Weekly Market Commentary
February 14th, 2022

Red Hot Inflation Soars to 7.5%... What's Next?

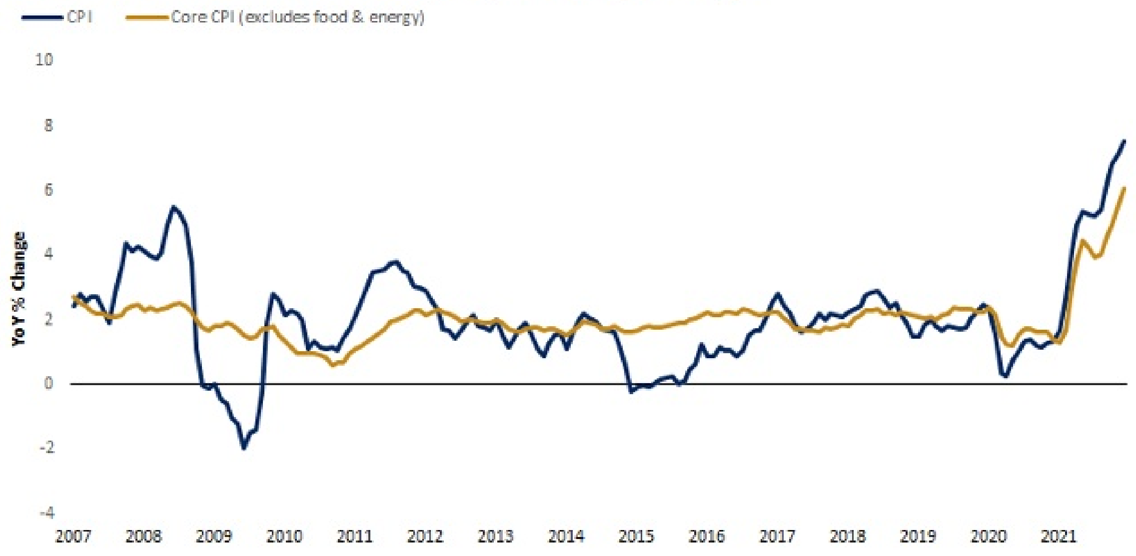
Last week the market narrative and performance were shaped by another hot inflation reading and more signs that high prices are taking a toll on consumer sentiment. The 10-year Treasury yield broke past the 2% mark for the first time since 2019, expectations for more aggressive Fed tightening were ratcheted higher, and rate-sensitive sectors along with growth stocks underperformed. Here's some perspective on what the recent data shows and what might come next for inflation, rates, and returns.

Inflation accelerates as price pressures broaden

Even with investors expecting a high inflation reading heading into last Thursday's release, the January data still managed to surprise the upside, triggering an immediate market reaction in both stocks and bonds. The consumer price index (CPI) rose 7.5% from a year ago, exceeding the 7.3% estimate and marking the largest gain since February 1982. Excluding the volatile food and energy components, prices increased 6% from a year ago and 0.6% from a month earlier.

Looking under the hood, there was broad-based strength across goods and services. Higher food, electricity, used cars, and housing prices led the gains, signaling that price pressures are spreading beyond a few items that continue to be impacted by the supply-chain disruptions. The acceleration in rents, the largest weight in the consumer-spending basket, is likely to prove sticky, supported by rising home prices, a tight labor market, and the lowest rental-vacancy rate since 1984. With services inflation picking up, the return to more moderate price increases will likely take longer than central banks are willing to tolerate.

U.S. Consumer Price Index (CPI) hits 40-year high



Source: FactSet.

The graph shows the U.S. consumer price index (CPI), which in January rose the most since 1982.

While uncomfortably high, some relief may be on the way

Even though inflation will likely remain above the Fed's target for some time, we continue to expect that price increases will peak soon (possibly February, or March) and moderate more meaningfully in the second half of the year. Services inflation is picking up now, but goods inflation is likely to start easing as supply chains and inventory normalize. In January, used car prices were up 41% and new car prices were up 12% from a year ago. However, price gains notably decelerated from December. With Ford and GM recently guiding for strong production growth this year and auto sales jumping 20% in January, the outsized price increases might be behind us and could even reverse.

