Weekly Market Commentary
March 7th, 2022

How Will This Market Parallel To Past Markets?

1994: Aggressive Fed Tightening

Connection to today:

- The Fed hiked interest rates seven times in 12 months amid concerns it had fallen behind the curve on rising inflation as the economy expanded.
- Oil prices rose 49% in the first half of the year.

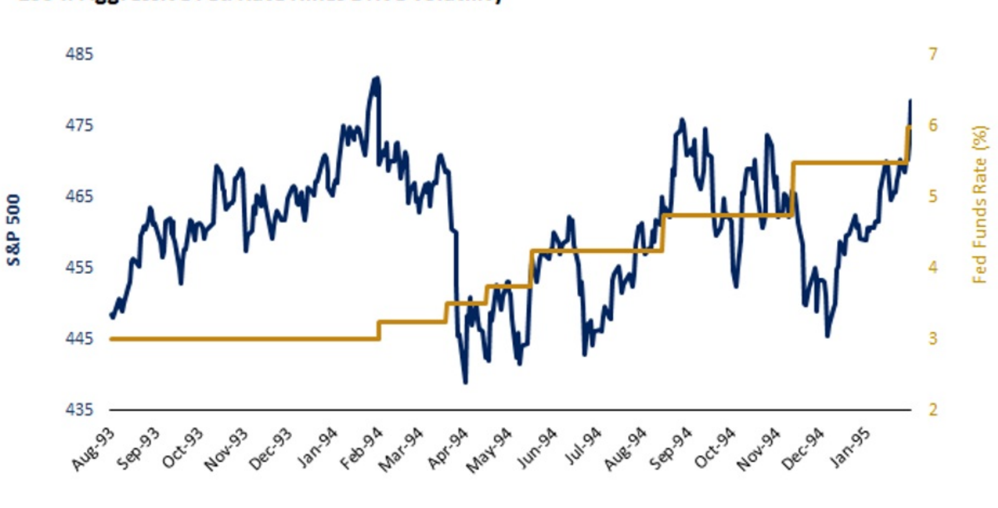
Initial market reaction:

- Stocks and bonds were both hit by the aggressive Fed policy move.
- The stock market pulled back 9% from February to April.
- Bond returns were hurt, as 10-year Treasury bond rates rose from 5.6% to 8.0%.

How it played out:

- Stocks finished 1994 with an annual gain of 1.3% and gained another 38% in 1995.
- Despite rising rates, bonds posted returns of 6% in 1994 and 0.6% in 1995.

1994: Aggressive Fed Rate Hikes Drive Volatility



1998 Russia defaults and oil prices collapse

Connection to today:

- The Russian ruble and stock market plunged, and the government defaulted on its debt as Russia's GDP declined sharply.
- After a notable rise in the preceding year, oil prices fell more than 50% to $10/barrel.

Initial market reaction:

- Following a 90% rise in the S&P 500 powered by rising technology stocks, the stock market fell 19% in 30 days.

How it played out:

- Stocks finished 1998 with an annual gain of 29% and gained another 21% in 1999.
- Bonds provided portfolio stability against 1998's equity-market volatility, posting an 8.7% gain for 1998, followed by a -0.8% return in 1999 as the Fed began raising rates.

2015: The Fed starts hiking rates

Connection to today:

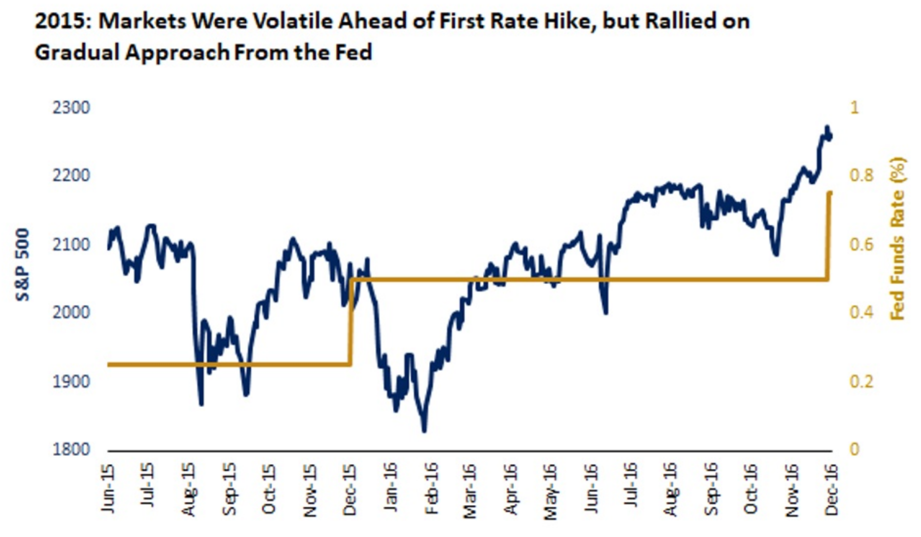
- The Fed initiated its first-rate hike after years of 0% rates and extraordinary policy stimulus.

