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Weekly Commentary

June 6, 2022

We Welcome Dimitri Poland to the BWM TEAM!

Dimitri joined our team in the spring of 2022. He graduated from the Honors College at Michigan State University with a Bachelor of Arts degree in Finance with an emphasis in the wealth management industry. His hard work qualified him for the Dean's List for five semesters. Dimitri has a passion for the stock market and crypto currencies, along with helping assist in the construction of financial plans to help clients reach their financial goals. He plays an integral part of the Braeburn Team in helping with portfolio structures for each client's risk levels as well as portfolio rebalances according to economic climates.

THE MARKETS

How strong is the United States economy?

That's the question investors were mulling after last week's jobs report.

More jobs were created in May than economists expected, and the labor force participation rate rose, meaning even more people are returning to work. Overall, the unemployment rate remained at 3.6 percent. However, unemployment rates varied by age, sex and race:

- Adult men: 3.4 percent
- Adult women: 3.4 percent
- Asian: 2.4 percent
- Black: 6.2 percent
- Hispanic: 4.3 percent
- White: 3.2 percent
- Teenagers: 10.4 percent

From an inflation perspective, there was some good news in the employment report as earnings increased at a slower pace than in previous months. Apart from that bit of good news, "More jobs added and higher wages are signs of a strong economy…the concern is that inflation will remain close to its recent peak," reported Joel Woelfel and Jacob Sonenshine of *Barron's.*

Some pointed to layoffs at technology companies as a sign the economy might be weakening. However, as Randall Forsyth of *Barron's* reported:

"…16,800 pink slips were handed out last month by 66 technology companies, the most since May 2020 at the depth of the pandemic… Many of those cuts came from outfits with much promise, but no profits, that burned through copious amounts of cash bestowed by a once-ebullient equity market."

Investors who hoped the Fed would ease up were disappointed by the strength of the employment report. The data reinforced expectations that the Federal Reserve will continue to tighten monetary policy, causing the economy to cool down and inflationary forces to recede, reported *Barron's.*

Bond markets appear to agree that the Fed will have to work harder to tame inflation. The U.S. Treasury yield curve moved higher as rates on all maturities of U.S. Treasuries marched higher during the week. That also suggests recession concerns may be overblown, reported Ben Levisohn of *Barron's.*

Major U.S. stock indices moved lower last week.

Data as of 6/3/22	1 WEEK	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Standard & Poor's 500 Index	-1.2%	-13.8%	-2.0%	14.4%	11.0%	12.4%
Dow Jones Global ex-U.S. Index	0.4	-13.0	-15.9	3.8	1.7	4.3
10-year Treasury Note (yield only)	3.0	N/A	1.6	2.1	2.2	1.5
Gold (per ounce)	-0.4	1.4	-1.2	11.9	7.6	1.2
Bloomberg Commodity Index	0.0	34.9	43.5	20.0	10.3	0.5

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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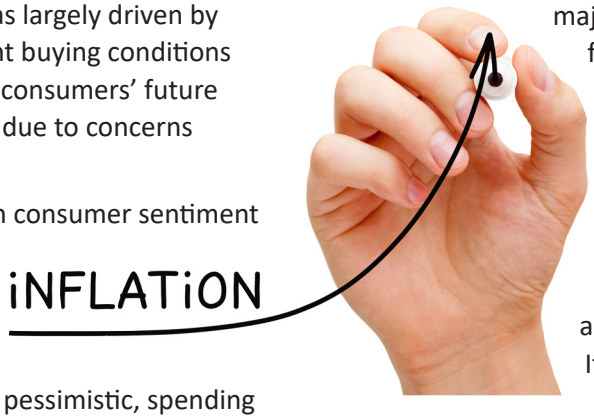
IN THIS ISSUE:

WHAT'S WRONG WITH THIS PICTURE

Consumers are feeling more pessimistic than they have in a decade. The University of Michigan Consumer Sentiment Survey shows that sentiment has been sliding lower all year. In May, consumer sentiment was down 10.4 percent from April and 29.6 percent year-over-year. Surveys of Consumers Director Joanne Hsu explained:

"This recent drop [in sentiment] was largely driven by continued negative views on current buying conditions for houses and durables, as well as consumers' future outlook for the economy, primarily due to concerns over inflation."

One reason analysts keep an eye on consumer sentiment is that it helps predict what will happen to consumer spending. In theory, when consumers are optimistic, spending should increase and when they are pessimistic, spending should decline.



That's not what happened this year, though.

Despite high levels of pessimism, inflation-adjusted consumer spending has increased every month in 2022, supported by solid wage gains and abundant savings. Here's the month-by-month rundown:

- January +1.5 percent from the preceding month
- February +0.1 percent from the preceding month
- March +0.5 percent from the preceding month
- April +0.7 percent from the preceding month

Consumer spending includes everything we buy: furniture, cars, clothing, food, shelter, fuel, healthcare, education – you get the idea. It is the primary driver behind the American economy, comprising about 70 percent of economic growth (as measured by gross domestic product or GDP).

It's possible that consumers are less pessimistic than the Consumer Sentiment survey suggests. Hsu wrote, "Less than one quarter of consumers expected to be worse off financially a year from now. Looking into the long term, a majority of consumers expected their financial situation to improve over the next five years; this share is essentially unchanged during 2022. A stable outlook for personal finances may currently support consumer spending."

So, consumers are pessimistic – and they also seem to be optimistic. It's an interesting conundrum.

WEEKLY FOCUS - THINK ABOUT IT

"The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function."

—F. Scott Fitzgerald, author

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 Rehmann 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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