Weekly Market Commentary
February 21st, 2022

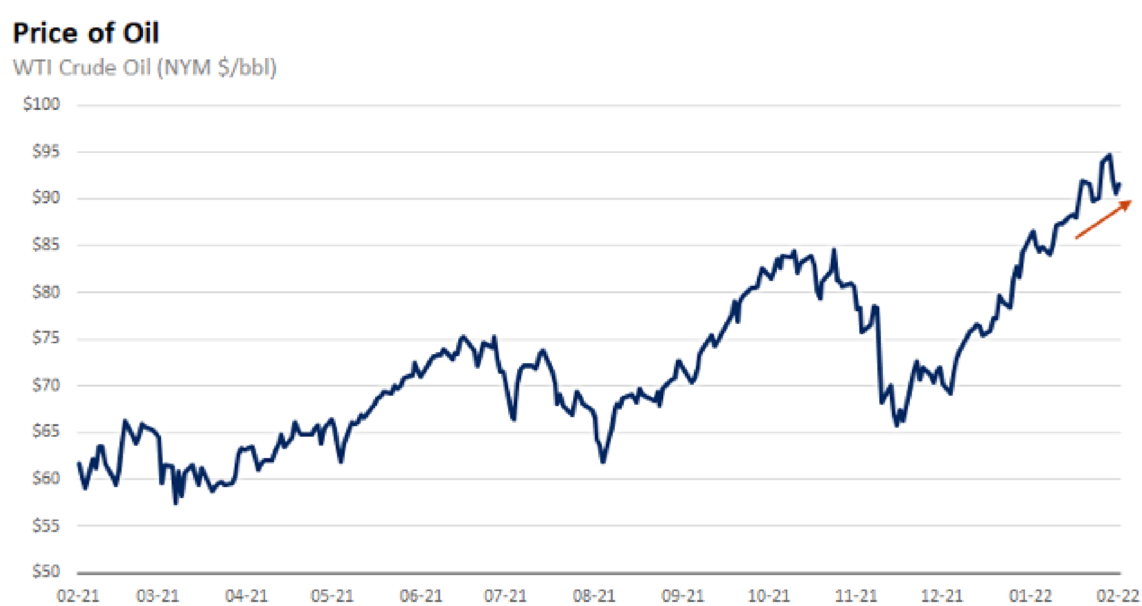
How Will The Russia-Ukraine Situation Affect The Markets?

What do we know thus far about the Russia-Ukraine situation?

Reports earlier last week stated that Russia had pulled back troops from the Ukrainian border after completing military drills – a de-escalation that was welcomed by markets broadly. However, later in the week, we heard from both U.S. and NATO officials that Russia had not moved troops. In fact, U.S. officials claimed that Russia had increased its troop presence on the Ukrainian border by thousands, and a military attack may remain imminent in the days ahead. U.S. and NATO allies, including the European Union, stand prepared to deliver "swift and severe" sanctions against Russia if it were to move forward with military action. This week, U.S. Secretary of State Blinken also plans to meet Russian Foreign Minister Lavrov in Europe to engage in further diplomacy, assuming no military escalation has occurred.

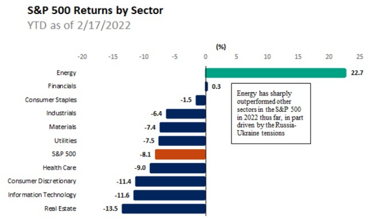
What are the market implications?

Historically, markets have tended to look past geopolitical tensions, focusing primarily on any potential economic spillovers. In this case, Russia is one of the world's largest oil producers and is particularly important to the European region (supplying nearly 40% of natural gas to the region). As a result, we have seen oil prices remain elevated through this crisis, with WTI crude prices now near $90. Only recently have we seen some relief to rising oil, perhaps given that the U.S. is now considering lifting sanctions on Iran, another large global oil producer.



Source: FactSet, past performance is not a guarantee of future results.

When we look at broader S&P 500 performance by sector, the energy sector is by far the outperformer this year currently.



Source: FactSet, past performance is not a guarantee of future returns. The S&P 500 is an unmanaged index and cannot be invested indirectly.

This chart shows the relative outperformance of the Energy sector amid rising oil prices and stock market volatility.

In addition to driving oil prices higher, the Russia-Ukraine tensions may drive market volatility and a flight-to-safety response in markets in the near term. This includes investors flocking to traditional safe-haven assets like U.S. Treasury bonds, the U.S. dollar, and gold. We have seen increases in these assets in recent days as uncertainty has escalated. Over time, if tensions ease, we would expect investor focus once again shift to Fed policy, inflation, and the broader economy.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,079	-1.90%
S&P 500 Index	4,349	-1.58%
NASDAQ	13,548	-1.76%
MSCI EAFE	2,257	-1.83%
10-yr Treasury Yield	1.93%	.52%
Gold	$1,897	2.10%
Bonds	$109.81	-.25%

Source: Reuters/Wall Street Journal

Should I Loan Money To Family or Friends?

Every quarter the Federal Reserve reports on national household debt, and every quarter we're reminded of the trillions of dollars that Americans owe in credit cards, student loans, mortgages, and more. But what about FF debt — or loans from the Bank of Friends and Family? (source: finder.com)

Getting by with a little help from your friends is nothing new, but especially with peer-to-peer lending and digital wallets making lending to people we know easier, we wondered how much do we rely on our loved ones? And how much does it contribute to our national debt? (source: finder.com)

What Finder found is that we borrow money for much bigger expenses than to cover lunch (despite what your Venmo feed may say) — to the tune of $184 billion annually.

