses.

To understand why that may be, one need only consider basic bond math. Rising interest rates can trigger a short-term drop in the value of current held bonds since investors would rather buy the new bonds with a higher interest rate. However, this near-term loss overlooks the longer-term benefits of rising interest rates. This is because over time the coupon payments and new bonds are purchased at higher yields, so the portfolio earns more income than it would under a scenario where interest rates remain unchanged. Thus, fixed income portfolios can benefit from rising interest rates over time as the portfolio is reinvested.

What's Next?

The Fed has only raised interest rates 0.25%, since 2018 but interest rates have risen dramatically across varied maturities[4]. For example, yields on the 2-year US Treasury rose from 0.17% on April 1, 2020 to 2.44% on April 1, 2021, an increase of 2.27%[5]. In other words, the market has already priced in the additional forecasted interest rate hikes. Therefore, it is not necessarily rate hikes themselves that will drive fixed income returns going forward, but how these hikes compare to what the market is already pricing in.

Looking ahead, investors will likely need to temper expectations for bond returns. Over long enough time frames, bond returns tend to mirror the starting yield. While no forward-looking assumption will be perfect, for bonds, the starting yield for the Bloomberg US Aggregate Bond Index has been shown to be a good predictor of future bond returns[6]. Today, core bonds using the Bloomberg US Aggregate Bond Index yield 2.9%, as of March 31, 2022[7], providing a reasonable estimation for future return expectations over the next decade.

Conclusion

Despite the recent loss in bond returns and modest expectations for bond returns, bonds can still play a meaningful role in investors' portfolios. Bonds continue to provide ballast against stock market volatility.

While the last few months have been challenging for high-quality core fixed income, higher yields mean more income and better potential returns going forward.

Lastly, bond investors also have options beyond traditional passive fixed rate bonds. Adding floating rate bonds, inflation-protected securities, and shorter-term bonds, as well as incorporating tactical management, are just a few examples of simple changes that can be made within bond portfolios that can have a meaningful impact to blunt the short-term pain of rising interest rates.

1 FactSet
2 Goldman Sachs Asset Management https://www.gsam.com/content/dam/gsam/pdfs/common/en/public/articles/market-pulse/us/2022/Market-Pulse-March.pdf?sa=n&rd=n
3 https://fred.stlouisfed.org/series/FEDFUNDS
4 https://www.federalreserve.gov/newsevents/pressreleases/monetary20220316a.htm
5 https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202204
6 https://www.reuters.com/markets/europe/tip-toeing-back-bonds-already-2022-02-18/
7 FactSet

Crispy Baked Zucchini Chips

INGREDIENTS:

- 2 medium zucchini sliced into ¼" rounds
- 1.5 tablespoons olive oil
- 1/3 cup panko breadcrumbs
- 1/3 cup grated parmesan cheese
- 1/4 teaspoon salt

SERVINGS: 4

Prep Time: 35 Minutes

INSTRUCTIONS:

1. Preheat the oven to 425 degrees. Place an oven proof wire rack over a large rimmed baking sheet and spray it generously with cooking spray.
2. In a medium bowl, toss the zucchini rounds with the olive oil.
3. Place the parmesan, breadcrumbs and salt in a small bowl and stir well to combine.
4. Dip the zucchini rounds into the breadcrumb mixture until each round is well coated, then place them on the prepared wire rack.
5. Bake for 20 minutes or until golden brown and crispy. Serve with ranch dressing if desired and enjoy!

Sources: https://flavorthemoments.com/crispy-baked-zucchini-chips-with-greek-yogurt-ranch/; Produceforkids.com

The Sudoku Section

					3			
8				5	9			2
	9						1	8
1			6		8	5		
				1		3	9	
9	7						6	
					5			
			8	3		2		
			7		1			3

7	2	1	4	8	3	6	5	9
8	4	6	1	5	9	7	3	2
5	9	3	2	7	6	4	1	8
1	3	4	6	9	8	5	2	7
2	6	8	5	1	7	3	9	4
9	7	5	3	4	2	8	6	1
3	8	7	9	2	5	1	4	6
6	1	9	8	3	4	2	7	5
4	5	2	7	6	1	9	8	3

The answers

May Special Days & Holidays

(Military Appreciation Month)

1st- 7th- National Small Business Week

2nd- Life Insurance Day

3rd- Teacher Appreciation Day

4th- Firefighter Day

5th- Cinco de Mayo

6th- Military Spouse Appreciation

8th- Mother's Day

19th- Accounting Day

21st- Armed Forces Day

25th- 529 College Savings Day

29th- Wine Day

30th- Memorial Day & Smile Day

Source: www.printmysudoku.com