FLD Connection

APRIL 2022

SPRING ISSUE

Spring has sprung!

Spring in the Pacific Northwest is such a rejuvenating and refreshing time. We are taking any opportunity to get outside in the fresh air and breaks of sunshine and appreciate life's little moments. After two full years of unprecedented times, we continue to embrace change and welcome in new seasons of life as they come. Like many people, the past couple of years have brought mindset shifts and life lessons – what have the past couple of years brought you? We'd love to hear.

Thank you for your continued trust in us to navigate through this ever-changing world.

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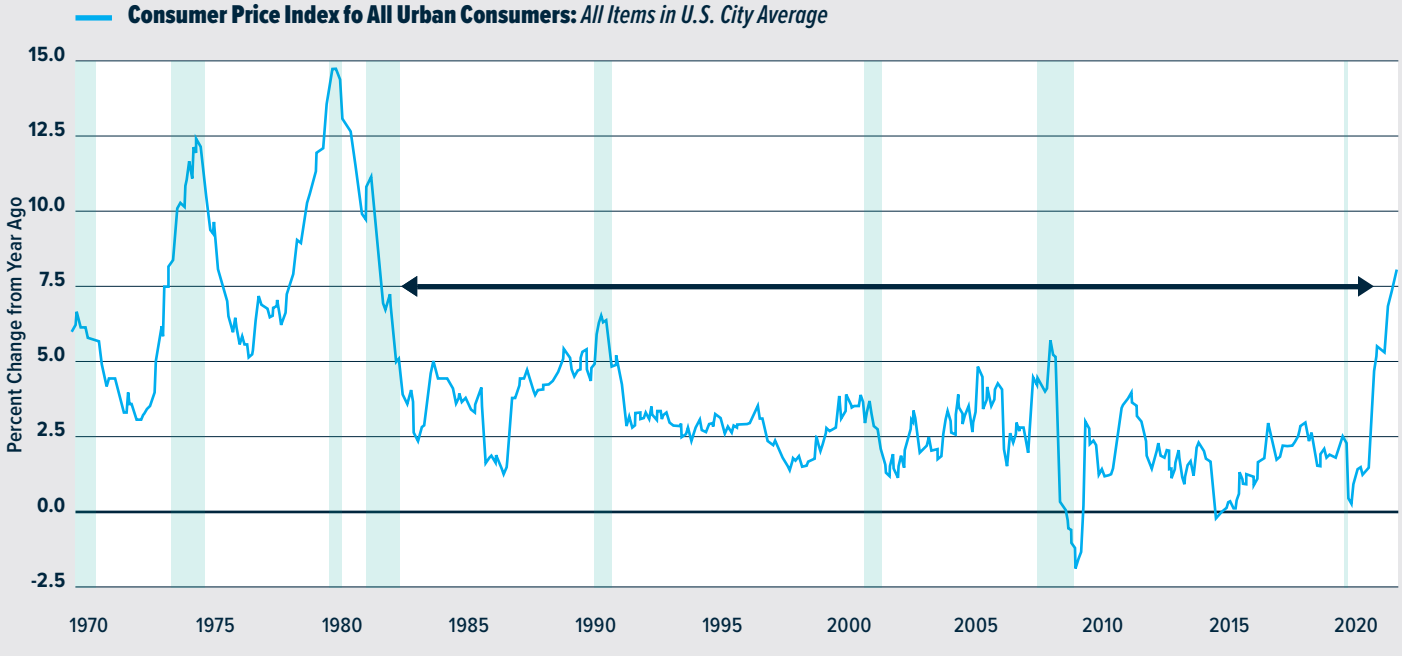
ECONOMIC COMMENTARY
MORE INFLATION AHEAD?

by James Pafundi

Year to Year Consumer Price Index (CPI)

The most recent year-over-year Consumer Price Index (CPI) came in March 10th at 7.9% - the highest inflation reading since the early 1980s. What are the chances that inflation continues much higher? What are the chances inflation moderates? How might that impact investors?