That's a figure that is more than student loan and credit card debt combined and deserves a closer look. (source: finder.com)

How did they calculate how much we borrowed from friends and family?
They surveyed 1,417 participants last fall about whether they borrow from friends and family, which could help us get an idea of the size of FF debt*. The polling included millennials (ages 18 to 35), Gen Xers (36 to 54), and baby boomers (55 to 76). According to the results, more than 1 in 3 respondents (38%) have borrowed from friends and family in the past 12 months. After asking these people — let's affectionately call them "takers" — how much they've borrowed from friends and family — or "givers" — they found that the average loan amount came to $3,239. (source: finder.com)

When nationally scaling the fact that 37% of our respondents said they borrowed from friends and family, we applied this proportion to the number of adults ages 18 to 76 projected by the US Census for 2016 (232.5 million), which resulted in 88 million Americans who borrow from friends and family. They then multiplied this by the average borrowed amount ($3,239). The calculation revealed that we're borrowing a staggering $288 billion from friends and family — and that reflects borrowing in one year only. (source: finder.com)

So, is it a good idea to loan money to a friend or a family member?

The first rule you might want to consider is to adopt a Nancy Reagan 80's slogan of "Just Say No!" In general, it is best to tell people you don't have it; you can't afford it, or you simply don't want to jeopardize your relationship with them. Those answers will solve 90% of the problem you'll have with loaning people money.

The real question of loaning money to F&F's is whether it's really a loan or it is a gift. If it is a gift, then you don't quite have the same level of pressure because essentially you are saying that you'll give somebody money with no strings attached. That means you could be helping a friend through a tough time or a family member who is having trouble paying for their kids' college.

The challenge becomes when you do an UNOFFICIAL loan which means you think you are loaning money to someone, and it may not be clear about the terms of what the loan is going to me. Now, imagine this scenario. You loan money to a friend or a family member, and then they book themselves a four-day trip to Las Vegas. Then, every time you see them at any event, you'll always be wondering in the back of your head….'when am I going to get my money back?'

There have been so many of these scenarios over the years, and most of them will lead to broken or strained relationships or even worse where the two parties can't even talk to each other at all. The part that most people don't consider when they make an unofficial loan is if the loan goes south and the party cannot pay it back, how will you prove to the IRS that you made the loan? Now, not only have you lost the money, but you cannot even write it off!!

If you must loan the money, you should it official by creating a promissory note. You can find samples of these on websites like Rocket Lawyer. This note should spell out the amount of the loan, the interest rate, the terms of repayment, and what happens if they do not repay. This will protect both of you, and you should make sure to report the interest on your taxes.

There is no easy answer when it comes to the idea of loaning money to friends or family. The big decision you should be making is whether this is a gift or a loan. That will make the process that much easier. Remember, relationships are tricky, and money can make them go in the wrong direction if there is a misunderstanding about money. If you are going to loan some dough, just be clear about how it is going to work, or you might end up feeling like Tony Soprano and doing something you don't want to do!

Earnings Highlights This Week

DraftKings: DraftKings beat estimates in its fourth-quarter earnings report. But shares fell after the company reported an adjusted EBITDA loss for 2022 that was much higher than analysts had anticipated. The company saw steeper operating expenses in the quarter compared to the previous period.

Roku: Roku's revenue growth slowed to a rate that was lower than analysts had expected. The company said during the quarter that it would be able to keep YouTube and YouTube TV on its streaming service.

Shake Shack: Shake Shack forecast quarterly revenue below estimates, as the Omicron variant led to labor shortages, forcing the burger chain to close restaurants. Benefits from easing Covid-19 Delta wave were short-lived for Shake Shack because of the Omicron wave. Shake Shack said on Thursday it expects total revenue of $196 million to $201.4 million for the first quarter, compared with estimates of $210.9 million, according to IBES data from Refinitiv.

Walmart: Walmart topped earnings expectations and reiterated its long-term forecast, which calls for adjusted earnings per share growth in the mid-single digits. The big-box retailer is a bellwether of inflation because of its huge store footprint, diverse customer base, and heavy emphasis on groceries. The company's stock has underperformed on Wall Street over the past 12 months.

DoorDash: DoorDash on Wednesday posted better-than-expected revenue for the fourth quarter, as well as total orders that topped analysts' expectations. Shares of the company soared 30% on the results.

News and Notes:

Why Did Bruce Springsteen Sell His Music Catalogue?

Why Are These Artists Selling Their Song Catalogues Now?

- The Spotify Effect- a boom in streaming music has caused a boom in overall valuations (Bruce Springsteen and Bob Dylan got more than $500 million dollars)
- Commercials, Commercials, Commercials- more famous artists' songs are being used in commercials.
- The number of users of paid music streaming services went up by almost 100 million in 2020 alone.

Is The Economic Environment Driving This Wave Of Sales?

- Low-Interest Rates: Historically low-interest rates (interest rates in the 3% to 4% range allows people to pay more money).
- High Valuations: Song catalogs can sell for 10x to 18x royalties (i.e., royalties 10 million a year = 100 million to 180 million sales). Now some catalogs are selling for 25x royalties.
- This Asset Class Has Durability: Music has always been fairly recession-proof (which makes it even more appealing during the pandemic, rocky stock markets, etc.)

Will The Artists Pay Taxes When They Sell Their Songs?

- Yes, they will pay taxes, but this is the other big driver why artists are selling their catalogs. Big fears about capital gains tax going from 20% to 40% which is driving sales.
- Plus, splitting up a song catalog at death or deciding whom to leave it to can be very difficult in an estate plan.

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