Weekly Market Commentary
January 10th, 2022

The Rattlesnake In The Markets: Rising Yields

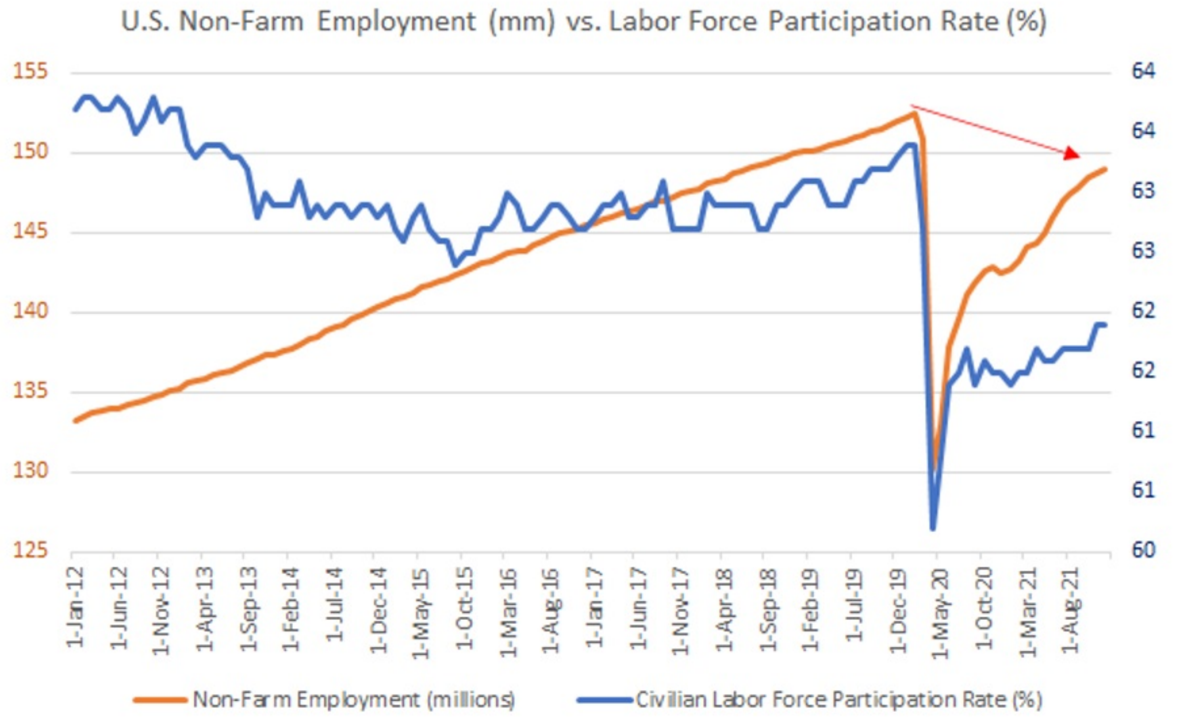
What is driving yields higher? All eyes are on the Fed.

While the move higher in yields began early in the week, it was exacerbated when the Federal Reserve minutes from its December 2021 meeting were released on Wednesday. These minutes indicated that the Fed was not only considering accelerating its balance-sheet tapering process but also letting the balance sheet roll over and decline sooner than most expected. This potential reduction of liquidity in the system spooked markets, particularly those areas with loftier valuations, as there seemed to be less air for speculative assets in the new environment.

Friday's job report also added some concern: The December jobs report also offered a mixed bag for the Fed. While the headline figure of 199,000 nonfarm jobs added was a disappointment (expectations were for 400,000 jobs), the average hourly earnings figure exceeded consensus estimates, coming in at 4.7% year-over-year, versus forecasts of 4.1%. This combination of softer employment and higher wage growth points to signs of a tight labor market in the U.S. – where demand seemingly continues to outpace supply. Meanwhile, the unemployment rate fell to 3.9%, as labor participation remained stagnant at 61.9%.

While the headline unemployment rate seems to be improving, and likely getting closer to the FOMC's natural rate of unemployment, underneath the surface the Fed may have concerns: Is the participation rate going to pick up, will the recovery be broad and inclusive (African American and Hispanic unemployment remains elevated), and how will ongoing uncertainty around the virus continue to impact labor? Overall, the Fed likely cannot conclude "all clear" on the labor market yet and may not want to tighten conditions too aggressively until it sees steadier labor data.'

Where have the jobs gone? Nonfarm employment is down about 3.6 million from its pre-pandemic levels:



Source: FactSet.

This chart displays the non-farm employment rate juxtaposed with the participation rate.

Could there be a chance that markets are pricing in too much Fed?

There are a couple of reasons why the Fed may not be as aggressive as the minutes suggest.

- **Omicron was not yet baked in:** Keep in mind, when the Fed minutes (and jobs report) were finalized in mid-December, the extent of the omicron variant was not yet known. There are now early signs that consumption may have slowed, as consumers pulled back on some travel and leisure activity since the rise of the variant here in the U.S. The Federal Reserve will be less likely to move aggressively in the face of a slowing economy and rising virus pressures.

- **Inflation readings were coming in hot:** In the days before the last Fed meeting, inflation data was coming in at record highs. Both CPI and PPI readings hit multidecade highs, and Fed Chair Jerome Powell acknowledged in the December press conference that elevated inflation figures solidified the Fed's decision to accelerate the bond-tapering process. However, in the weeks ahead, if we see inflation begin to moderate – combined with uncertainty around the virus – the Fed will likely have less pressure to pursue an aggressive tightening policy.