Initial market reaction:

- Markets were volatile ahead of the Fed's rate hike, as investors were concerned about a transition away from ultra-loose monetary policy. The stock market corrected by 12% months ahead of the 0.25% rate hike in December.
- Ten-year yields started the year at 2.17% and finished the year at 2.27%. Ten-year yields did rise 0.3% in the two months leading up to the first-rate hike.

How it played out:

- Stocks finished 2015 with a modest 1.4% return, then went on to post annual returns of 12% in 2016 and 22% in 2017, as Fed rate hikes proved not to be the death knell for the economic expansion.



2018: Yield curve flattens amid recession worries

Connection to today:

- Shorter-term interest rates rose, as the Fed hiked its policy rate and shrank its balance sheet. The yield curve flattened dramatically, as markets worried the economy was headed for a recession sparked by monetary tightening and trade wars.

Initial market reaction:

- Stocks experienced two corrections, a 10% pullback early in the year and another 19% at the end of 20184.
- Bonds offered some protection for portfolios, holding flat in 2018 despite the Fed policy rate rising above 2% that year.

How it played out:

- Two separate corrections left the stock market with a -4.4% return for 2018, before gaining 31% in 2019.3

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	33,615	-1.30%
S&P 500 Index	4,329	-1.28%
NASDAQ	13,313	-2.79%
MSCI EAFE	2,108	0%
10-yr Treasury Yield	1.74%	-11.68%
Gold	$1,971	4.34%
Bonds	$110.30	.67%

Source: Reuters/Wall Street Journal

It's March Madness – Are Money Decisions Like Picking An NCAA Basketball Winner?

With the first big day of March Madness right around the corner, many of you will have your brackets filled out and ready to go with our Final Four picks. This year is sure to be filled with some Cinderella stories along with some dominant favorites making their way down the brackets to the eventual winner. While we all get focused on the office pools, March Madness can really teach you some great money lessons to help you make more smart money moves for the rest of your life.

When two teams compete in the NCAA tournament beginning with the total of 64 (now 66) teams that make the tournament, they each get a line in a bracket. Bracketology is the process of predicting the field of the NCAA Basketball Tournament, named as such because it is commonly used to fill in tournament brackets for the postseason. It incorporates some method of predicting what the NCAA Selection Committee will use as its Rating Percentage Index to determine at-large (non-conference winning) teams to complete the field of 68 teams, and, to seed the field by ranking all teams from first through sixty-eighth. ESPN's Joe Lunardi is the inventor of the term "bracketology", starting first as the owner and editor of the Blue Ribbon College Basketball Yearbook and ending up as the resident bracketologist on ESPN. (Source: wikipedia.com)

It should occur to all of us that we must make financial decisions that almost feel like brackets in our financial life. We know that it will be very difficult to pick a winner in every financial bracket we have in our life but making more good ones than bad ones can determine whether we are winners or losers in our financial lives. Here are three very important bracket decisions that many of you will have to make today. Doing these wrong or right can determine the success of your overall financial plan.

1. **Bracket One - Pay Tax Now Or Pay Later -** Certainly, nobody has a crystal ball on where tax rates will be in the future. If you take the political issues out of it, tax rates will likely have to go higher as expense cutting alone will not help us balance the fiscal budget nor pay off our huge debt. All of you know you should

be putting away for retirement in vehicles like your employer's 401(k) plan. However, the bracket decision is to do the pre-tax deferrals or to do the Roth deferrals if your employer offers these choices. It's important to be maxing the pre-tax deferrals to the match and then do the rest of the deferrals in the Roth unless you are in the upper three tax brackets. Then, it is suggested you should be doing as much as you can on the pre-tax side of the equation.

