J|M BROWN FINANCIAL PARTNERS

Weekly Market Commentary
January 31st, 2022

Get Ready For A Fed Move-In March

This past week was an eventful one for both investors and markets. The much-anticipated FOMC meeting on Tuesday and Wednesday resulted in the Fed preparing markets for a March move: The Fed is poised to raise rates for the first time since 2018, as well as end the expansion of its balance sheet.

After a volatile week, the market did hold on to a solid rally on Friday afternoon – with the S&P ending the week up around 0.8% – but the index remains down around -7.0% for the year (although still up nearly 95% since the March 2020 lows).

Overall, while we believe the more speculative and higher-valuation parts of the market may face ongoing bouts of volatility, opportunities are forming in parts of the market, particularly those levered to rising rates and cyclical economic growth.

What were the key takeaways from the Fed meeting?

Three important takeaways to note from the January FOMC meeting:

1. The Fed will move in March – and perhaps move aggressively early in the cycle: Chairman Jerome Powell and the FOMC see conditions in place to begin raising rates at the March meeting. In addition, the Fed's balance-sheet tapering is expected to end in March, meaning the Fed will no longer be providing stimulus or liquidity via balance-sheet expansion. While Powell did not specify a target number of hikes this year, he did note that “there’s quite a bit of room to raise interest rates without threatening the labor market.” Markets have now priced in upwards of five rate hikes for 2022. In our view, the Fed will likely move more aggressively in the early months of its tightening cycle – perhaps a 0.25% rate increase at every meeting – and then adopt a more gradual pace, giving it some time to assess the economic environment.

2. Inflation is a key variable: Jerome Powell highlighted several times in his remarks that inflation remains the primary risk to the Fed's outlook, as well as the focus of its policy action. Powell indicated that inflation has not shown signs of improvement since the Fed's December meeting, and he could see a case for raising the Fed's inflation forecasts above the 2.6% PCE inflation rate it currently has for 2022 (new forecasts will be released in the March meeting). Inflation will likely moderate from currently elevated rates – but perhaps not meaningfully until the second half of the year.

3. Balance-sheet reduction is coming: Finally, the Fed has also indicated that it will begin the process to move toward reducing its now-massive balance sheet. While Powell did not indicate when that process would start – likely by the second half of this year, in our view – he did note that there was "a substantial amount of shrinkage

in the balance sheet to be done." The balance-sheet contraction is the key mechanism that reduces excess liquidity from the system and creates less air for more speculative assets.

What does this mean for markets and the economy?

Markets had already been volatile and on-edge ahead of the Fed meeting, with the S&P 500 officially undergoing a 10% correction from recent highs. Some of this move was in anticipation of the Fed raising rates and removing monetary support. Now that we have confirmation of Fed liftoff here is the number one theme you can expect going forward.

Volatility will persist: Market returns should still be moderate this year and volatility will return to more normal levels. This has already played out in the first few weeks of 2022. Historically, one to three corrections in the 5% - 15% range are the norm in any given year. However, given that we are not near the end of this economic or Fed cycle, market drawdowns can be used as opportunities to add to or diversify portfolios. (See below for potential areas of outperformance.). Tremendous time to continue to dollar cost average.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,725	1.34%
S&P 500 Index	4,431	.75%
NASDAQ	13,770	.01%
MSCI EAFE	2,203	-4.96%
10-yr Treasury Yield	1.78%	0.2%
Gold	$1,790	-2.19%
Bonds	$111.81	-.37%

Source: Reuters/Wall Street Journal

The 20/10/1 Rule When Buying A New Home

You just finished watching the latest installment of House Hunters on HGTV and begin to think to yourself, “Why not me”? Shouldn’t I be able to get that home will the beautiful kitchen, sweet master bedroom, and super-duper outdoor living space? Before you go ahead with that first home purchase, there are three rules you need to consider for your family finances.

The 20% rule.

You should consider putting twenty percent down on a house for two reasons. If you are renting and you can save a larger amount each month to build up a cash reserve of a 20% down payment, it is a good sign that you are ready to afford the future mortgage payment. Often, people skip right from renting to owning by putting down a small down payment and then get caught upside down with the extra costs of owning a home (higher electric, gas, landscaping, etc.) Two, in most cases, you will avoid

paying the private mortgage insurance (PMI) which increases your monthly payment in the range of $50 to $200 depending on the size of the loan. Far too often, new home buyers stretch themselves by making a lower down payment, not recognizing how these extra costs will affect them when they get in the home.

The 10% rule.