Expect the Fed to have room to be patient and deliberate with the upcoming rate-hiking cycle. Particularly towards the second half of this year, Jerome Powell and the team may face not only moderating growth and inflation, but also U.S. midterm elections on November 8. The Fed will certainly have to tread lightly in the back half of 2022, which may be broadly supportive of markets as well.

Will the Fed rely on more on-balance-sheet roll-off versus rate hikes?

Perhaps another interesting implication from the release of the Fed's minutes this week was the idea that the Fed may rely more heavily on on-balance-sheet reduction this cycle, rather than Fed rate hikes. While this may spark some market volatility as liquidity is further removed from the system, there are also positives for investors. First, fewer rate hikes may mean a steeper yield curve, which is generally good for the economy, particularly in areas like financials. And second, a lower overall fed funds rate has implications for the real economy as well, with lower mortgage rates, credit card rates, corporate borrowing rates, etc. - all of which can help sustain the economic expansion.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	36,232	-.29%
S&P 500 Index	4,677	-1.87%
NASDAQ	14,936	-4.53%
MSCI EAFE	2,323	-.51%
10-yr Treasury Yield	1.77%	17.22%
Gold	$1,796	-1.80%
Bonds	$112.52	-1.37%

Source: Reuters/Wall Street Journal

What Should You Do When You Inherit An IRA?

The overall rules for inherited IRAs are extremely complicated especially with the changes in the SECURE ACT of 2019. It really depends on if you inherit the IRA as the spouse/partner or you are a non-spouse beneficiary. Typically, spouses can treat the inherited IRA as if it was their own and become the account owner or they can roll it over to a traditional IRA. There are lots of options when it comes to the spouse who inherits the IRA.

However, for non-spouse beneficiaries, it becomes far more arduous with the inherited (or some people call it beneficial) IRA.

1. You take the money- If you choose to take the money immediately, then you better be prepared to pay the taxes. If you inherit an IRA for $100,000, as an example, and you choose to cash the IRA out then it will be included as taxable income the year you take it. The inherent problem is that income will all be taxed at whatever marginal tax bracket you are currently in today, and this could push the tax liability to be 30% or more beyond what you would have to pay in-state taxes.

2. Set up the inherited or beneficial IRA correctly- One of the most paramount items is to make sure the IRA is set up in the right manner, especially if you are making a trustee-to-trustee transfer. A properly established inherited IRA account should include the name of the deceased in its title along with the beneficiary. However, with the tax law changes in the 2019 SECURE ACT, a non-spouse beneficiary must take out all of the money within a 10-year time frame. This could adversely impact your financial situation especially if you are in your working years and earning a healthy w-

2 income. Every dollar (in 2022) could potentially be taxed at 37% federally if you make enough money.

3. Make sure you understand what distributions you must take every year- Most investors who inherit an IRA get the money way before they are ready to retire. Often, people aren't even thinking about the word 'retirement'. However, it is the responsibility of the beneficiary to take a required minimum distribution (RMD) out of the account every year or now the 10-year mandatory period mentioned. This requires important planning for people who are older and have IRA's and for those who may inherit.

Remember, RMDs are always calculated on the aggregate balance of all of the qualified retirement accounts you have as of the year-end values on 12/31. It's best that if you inherit multiple IRAs to get them in one location to ease the burden of tracking down all of these numbers to meet your yearly RMD.

There are many pieces of the puzzle to put together when you begin inheriting assets. Make sure you talk to a qualified financial advisor, so you get the best advice possible and make the smartest plan for your money.

Earnings Highlights This Week

(source: CNBC)

Bed Bath & Beyond: Bed Bath & Beyond missed analysts' expectations for the fiscal third quarter. Chief Executive Mark Tritton said a lack of inventory due to supply chain bottlenecks cost the company about $100 million. The home goods retailer cut its financial outlook for the year.

Walgreens: Walgreens beat analysts' expectations for fiscal first-quarter earnings, as customers came to stores for Covid vaccines and tests. Despite that, shares of the company fell after Walgreens spoke of rising labor costs as its pharmacists are stretched thin by administering vaccines and filling prescriptions. The drugstore chain raised its forecast for the year, saying it now anticipates adjusted earnings per share to grow the low single-digits instead of being flat. The company said it administered 15.6 million Covid vaccines in the fiscal first quarter — bringing its total to over 56 million to date.

News and Notes:

What Does "Shrinkflation" Mean?

1. Some of our favorite products are going to suffer from 'shrinkflation'- what is that?

- As inflation hits a 40 year high, makers of consumer goods must figure out how to keep their profit margins up.
- One-way companies do this is by literally shrinking the contents of the product and maintaining the same price.

2. What are some products that have been affected by this?

- Dishwasher Pods: Solimo Amazon brand dishwasher pods – used to be 3.37lbs for $11.49, now only 2.79lbs same price.
- Toothpaste: Crest 3D White Radiant Mint- used to be 4.1oz and now 3.8oz for the same price of $4.49

- Aleve used to be 100 caplets per bottle and is now 90 caplets for almost $9 a bottle.
- Shrinkflation will cost the average American Household $700 this year

From the team at J M Brown Financial Partners
www.perfectcalendar.com

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.