More broadly, shipping costs have been declining since mid-November, and supplier delivery times have been improving, both indicating that bottlenecks are starting to clear. With the omicron-variant surge subsiding, this trend of improvement could further gain steam as spending shifts away from goods.

The upshot, in our view, is that high inflation is not an issue that will get resolved soon, but it is not likely to get much worse as the pandemic distortions fade and the Fed starts to act. Perhaps this is why long-term market-based inflation expectations have stayed relatively stable even as inflation is hitting 40-year highs.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,738	-1.00%
S&P 500 Index	4,419	-1.82%
NASDAQ	13,791	-2.18%
MSCI EAFE	2,299	1.64%
10-yr Treasury Yield	1.92%	0%
Gold	$1,858	2.77%
Bonds	$110.08	-.43%

Source: Reuters/Wall Street Journal

Five Money Moves To Make When You Turn 50

1. **It's Time To Catch Up**- There are quite a few good things about turning the age of 50, and one of them is that those who want to save more for retirement get a special tax break from Uncle Sam. These are called 'catch-up' provisions and they allow you to put more money into your 401(k), 403(b), IRA's, etc. This may be the most powerful savings thing you do for retirement at the age of 50 if you get it out of mind out of sight.

Here in 2022, you can put away up to $20,500 pre-tax in your 401(k) or 403(b) plans, but if you turn 50 at any time during the 2019 calendar year, you are eligible to put away $6,500 more money as a catch- up in your 401(k) plans. If you are saving money in IRAs, you would normally be able to put away up to $6,000, but the catch-up now allows you to put away an additional $1,000 as a catch-up within your IRA. For those of you who own a small business and have set up a SIMPLE IRA, there are catch-up provisions in those plans as well.

2. **Closely Examine Your Mortgage Situation**- Depending on what age your children are, the housing situation could be challenging to figure out over the long term. Some 50-year-olds are seeing daylight and thinking about whether their empty nester home will be in the city, the mountains, or at the beach. Or maybe some of all of that! For those 50 years who just had kids recently, you still might be thinking about what school districts you want to be in or considering an area that will be good for raising kids.

The harsh reality you need to contemplate is how long you think you will be able to earn the same income you are earning today and how that will work with the timing of paying off your mortgage. I paid mine off years ago, and I still think no matter where interest rates are there is something very comforting driving home knowing that your house is done and done. This is the time with interest rates being low you might consider going to a 15-year note or looking at the numbers of your current 30-year note to see how to pay it off in 10 or 15 years depending on your overall retirement plan. The biggest concern is if you take a new 30-year large mortgage today, and how you will pay that off when you no longer are making the same income you are making today.

3. **When Will The Kids Be Off Of Payroll?**

Depending on the age of your kids, you need to assess the balance of what you want to do for assistance with a college education and your desire to make a work optional plan. Do not underestimate (no matter how tough you think you are going to be), how much emotional pull there will be to actually help your kids. I've heard parents that say, "I'm only going to give my kids a head start of $10,000 a year." However, when their children get into a top school, they begin to figure out other ways they can help fund their kids' dreams. I've seen this time and time again, so have a real conversation about what this is going to look like.

For the aftermath of college, consider whether you will let them live at home or not and for how long that will persist. How long will you pay for their mobile phone? Their auto insurance? Their health insurance? All of these questions will help you better determine your overall run rate as you approach retirement. And don't forget if you have daughters (and sons), there is probably going to be something down the road you'll have to come out of pocket for if they get married. I recently saw one that was well over six figures out of the parents' pockets!!