When people purchase a new home, they tell themselves that they have a year to fix up the home. However, after they start watching a few more HGTV shows and make a few trips to Home Depot, they find themselves quickly craving to make renovations or buy new furniture. Plan for about 10% of the home's purchase price may be needed for home improvements and furniture in the first year. For a $300,000 house, that's $30,000.

The 1% rule.

If the home is valued at $300,000, you should set aside a kitty of 1% for the unexpected. It could be the roof, the water heater, or the cooling and heating system. But invariably there are going to be year-to-year blow-ups that will cost you money from your savings.

Don't forget that the television shows which glamorize new homes and fixer-uppers never include labor cost in their numbers when they make new additions to a home. So, when you see it on television you should double your cost to do it at home. Plan for the 20/10/1 rule and you'll make a much smoother transition with your money from renting to owning.

Earnings Highlights This Week

(source: CNBC)

Apple: Apple reported its largest single quarter in terms of revenue ever, with sales growing over 11% despite supply challenges and the lingering effects of the pandemic. Apple beat analyst estimates for sales in every product category except iPads. Apple CEO Tim Cook said that the company's supply issues were improving.

Robinhood: Robinhood anticipates first-quarter revenue of less than $340 million, down 35% compared with 2021. Wall Street expected $448.2 million in revenue for Q1, according to FactSet. Monthly active users fell to 17.3 million last quarter from 18.9 million in the third quarter. Robinhood is about to face its toughest comps in the first and second quarters of 2022 following its record year in 2021 from events like the GameStop short squeeze.

McDonald's: McDonald's reported quarterly earnings and revenue that missed analysts' expectations as higher costs weighed on its profits. Menu price hikes that were implemented to combat rising food costs helped boost sales. For the full year, digital sales surpassed $18 billion.

Diageo: Operating profit increased by 22.5% to 2.7 billion pounds ($3.62 billion) in the six months to Dec. 31, with its operating margin up by 190 basis points, Diageo said. Net sales rose 15.8% to 8 billion pounds.

Tesla: Tesla beat on the top and bottom lines. CEO Elon Musk gave a "product road map" update saying the company would not release any new model vehicles in 2022. Instead, Tesla is focusing on developing autonomous vehicle tech, and scaling up production at its new factories in Austin, Texas, and outside of Berlin.

News and Notes:

The IRS Is Going To Start Checking Your Venmo Account?

So now, are you going to have to tell the IRS more about your side hustle?

- Effective January 1, the IRS started requiring all third-party processors in the United States (Venmo, PayPal) to report payments received for goods and services of more than $600. (through a 1099-K)
- This was put in place to identify tax cheats as the previous requirements were $20,000 and at least 200 transactions a year. Side hustles will absolutely be affected.

Will you be taxed for paying back friends or family or splitting a check at a restaurant?

- No, the new rule is explicitly intended for commercial transactions or third-party settlements.
- It doesn't include you paying back your friends or family for dinners, gifts, and shared trips.
- It would include the income you make selling your t-shirts on Etsy or the house you rent out on Airbnb.

How does Venmo and PayPal know whether the payments are personal or business transactions?

- PayPal (which owns Venmo) has already told users to tag their peer-to-peer transactions as personal or business.
- Most apps have a way to differentiate between commercial payments and money sent as a gift.
- In the end, this isn't a new tax, but really a new reporting requirement mostly for side hustles and small businesses. Remember, you are taxed on the net income of your business, not your gross income.

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.

Securities offered as Registered Representatives through Purshe Kaplan Sterling Investments, Member FINRA/SIPC Purshe Kaplan Sterling Investments and J M Brown Financial Partners are not affiliated companies 80 State Street, Albany, NY 12207 Tele (800) 801-6851

Investments through PKS or RIA are: NOT FDIC INSURED/NOT BANK GUARANTEED MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL NOT INSURED BY ANY STATE OR FEDERAL AGENCY

These views are those of Hyperchat Social, and not the presenting Representative or the Representative's Broker/Dealer and should not be construed as investment advice. This newsletter was prepared by Hyperchat Social. Hyperchat Social is not affiliated with the named firm or broker/dealer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index. All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

You cannot invest directly in an index. The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998. The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in

commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Past performance does not guarantee future results. Investing involves risk, including loss of principal. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete. There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Asset allocation does not ensure a profit or protect against a loss. Consult your financial professional before making any investment decision. To unsubscribe from our Weekly Market Commentary hit the unsubscribe button.

HELPING YOU BUILD YOUR PERFECT FINANCIAL CALENDAR perfectcalendar.com