

Weekly Market Commentary March 21st, 2022

Five Things To Know About The Fed Raising Interest Rates?

1. The Fed is on a mission to tame inflation

Despite geopolitical uncertainties, the Fed signaled last week it intends to press on with a series of rate hikes to fight inflation, which last month hit a 40-year high. Price pressures are broadening beyond a few categories affected by the pandemic (such as autos), and the recent surge in commodity prices has pushed out the timeline for the long-awaited inflation peak and normalization. Acknowledging that inflation will likely stay higher for longer, policymakers revised their forecasts higher. Inflation (core PCE) is expected to be at 4.1% this year, up from a 2.7% projection in December. By 2023, inflation is estimated at 2.6%, up from an earlier forecast of 2.3%.

2. Policymakers pencil in a somewhat aggressive path for rate hikes

In addition to the well-telegraphed 0.25% rate hike, the Fed released the so-called “dot plot,” which shows where individual Fed officials expect interest rates to be. Given the large inflation revisions, the majority now expect seven hikes this year, four in 2023 and none for 2024. That would take the policy rate to 1.9% this year and 2.8% by the end of 2023, slightly higher than the last cycle’s peak of 2.5% in December 2018. It would also be higher than the committee’s estimate of the long-run neutral rate, suggesting policy would be slightly restrictive to growth when the Fed is done tightening.

Last week’s Fed announcement leaned hawkish with a rate hike at every remaining Fed meeting this year and the likelihood they’ll begin reducing the central bank’s almost \$9 trillion bond holdings as early as May. Yet stocks rallied, which we would attribute to near-term oversold conditions, more clarity around the future interest rate path, and the fact that the bond market was already pricing in an aggressive tightening cycle.

3. The economy no longer needs help

High and rising commodity prices, fueled by the Ukraine crisis, will act as a tax on the consumer, reducing purchasing power, and will likely weigh on spending in the months ahead. However, the economy is still projected to grow at an above-average pace this year. Fed officials forecast 2022 GDP to grow 2.8%. This is lower than the estimate from just three months ago but still significantly above the last decade’s 2% average. The Fed’s estimate appears realistic to us considering the latest headwinds.

4. Achieving a soft landing is no easy feat.

Over the next three years, the Fed aims to bring inflation closer to its 2% target without slowing the economy too much. Historically, this has proved to be a challenge. The economy doesn't always end up in a recession, but when it occurs, it

happens about 2.5 years after the first hike.

5. Stocks and bond yields have historically continued to rise during Fed tightening.

Looking at the five tightening cycles since 1985, stocks have historically experienced some weakness around the first interest rate hike but generally maintained their upward trajectory six months and a year out. With valuations having already declined 18% so far this year, perhaps a lot of the adjustment has already happened, especially if we see the situation in Ukraine de-escalate and energy prices crest.

The combination of still robust but slowing growth and Fed rate hikes likely means higher volatility and lower returns. However, we expect the expansion to continue over the next two years, supporting equities while the market eventually transitions to the late-cycle stage. With high inflation and above-average economic growth, value-style investments can continue to perform well. At some point, growth investments that have lagged this year will be favored, but probably not until the Fed gets closer to its longer-term policy target rate and inflation moderates.

(Source: oXYGen & Jones)

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Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,755	5.50%
S&P 500 Index	4,463	6.16%
NASDAQ	13,894	8.18%
MSCI EAFE	2,150	4.67%
10-yr Treasury Yield	2.15%	7.50%
Gold	\$1,921	-3.37%
Bonds	\$108.10	-.29%

Source: Reuters/Wall Street Journal

How Much Should You Be Tipping?

There was an excellent story written a few years ago interviewing Michael Lynn, who had written more than 50 papers on tipping. In his excerpts (source: PBS), he said there are five basic motives for tipping.

Some people tip to show off. Some people tip to help the server, to supplement their income, and make them happy. Some people tip to get future service. And then other people tip to avoid disapproval: You don't want the server to think badly of you. And some people tip out of a sense of duty.

There are people who tip to reward servers for service. If the server does a great job, you want to express your gratitude so that is another motivation for tipping. But how strong is that motivation? Research suggests it's not strong.

People often say that's their major motivation for tipping if you were to ask them. But when we ask people how much they tipped and how they would rate the quality of the service, less than four percent of the differences in tips left by different dining parties can be explained by their ratings of service quality. So, the real question is are you required to give someone a tip?