Source: *U.S. Bureau of Economic Analysis, St. Louis Federal Reserve Bank*

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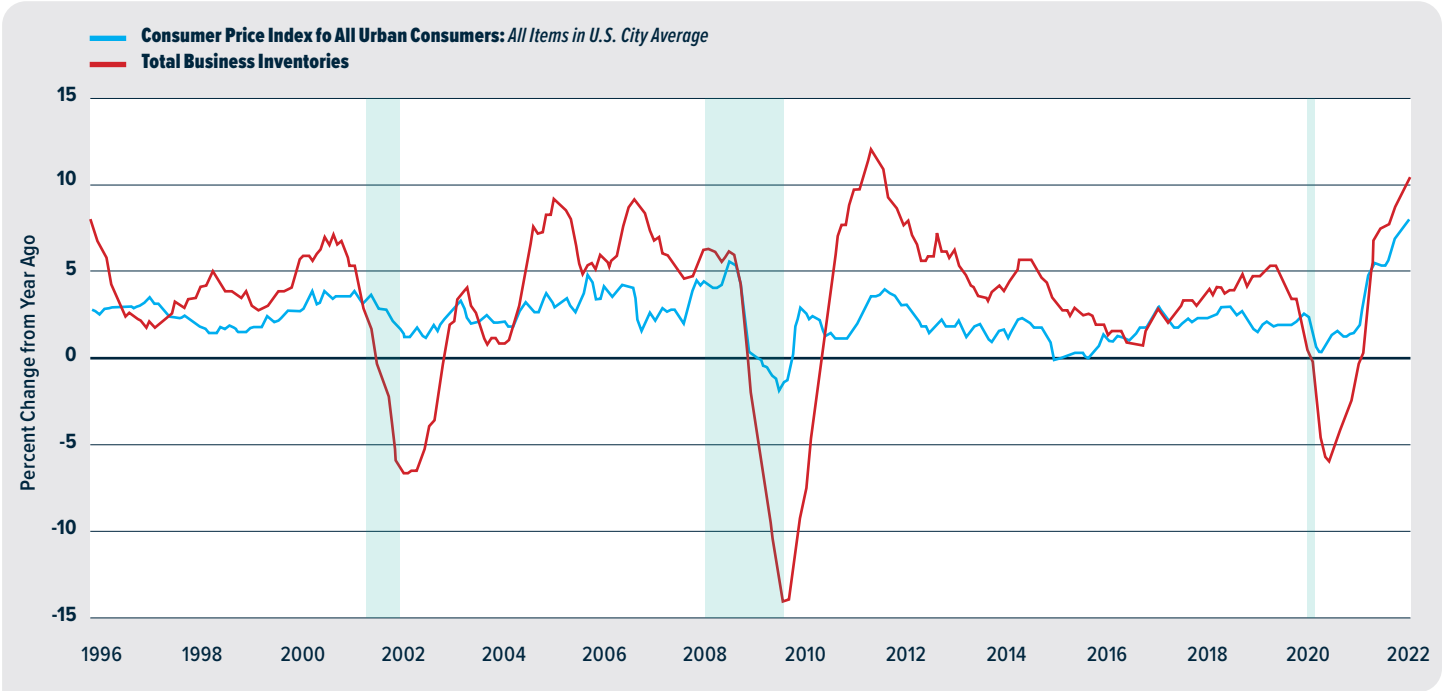
The Case for Higher Inflation

During the beginning of the pandemic, companies were not rebuilding inventories, so as the economy began to reopen and sales increased, companies got caught with fewer items in their warehouses to meet that demand. Today, we still have historically low inventories, and that leaves lots of room for businesses to continue to build.

You can see from the chart below that Inventories (red) are a pretty good indicator of consumer prices (blue). Throughout the month of March, we've seen an incredible run with most commodities. If prices remain elevated, you can expect the CPI to push higher. Wages often lead CPI and they have been very strong lately.