4. **Consolidate**- For the first 30 years of your adult life, you've probably acquired more stuff than you imagined. There are at least one or two collections in your house that you haven't looked at or touched in years. There are countless numbers of boxes of pictures, cards, awards, and other family-related items spread throughout the house. You've got closets of clothes and pieces of old luggage in your storage closet. Is it time to do a purge and see what you really need?

That's the physical part of what you have collected. On the financial side, you might be carrying four or five credit cards, a checking account(s), savings account(s), credit union account(s), various old 401(k)'s, several brokerage accounts, and other financial instruments you have purchased over the years. If the accounts are in many different places, are you really gaining an advantage by having all these accounts? Are there some strategies that just aren't working? Are you tired of trying to figure out where everything is and how it is actually performing? This is a great time to consolidate and get your financial house in one or two places.

5. **Review Your Insurance** - Especially Long-Term Care- You are probably thinking 50 is the new 30, right? Wrong! 50 is actually 50 and whether we like it or not, the aches and pains and signs of aging are starting to happen. At this point, you might be fully grey or see signs of grey. You might be using reading glasses (100% in a dark restaurant reading a menu). You might notice the knees don't work exactly as they used to, or your lower back has just a bit more pain than it once did ten years ago. This is the year you will get all the big physicals and have your colonoscopy (ugh!). But it's super important before it gets too expensive to review if you need long-term care insurance or if you need to adjust and get more life insurance or disability insurance for the stretch run.

Earnings Highlights This Week

Delivery Hero: Shares of Germany-based food delivery firm Delivery Hero plummeted 29% Thursday. Analysts pointed to Delivery Hero's 2022 guidance as the reason behind the negative market reaction. The company shed nearly $6 billion in market value as a result.

Coca-Cola: Coca-Cola earnings and revenue topped Wall Street's estimates, but the company's 2022 forecast was weaker than expected. Rival PepsiCo similarly warned investors about rising costs for packaging and transportation. Coke's organic revenue climbed 9% in the quarter.

Zillow: Zillow said it's winding down its home-flipping business, selling houses "faster than we anticipated at better unit economics than we projected." The company reported fourth-quarter revenue that beat estimates and gave an optimistic projection for the first quarter. The stock has lost three-quarters of its value since reaching a record almost a year ago.

Affirm: Affirm stock dropped on Thursday after the company reported fiscal second-quarter results ahead of schedule. Affirm is one of several hot "buy now, pay later" companies, which offer short-term and low-interest loans to users when they buy consumer goods online.

Under Armour: Under Armour shares are falling despite the retailer reporting fiscal fourth-quarter earnings and sales ahead of analysts' estimates. Lingering supply chain constraints are clouding Under Armour's outlook and overshadowing its recent performance. CEO Patrik Frisk said there is "ongoing uncertainty in the marketplace."

News and Notes:

A New Study Says Debt Isn't Sexy

So the #1 thing people want in a partner now is financial stability?

- As Americans recover from Covid's financial strain, more people want a romantic partner who is responsible with money.
- Almost 33% of people in a recent WalletHub study said money matters to them more now in a long-term relationship than before Covid.
- Financial stability may be the sexiest gift of all on Valentine's Day.

How much is inflation going to impact this Valentine's Day?

- Cupid is coming out of quarantine. On average American's will spend $175.41 on candy, cards, flowers, and gifts.
- The average price for a dozen roses is up 22% vs. one year ago and will cost more than $100 in many cases. Chocolate is up 9%.
- More people will go out for dinner this year, and if filet mignon is on your menu, it will cost you 154% more than a year ago. Champagne is up substantially as well at 20%.

Are there any good deals to look out for on Valentine's Day (or right after)?

- Yes. Gold is slightly down vs. one year ago and Silver is down about 10% vs. one year ago. Diamonds are up 15%, so stick to Gold and Silver which might be a better deal right now.
- Look for home goods and kitchen essentials. What didn't sell during the holiday season can go on sale for 25% to 60%. Macy's!
- Get a streaming subscription. Cheaper if you buy annually – more people are binging more shows.

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