You aren't ever required to give someone a tip, but let's face the fact that it is part of our culture. Many restaurants have tried to go a no-tipping policy including famous restaurateurs Danny Meyer and Thomas Keller, but the reality is that studies have shown that a no-tipping policy leads to higher staff turnover and lower online ratings.

In America today, many states still operate where workers such as servers, bartenders, and valet parkers earn \$2.13 per hour. These folks who are the backbone of our service industry rely on the tips we give them to pay their bills and feed their families. [Minimum Wage Across America](#)

There are lots of ways to calculate a tip and no predominant method has been proven to be 'the' method to use for tipping when you go to a restaurant. Many people use the pre-tax method, where they tip 20% to 25% of the pre-tax amount on the bill. However, some people either use the double tax method where you double the sales tax for the tip or divide by six methods which gets you around the average percentage tip in America of 16.66%.

Of course, you must be careful in some circumstances to double tip. Some restaurants require a guaranteed gratuity if you have a party of six or eight or more, and hotels generally apply an 18% to 25% gratuity for room service when it is ordered. You can certainly tip more by filling out the additional tip line, but this means in some cases you'll be tipping 40% to 50%, so it's recommended you ask the question in advance as to whether gratuity is included, or it is not included.

Some of us have a hard time calculating tipping amounts, so there are some great apps that are out there. Tip Check is an easy one you can download for iOS or Android to help you calculate a simple tip. If you go out with groups of friends often and split up bills, there is an app called Settle Up and one called Tab that can help you make sure everyone is tipping the right amount. If you don't carry a ton of cash on you, then you can download an app called GratZeez than help you give gratuities electronically on the fly.

So, when is it a bad time to tip? Some of us believe it's just bad karma to stiff someone and other times it seems downright insulting that someone wants you to tip. Some people don't care for tip jars at some shops and cafes that you see in your local shops, and most people don't care for paying an 18% tip when I'm taking the food back to my seat and cleaning up my own trash. Often, you'll buy a coffee, smoothie, or latte today at a store and the person who took the order flips the screen expecting a 15% or 20% tip just to press a button.

Ironically, Europe is where tips were invented and now it is discouraged today. Given that we are a capitalist society and people want to get paid when they perform, it's not likely you'll see tipping end anytime soon. Whether you are an over-tipper, or you are the cheapskate, these are some guidelines you can use to think about the best way you want to tip.

Earnings Highlights This Week

GameStop: GameStop swung to a loss in the holiday quarter amid a turnaround effort

and supply chain challenges. The company said it will launch a marketplace for NFTs by the end of the second quarter. The video game retailer said it's making progress in other areas, too, such as launching a redesigned app, striking relationships with PC gaming brands, and attracting new members to its rewards program.

Warby Parker: Warby Parker said sales were hurt in the final weeks of December, which coincided with typical peak demand in the optical industry. Management said the effects of omicron resulted in nearly \$5 million of lost sales in the fourth quarter, and it projects losing more than \$15 million in the first quarter, as fewer customers came in for eye exams and to try on new eyeglasses in early January. Warby Parker said it projects its brick-and-mortar locations will get back to 100% productivity before the end of the year.

News and Notes

Should You Get Rid Of The Junk In Your Trunk To Save On Gas Prices?

Can you save money on gas by becoming a better driver?

- Maybe a smarter driver.
- Reducing highway speeds by 5 to 10 mph can increase fuel economy by as much as 14 percent.
- Avoid rapid acceleration, hard braking, or 'jack rabbit' starts- all of these can lower fuel economy.
- A/C (air conditioning rule) – under 40 mph- roll down the windows – over 40 mph use A/C because of the drag on the car.

Can you really save money by getting rid of things in your trunk?

- Not really, but every little bit counts. Getting rid of an extra 100 pounds can increase fuel economy by 1%.
- What's more impactful are your tires. Underinflated tires can affect fuel economy by as much as 10% (source: AAA)
- Remember Monday tends to be the cheapest gas day of the week and Friday the most expensive.

Are there any apps that can help you save money on gas?

- Many people know 'Gas Buddy', but Nexit is another great one that highlights the cheapest gas stations on your GPS system.
- Cool app called GetUpside where you can get cash back every time you fill up at the pump.
- Consider getting a cashback gas card – many of these cards offer up to 5% cashback when you gas up your car.

From the team at J M Brown Financial Partners

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