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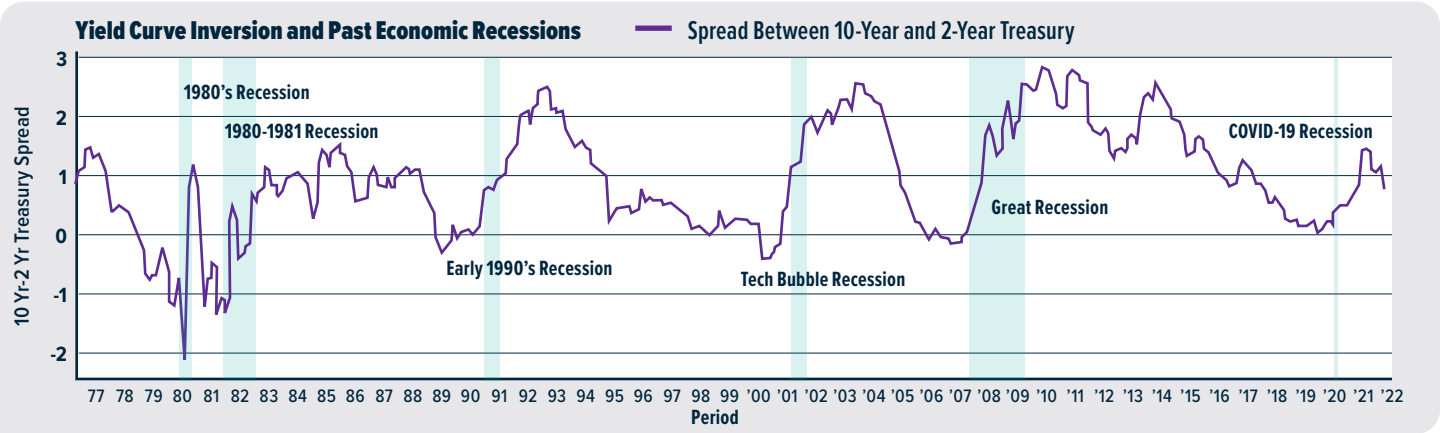
The Case for Moderating Inflation

Inflation is represented by CPI and is measured year-over-year. In March of 2021, we had already seen readings rise significantly, so starting March of 2022, we will start to compare current prices to those that had already risen year-over-year. This means we should probably see lower readings throughout the rest of the year.

A big argument against continued elevated inflation is the slowing economy. The shipping index tends to track CPI pretty well, although the divergence can last a few months before they reconnect.

A Flattening Yield Curve



On the chart above you can see that the yield curve was flattening both in '06 and '18. This is the type of environment that the Federal Reserve typically looks to "calm down" with monetary tightening, as the Central Bank does not want to be seen as contributing to an already weakening economic environment.

This could set the market's tone for the next few months. Those banks that have been predicting 7 to 8 rate hikes in 2022 may begin to suggest that the Fed will run into trouble if they tighten too much. It may take a few rate hikes before the narrative really begins to shift and the markets price in easier monetary policy.

What This Means to Investors

So, we have some pretty strong arguments that inflation is still very much in play; however, year-over-year comparison may come more in line with historical readings because of the base effect and also may be helped by the slowing economy.

Although anything is possible, I believe it to be unlikely that the Fed begins to switch to a dovish tone before CPI has peaked. This may be for the May or June meeting, but investors are likely to "sniff it out" much earlier. This could trigger a large equity rally easily exceeding the all-time high (scenario previously mentioned, would be similar to 2006 and 2018).

Until then, volatility is likely to remain elevated as investors continue to worry about future rate hikes.

Rates Head Higher
Fixed Income Update

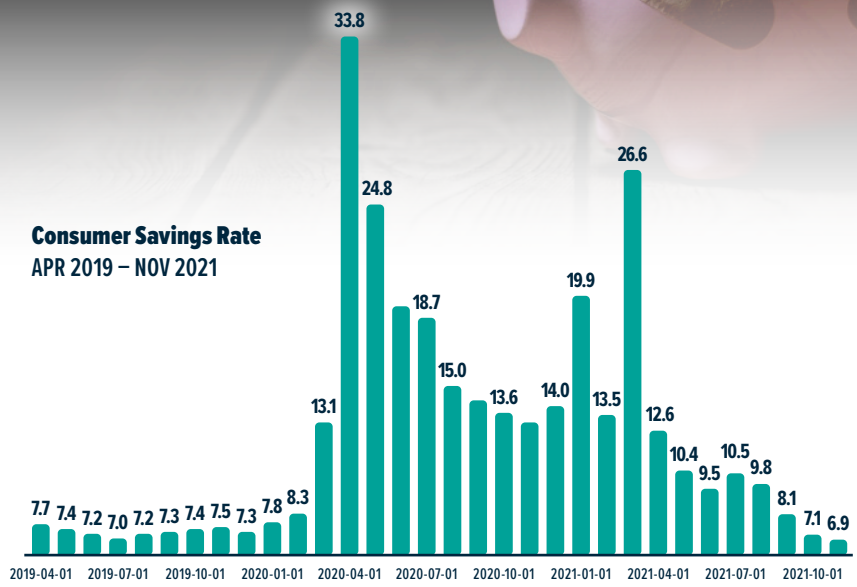
Interest rates continued on a gradual climb in January, with rates on key consumer loans such as mortgages, auto loans, and lines of credit all increasing.