2. **Bracket Two - Buy Cool Stuff and Have Fun Now or Later -** This bracket decision is always a very tough one. There was a program on the nightly news this weekend where someone unemployed had just started work again after six months with a hotel chain. When she was interviewed, she said she couldn't wait to get her first paycheck so she could get her hair done and buy some new clothes. The main recommendation on this one is as you get pay raises at work to do the following. Put about one-third of all new raises into the fun later category and save it, put about one-third into the buy cool stuff and spend it, and know that the Government is likely to take the other third. With many people far behind where they need to be saving for retirement, it always seems like a good idea to choose the bracket of fun now. Just make sure you give the fun later team some money or the only fun you'll be having is greeting people at Wal-Mart.
3. **Bracket Three - Rent or Buy a Home -** This is an extremely tough bracket to pick. There are pros and cons for both. The key in picking this if you choose the buy-a-home team is to make sure you don't go in with the expectation that this is going to be a used asset down the road. What this means is that your home will be a place to invest in where you can extract dollars from down the road. It may be a great place to enjoy with friends or raise your family, but it will most certainly cost more (even after deductions) than renting. If you don't want the risk or hassle of homeownership, then choose the rent team. Since many people have homes underwater and can't sell them, renting can be a great option.

March Madness is a fun time of the year even if you aren't a college basketball fan. When faced with financial 'bracketology', do you're very best to consider the pros and cons of each of the sides and focus on just picking more winners than losers. Most importantly, make sure you don't make a financial decision that could be a bracket buster. Those are usually the ones regret down the road!

Earnings Highlights This Week

Gap: Gap Inc. shares climbed after the apparel retailer offered an upbeat forecast for its profits in 2022, despite rising inflation and logistics challenges. Gap Chief Executive Sonia Syngal said in a press release that the retailer faced near-term disruptions during its fiscal fourth quarter that "muted" overall performance. Still, investors sent shares higher Thursday evening as they made a longer-term bet on the apparel company's improvements and on more American consumers looking to refresh their wardrobes.

Kroger: Kroger forecast annual same-store sales and profit above market expectations on Thursday, encouraged by strong demand for its pick-up and delivery services and sustained home-cooking trends. Kroger has ramped up its online business, from loyalty programs to memberships for unlimited home deliveries, to draw in more customers and retain existing ones. The company said it expects adjusted same-store sales to rise 2% to 3% in the fiscal year 2022, compared with analysts' average estimate of a 2.1% increase, according to IBES data from Refinitiv.

Best Buy: Best Buy on Thursday reported fiscal fourth-quarter sales that fell short of expectations, hamstrung by supply chain challenges and omicron-related staffing shortages. Shares rose, however, as executives and investors bet the retailer will benefit in the long term from consumers' adoption of telemedicine, videoconferencing, and more during the Covid pandemic. "We do not for one minute believe we hit our peak revenue and margin this past year," CEO Corie Barry said.

Salesforce: Salesforce beat on the top and bottom lines in its fiscal fourth-quarter earnings report. The company appointed Bret Taylor as co-CEO alongside Marc Benioff in the quarter.

Nordstrom: Nordstrom reported better-than-expected profits and sales for the holiday quarter, prompting the retailer to offer an optimistic outlook for the coming year. Importantly, the retailer called out improvements in its off-price business, Nordstrom Rack, amid a report that the company has been reviewing a potential spinoff of Rack. For fiscal 2022, Nordstrom sees revenue up 5% to 7% compared with 2021 levels. Analysts were looking for growth of 3.7%.

News and Notes:

How Will The Russia Ukraine Situation Affect Your Wallet?

How will the sanctions on Russia affect people here in The U.S.?

- Well, primarily Russia is a giant gas station, so Americans will likely feel this at the pump. We are paying $3.53 a gallon (average) and could be $4 a gallon within the next 30 days. In some places (California) it will likely top $6 a gallon.
- Price of oil hit an 8 year high this week and topped $110 a barrel (could go much higher to $150 a barrel), heating bills will take a hit.
- Bottlenecks in critical metals (palladium, nickel) could worsen our semiconductor shortage- affecting prices on cars, electronics, and other big-ticket items.
- Russia big exporter of wheat- food prices will go up as well which are already double digits.

Could we see cyber attacks here in the U.S. from Russia?

- Absolutely. Homeland Security just warned that power grids, communication lines, and banking systems should all be at heightened risk.
- Remember the Ransomware attack recently on the Colonial pipeline and what it did to gas prices. What if gas prices went up and then there was another cyberattack on a pipeline- how would Americans be hurt?

Should people also be concerned about interest rates rising?

- Not any more than the Fed has discussed already. We would expect a .25% hike in March. No more than .50% in March in our view.
- People at home should be concerned about one word- VARIABLE. Do you have a variable interest rate now?
- Adjustable-rate mortgage?
- Adjustable-rate credit card?
- Adjustable-rate student loan?
- You should consider looking into a fixed rate now if you do. Mortgage rates are still low but creeping up to close to 4%.

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