

Weekly Commentary

September 6, 2022

THE MARKETS

You may have heard this one: Don't fight the Fed.

The Fed is the Federal Reserve Bank of the United States. Among other things, the Fed influences monetary conditions in pursuit of price stability and full employment. As we've seen recently – with unemployment low and inflation high – the Fed's job isn't simple or straightforward.

"Don't fight the Fed" is a bit of wisdom that encourages investors to align their portfolios with current monetary policy. "The rationale is deceptively intuitive. If the Federal Reserve is cutting interest rates or is generally accommodative, then the ensuing liquidity should provide a positive backdrop for risk assets like stocks. If the Fed is raising rates or constraining liquidity, that activity tends to be a headwind for equities and other assets," reported Steve Sosnick of Barron's.

After the Fed confirmed its commitment to rein in inflation by raising rates, the Standard & Poor's 500 Index finished August lower.

"In retrospect, bulls should maybe have been more worried that one of the most reliable tools the Federal Reserve has for subduing inflation is to scare the U.S. equity market," reported Isabelle Lee and Lu Wang of Bloomberg. They cited studies that found, "Disinflationary effects have historically kicked in when the S&P 500

drops more than 19%...It breached that level in June and is now approaching it again...every dollar lost in stocks leads to a 3-cent reduction in spending."

It will be interesting to see whether spending moves lower. While stock markets dropped in August, consumer sentiment moved higher. After falling for three consecutive months, the Conference Board's Consumer Confidence Index® increased in August. (The Index sets 100 at 1985 sentiment levels. In 1985, the United States was in its third year of economic growth following a recession.) Last month, sentiment was 103.2, up from 95.3 in July.

Some economists see consumer sentiment as a lagging economic indicator, meaning that it reflects what happened in the past, because it takes time for consumers to respond to economic events. Others think consumer sentiment is a leading indicator because it suggests where spending, which is the biggest driver of U.S. economic growth, may be headed. Consumer spending accounts for close to 70 percent of gross domestic product (GDP), which is how economic growth is measured.

Last week, major U.S. stock indices finished lower after the U.S. employment report showed solid jobs growth, suggesting that the Federal Reserve will continue to raise rates, reported Ben Levisohn of Barron's. U.S. Treasury yields rose across the yield curve when compared to the previous week's close.

Data as of 9/2/22	1 WEEK	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Standard & Poor's 500 Index	-3.3%	-17.7%	-13.5%	10.5%	9.8%	10.8%
Dow Jones Global ex-U.S. Index	-3.2	-21.2	-23.8	0.5	-0.8	2.2
10-year Treasury Note (yield only)	3.2	N/A	1.3	1.5	2.1	1.6
Gold (per ounce)	-2.2	-5.9	-5.5	3.9	5.1	0.1
Bloomberg Commodity Index	-4.4	20.1	23.2	15.6	6.9	-2.2

Notes: S&P 500, DJ Global ex US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

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BACK TO SCHOOL

Across the country, school supplies have been purchased and many children have returned to the classroom to start a new school year. The give and take between teachers and students can produce some memorable – and humorous – moments. The following are from stories shared in Reader's Digest.

Teacher: Where is your homework?

Student: It's still in my pencil.

Teacher: Why can't freshwater fish live in salt water?

Student: The salt would give them high blood pressure.

Teacher: How would you make the world a better place?

Student: I'd make potato skins a main dish rather than an appetizer.

Teacher: Mira went to the library at 5:15 and left at 6:45. How long was Mira at the library?

Student: Not long.

Teacher: Why do you think our librarian is leaving?

Student: Because she's read all our books?

Teacher: In Franz Kafka's *The Metamorphosis*, a man who is discontented with his life, wakes up to find he has been transformed into a large, disgusting insect.

Student: So, is this fiction or nonfiction?

Teacher: Why aren't you wearing your glasses?

Student: My glasses are for reading, not math.

What are your favorite school stories?



WEEKLY FOCUS - THINK ABOUT IT

"I have learned silence from the talkative, toleration from the intolerant, and kindness from the unkind; yet strange, I am ungrateful to those teachers."

—Khalil Gibran, writer and poet



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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added. Michael A. Poland, CFA® – Financial Advisor and Portfolio Manager. Mike is a Chartered Financial Analyst with a BA from Michigan State University and an MBA from the University of St. Thomas, in St. Paul, Minnesota. Mike has been in the financial service industry since 1989. Mike's prior experience was with PaineWebber, Merrill Lynch and Lehmann Financial. Mike is a member of the CFA Society of West Michigan, and has served on the boards of The Builders Exchange of Grand Rapids and West Michigan, Mona Shores Education Foundation, and the West Michigan Symphony Orchestra. Mike lives in Norton Shores with his wife and three children.

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