The Treasury yield curve flattened further in January, meaning that shorter term bond yields were closer to longer term bond yields. The 2-year Treasury bond yielded 1.18% at the end of January relative to the 10-year Treasury bond yield at 1.78%. Economists view a flat yield curve as the expectation of slowing economic growth.

Mortgage rates rose to their highest levels since the start of the pandemic, reaching a 3.56% average for a 30-year fixed rate mortgage, up from 3.29% at the beginning of March 2020. The 30-year average mortgage rate fell to 2.67% in December 2020, as the Fed aggressively bought mortgage bonds and placed them onto their balance sheet.

Sources: *Treasury Dept., Fannie Mae, Federal Reserve*

Why Such A Drop in Consumer Savings
Consumer Behavior



Consumers are saving the lowest amount in four years as stimulus assistance funds and generous unemployment benefits have gradually evaporated, encouraging consumers to tap their savings at an accelerating pace.

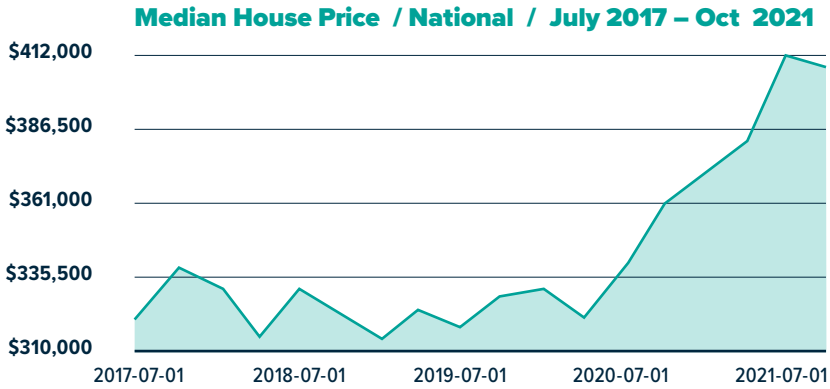
The drop in savings has also been prolific for those nearing retirement. As markets have pulled back, so have retirement fund values, elongating the retirement threshold for many.

Savings rates rose dramatically in 2020 as billions of dollars in stimulus relief payments made their way into consumer accounts. Federal Reserve data found that households spent only 40 percent of their payments, used 30 percent to pay down debt, and saved about 30 percent on the initial round of stimulus payments. The spectacular rise in the savings rate to nearly 34 percent in April 2020, was a validation of how much of the payments went towards savings.

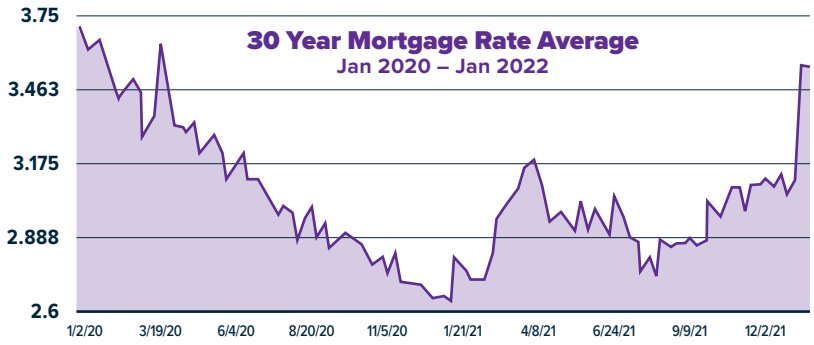
As additional relief programs along with generous unemployment benefits became effective, the savings rate remained elevated through the end of 2021. The most recent data show that the savings rate dropped to 6.9 percent in November 2021, lower than where it stood at roughly 7.5 percent before the pandemic began.

