OUT OF THE BOX

INVESTMENT COMMITTEE UPDATE

2022 Q2

Faith | Trust | Excellence | Care

BOX FINANCIAL

Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Investment Committee

Each quarter, our Investment Committee meets to review the markets and economy. At this meeting, three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm. Our quarterly newsletter represents the Committee's general thoughts behind any adjustments.

Our Team

This Quarter our team came together to serve a warm meal at Union Gospel Mission Twin Cities. The UGMTC believes that hope begins with a meal. For the many people who lack food each day, the Mission provides meals, no questions asked.

UGMTC mission is to feed the hungry and give shelter to the poor, in doing so, we fulfill the mission and compassion Jesus requires of us in Matthew 25:35, "For I was hungry and you gave me food, I was thirsty and you gave me drink, I was a stranger and you welcomed me." For more information about this charitable organization please visit: ugmtc.org/program/food-shelter.

Career Opportunities

We have great opportunities for job seekers to join our firm. Many of you have come to appreciate our culture, and you may have people in your life looking to work for a great company. We are looking to hire three individuals who share our core values of **Faith, Trust, Excellence, and Care**.

Find more information about the openings on our website: boxfinancialadvisors.com/career-opportunities.

ECONOMIC COMMENTARY

A look at What **Was**, What **Is**, and What **Could Be**

Q2 KEY IDEAS

- Inflation pressures continue to take a toll on business and workers
- Continuous interest rate hikes as the Fed works to reign in inflation
- Past stimulus has allowed the US consumer to manage through more economic pain than usual, giving the economy more time to correct itself through the volatility

What Was

The economic environment has been rapidly changing over the first few months of 2022. At the beginning of the year, most economists agreed that inflation was a product of backed-up supply chains and a consumer with an appetite for spending in a post-covid world.

The supply chain has begun to unclog, but the Russian - Ukrainian conflict has led to a new dimension which is commodity-driven inflation. The conflict has shown itself in higher gas prices, energy crises in Europe, and less access to rare earth metals. We expect these factors to continue to increase costs and expect a peak sometime after the first half of the year. We hope the core inflation, which strips out food and energy, could settle at around 4% by year-end.

The continuing pressure of inflation rising above 7% has forced the Federal Reserve to begin raising interest rates. On March 16th, the Federal Reserve increased interest rates by 0.25%, raising the upper end of the Federal Reserve rate from 0.25% to 0.50%. This also began a sharp rise in the 10-year treasury from 1.75% to nearly 2.95% in approximately three months. We expect this rise in interest rates to continue and would expect the Federal Reserve to raise rates 50 basis points in May, another 50 basis points in June, and 25 basis points over the remainder of the year.

What Is

Inflation and Interest rates are the two most important factors currently in the economy. As they affect the US economy, we monitor corporate and consumer health to understand when these headwinds would begin to break the economy. For corporations, earnings are always an essential factor, and wage growth is the factor we are paying the most attention to as it cuts into corporate earnings. The Atlanta Fed (Wage Growth Tracker, n.d.) is reporting that in May of 2021, wage growth was at 3%, and in March 2022, it was 6%. Once wages go up, it is challenging for them to come back down, creating a semi-permanent expense that eats into profit margins. Fortunately, corporate earnings have continued to grow. In Q1 2022, the estimated growth rate is 4.5%. This occurred in the face of rising pricing pressure.

Consumer spending is approximately two-thirds of the United States GDP (Shares of Gross Domestic Product: Personal Consumption Expenditures, n.d.) making it one of the most important things to monitor for the health of the economy. Higher prices, especially higher prices on necessities, eat into consumer spending. This year began with gasoline prices averaging $3.38/gallon, and as of April 4th, that climbed to $4.27/gallon. The 30-year mortgage has also risen to 5.1% from 3.22% at the start of this year. Housing prices have risen 5% from a year ago. These costs continue to eat at a more significant chunk of consumers' discretionary income and have the potential to slow down other spending. Positively, unemployment has dropped to 3.6%, and we previously talked about wage growth at 6%. We will continue to watch the consumer's health because the US economy continues to march forward when consumers spend money.

What Could Be

There are a lot of market commentators with opinions about where the economy is going to head from here. Boiling down these opinions leaves us with two main thoughts: either inflation will come down to match our “relatively” low-

interest rates, or interest rates will need to rise to match current high inflation. We have found this one of the hardest things to predict as you have brilliant people in both camps. However, we believe that the gap between inflation and the 1-year treasury bond currently sits around 6.86 and cannot be maintained long.

Globally, we see these same factors of high prices and rising rates as more detrimental to overseas developing countries. Many of these countries rely on global trade for their growth and well-being. Today, after devasting supply chain problems brought by the COVID pandemic and the increasing global tensions, these two factors alone are creating an environment where countries are looking to develop products inward instead of engaging in international trade.

Final Thoughts

Many negative things are going on in the economy and globally: war, rising interest rates, and high inflation, to name a few. To navigate this world, we need to keep our eye on the consumer with low unemployment, increasing wage growth, and lots of built-up demand and savings from the COVID stimulus. Usually, these negative factors would break the consumer's ability to spend, but we believe the positives will allow the consumer to grind through the pain for some time. As we watch future events unfold, we will continue to monitor all of the various market and economic data to do our best to protect your wealth in the days to come. While we never enjoy turmoil in the world or markets, we do know that if cared for properly, many times, the turmoil brings about some of the best movement opportunities for the future, just like the storms of spring will allow for many of the plants to grow and blossom in the summer. Thank you for the continued trust and confidence you have placed in our firm to manage your wealth.

MARKETS

These economic conditions have created a highly volatile environment for high-quality bonds in the United States. These bonds are made up of the highest quality companies, and even issues by our government have typically been a conservative place for investors to park their money. However, as inflation and rising interest rates have been a significant theme for the year, this has created a volatile environment for the historically safest asset class.

In the stock market, technology stocks have been the most beat up to start the year. For many small to medium-sized technology companies, their viability relies on their ability to grow to scale by using debt instruments. As interest rates rise, their business model is more expensive and less exciting for investors. This same process carries over to the mega-cap stock companies that are household names. We believe that this is an unfair assessment of how these large companies are truly doing. Most of them are so well capitalized that any debt on their balance sheets is more strategic financial engineering than a necessity for growth.

The sector we see a lot of potential for is the commodities space. Our world is pushing for a new reality that involves energy alternatives and technological advances. These projects rely heavily on rare earth metals where demand has been growing. Because we believe that demand will continue to grow faster than these mines can get up and running, we see commodities as a long-term trend that also does well in an inflationary environment.

Rewind into the Future

We can't wait to Rewind into the Future by moving forward while bringing the best aspects of the past with us.

Three focused areas in our new space:

- Experience, specifically the physical environment
- Personalized attention
- Energy of the firm

Our new address is 901 Marquette Ave., Ste. 2800, Minneapolis, MN 55402. Please DO NOT use this address until we send an official move notice.

Find more information and a video message from Doug Box about our move on our website: boxfinancialadvisors.com/our-move.

BOX FINANCIAL

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References

- *Shares of gross domestic product: Personal consumption expenditures. (n.d.). FRED. Retrieved May 17, 2022, from https://fred.stlouisfed.org/series/DPCERE1Q156NBEA*
- *Wage Growth Tracker. (n.d.). Federal Reserve Bank of Atlanta. Retrieved May 17, 2022, from https:/www.atlantafed.org/chcs/wage-growth-tracker*