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Wall Street solutions *with* Main Street values!

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April Market Review

Dear Great Lakes Wealth Clients & Friends,

The nature of the economy is that there are always causes for concern in strong markets, just as there are reasons for optimism in weaker ones. It's fair to say, however, that April made it easier to find the concern than the optimism. Still, we take the view that the headwinds we've faced so far in 2022 represent discomfort masking long-term opportunity and a fundamentally tenacious economy.

That said, it's wise to acknowledge the prevailing pessimisms:

- The U.S. gross domestic product (GDP) fell at a 1.4% annual rate in the first quarter.
- Inflation remains high, with the Consumer Price Index rising 8.5% over the year ending in March.
- China's ongoing COVID-19 lockdowns are contributing to supply chain challenges.
- The Russia-Ukraine war will likely continue to cause difficulties.
- Each headline market index was down for the month, with the S&P 500 having its worst day, April 26, since March 2020, falling 2.81%.

A forward-looking view recognizes that at some point we will be able to look back at where we crossed the peak of these difficulties. For some of these issues, there is evidence to suggest that will come soon. The end of this year may look vastly different than its beginning. Here's why:

- Final sales to private domestic purchasers, a better measure of domestic demand than GDP, rose at a 3.7% annualized rate.
- Month-over-month inflation in April is expected to be milder, lowering the year-over-year inflation rate.
- Supply chain data from the Federal Reserve Bank of New York suggests an easing of disruptions.
- First quarter corporate earnings were strong with 80% of S&P 500 companies that have reported beating estimates.
- Corporate cash on hand is at near record levels, empowering shareholder-friendly policies of stock buybacks and strong dividends.
- Consumers are stronger than ever, sitting on more than $2 trillion in savings.

Before we continue, let's take a brief look at the 2022 tallies so far.

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	12/31/21 Close	4/29/22 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	36,338.30	32,977.21	-3,361.09	-9.25
NASDAQ	15,644.97	12,334.64	-3,310.33	-21.16
S&P 500	4,766.18	4,131.93	-634.25	-13.31
MSCI EAFE	2,336.07	2,033.70	-302.37	-12.94
Russell 2000	2,245.31	1,856.90	-388.41	-17.30
Bloomberg Aggregate Bond	2,355.14	2,131.31	-223.83	-9.50

Performance reflects index values as of market close on April 29, 2022.

Here are some other issues worth exploring:

Pressure to overcorrect

If inflation remains at elevated levels, the U.S. Federal Reserve may feel the pressure to further increase interest rates to stabilize prices – its top priority – but at the cost of growth. Clearly, the best result is for this wave to break as other contributing factors ease, which evidence suggests could happen for the latter half of this year. Until then, equities will likely continue to struggle to find footing from which to push forward.

Spreads keep widening

In fixed-income markets, April was all about yield. The continued combination of widening spreads and higher Treasury yields has created yield opportunity for income buyers not seen in decades. The market's perspective seems to be that high yield spread is likely to be more stable than emerging market spreads, which have a higher probability to widen more.

Limited window of action

The month of April saw the Senate advancing key nominations for top regulatory posts that will have impacts across the technology and financial sectors and may lead to broader macro policy changes over the course of the next several years. By pushing through this docket, the Senate may free up time to

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consider legislation, including a domestic manufacturing and China economic competition bill, as well as some of President Biden's other domestic priorities.

Common ground between Democratic factions remains scarce, however, which will complicate the path forward before D.C. shifts focus to the fall election campaign season.

The bottom line

In the near term, volatility will likely remain elevated and equity market weakness may persist as investors grapple with the potential peaks in inflation, bearish sentiments, expectations for central banks and geopolitical tensions.

However, we think that many of these concerns have been priced into the market already. Meanwhile, there is evidence suggesting some of the largest headwinds will ease this year, presenting opportunities to long-term investors.

- We expect a weakening U.S. dollar and inflation to stay above trend for the second half of 2022.
- We expect equities to rebound in the second half of 2022.
- We expect interest rates to rise in 2022.
- We would underweight traditional fixed income, particularly long-dated U.S. government bonds, in 2022.
- We recommend investors consider an overweight of alternative investments, including private equity and debt, in 2022.
- Gold has broken thru $1,900 and recently touched $2,000 oz. but has since retreated to $1,800 oz. We expect to see continued higher prices, to $2,300+ per ounce, in 2022.
- Depending on your timeframe, current investment strategies should be based on what's happening "Now," "Next," and "Later."
- We currently have a "Buy" on 11 of our 12 strategies. We have a hold on International Opportunities Portfolio due to the increased global uncertainty of supply chain and other issues. Which strategy is right for you? That just depends on your risk tolerance, ultimate objective, etc. We are happy to discuss this with you.
- Our current approach continues to be discipline and patience when both buying and selling. Volatility will continue to create opportunity in 2022.

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As always, we'll be sure to monitor the markets and relay anything relevant. If you have any questions, please feel free to reach out at your convenience. Thank you for your confidence in us.

If you would like information on becoming a Great Lakes Wealth client, please call our office at 248.378.1200.

Sincerely,

Your Investment Team at Great Lakes Wealth