Source: *U.S. Bureau of Economic Analysis, St. Louis Federal Reserve Bank*

Where Are Home Prices Headed Housing Market Update



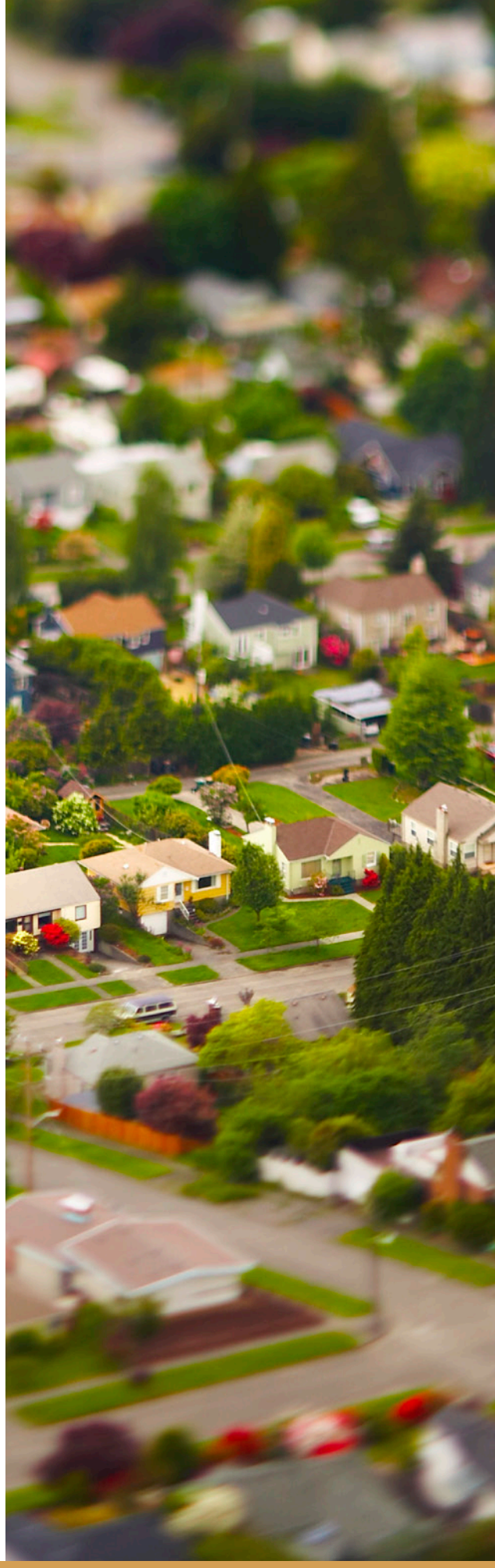
After rising consecutively every quarter since the middle of 2020, housing prices have started to pullback. Limited inventory, migration to rural areas, extended low mortgage rates, and material supply issues have all contributed to elevated home prices over the past two years. The most recent data available by the St. Louis Federal Reserve show a decrease in the median sales price of houses nationwide to $408,100 in October 2021, a drop from $411,200 the previous quarter.



Affordability has become a grave issue for younger homebuyers, even with record low mortgage rates, as inflated prices have forced many to rent until prices retract.

This March, the Fed started selling millions of dollars in mortgage bonds from its balance sheet in order to help mitigate inflationary pressures. Many analysts believe that the Fed's actions will directly influence mortgage rates to rise, possibly enough to stifle rising housing prices. A growing consensus seems to believe that housing prices will be pressured lower as additional inventory becomes available and as rates rise with the Fed's actions.

Source: *St. Louis Federal Reserve Bank*



What's Cooking?

by Gina Pafundi

Moroccan Meatball Tacos with Yogurt Sauce

As many of you know, my hobby is cooking and bringing people together. There is something about connecting over a meal where time stops for a moment and we can enjoy each other's company. I follow a lot of amazing chefs, and there are always so many creative ways to make food. These Moroccan tacos were inspired by Once Upon a Chef with Jenn Segal (www.onceuponachef.com).

The warm flour tortillas with the meatballs and yogurt sauce are delicious! If you're short on time, you can also buy the tzatziki sauce at most grocery stores. I also bought some tabouli that I added to the tacos. The flavors burst in your mouth! Enjoy.

For the meatballs:

- 1 large egg
- 6 cloves garlic, minced, or use garlic press
- 2 tsp ground cumin
- 2 tsp ground allspice
- ¼ tsp harissa seasoning (if you don't like heat, leave this out, or add more if you do!)
- ½ tsp paprika
- 2 tsp kosher salt
- 1 tsp ground black pepper
- 1 c. fresh cilantro, chopped
- 1-1/4 pounds ground beef
- 1/3 cup of panko or almond meal (for gluten free)

For putting together the tacos:

- Flour tortillas
- Avocados, cut into bite-size pieces
- Extra cilantro for tacos
- Store-bought tabouli (optional)

For the yogurt sauce OR you can buy Tzatziki Sauce:

- ½ English cucumber, peeled, halved lengthwise, seeded and finely diced
- 1 c. plain low-fat or whole milk Greek yogurt (do not use non-fat)
- 2 T fresh lemon juice (about one small lemon)
- 2 T chopped fresh dill - or even add more if you like dill (I LOVE dill)
- ¼ tsp Kosher salt
- ¼ tsp ground black pepper

Instructions: The meatballs can be cooked in the oven or on the grill. For the grill, preheat the grill to medium-high heat. For the oven, preheat to 400° F. Mix together the egg, garlic, cumin, allspice, harissa, paprika, salt, pepper, and cilantro in a large bowl. Add the ground beef and panko or almond meal and mix until well combined. Using a cookie scooper or your hands, form the meatballs into small discs.

For the Grill: Rub oil over the grates and grill the meatballs, covered, for about 4 minutes per side, or until they are browned and no longer pink in the center.

For the oven: On a cookie sheet lined with parchment, cook the meatballs in the oven for approximately 20 minutes, checking halfway for doneness.

Putting together the tacos: Warm flour tortillas in a pan or microwave. Add meatballs, yogurt sauce, avocado and cilantro. You can also sprinkle tabouli on them or serve it on the side. So delicious! Enjoy.

FINANCIAL LIFE DIMENSIONS
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Travel & Adventure

24 hours in Napa Valley for Foodies, Friends and Fun

by Gina Pafundi

What is dry farming?

Dry farming is often described as crop production without irrigation during a dry season, usually in a region that receives at least 20 inches (50 cm) of annual rainfall, and utilizes the moisture stored in the soil from the rainy season. A broader definition of dry farming is a low-input, place-based approach to producing crops within the constraints of your climate. As we define it, a dry-farmed crop is irrigated once or not at all.

Source: *Dry Farming Institute*

Time away to disconnect from our daily routines is important!

Recently, I visited Napa Valley to connect with my college roommate. The Valley covers a large geographic area. We landed in the quaint town of Yountville, which is perfect for a quick trip, and has a great location for walking to wonderful restaurants and tasting rooms.

Yountville is also referred to as the "Culinary Capital of Napa Valley," which is perfect for my foodie passion! Of course, this area also has a rich history rooted in grapes! James' love of history has rubbed off on me, so I always find it interesting to discover the historical significance of towns while visiting. According to Yountville's website, during the early part of the 1800s, the area that now makes up Yountville was owned by Mexico. George C. Yount received an 11,887-acre land grant from the Mexican government in 1836 and was responsible for planting the first grapes in Napa Valley.

We stayed at the beautiful bed and breakfast Lavender Inn, located in the heart of Yountville. The complimentary bicycles they provide to guests are a nice amenity to explore the town and take in the mountain views.

For our first food adventure, we started with lunch at the Michelin star restaurant, Bouchon. Bouchon is a vibrant French bistro situated in the heart of Yountville. They are also known for their wonderful bakery, which we visited the next day. The highlight of the trip was a visit to Frog's Leap Winery, one of three dry farms in Napa. It was interesting to learn about dry farming, as well as sample their delicious wines. A culinary highlight was dinner at La Bottega, where we enjoyed a unique pasta called "Spaghetti alla Sophia Loren." The description was as eloquent as the dish was delicious: "Gragnano Spaghetti cooked in tomato leaf infused tomato water with aromatic oil, early girl tomato sauce, and blistered cherry tomatoes." It was fabulous!

Overall it was a perfect trip for 24 hours!

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