
MARKET COMMENTARY

July 1, 2022

The equity and fixed income markets continue to face challenges in a difficult economic environment. Inflationary pressures began building in March 2020, after the Federal Reserve promised \$5 trillion to support the broad economy. Subsequent stimulus and support programs in 2021 also fueled inflation. A lack of global natural resources, supply chain shortages and a growing food crisis, have all combined to create a perfect storm for the capital markets. Off budget items, such as funding Ukrainian support, create inflationary pressures, as credit is created by the government and injected directly into the economy.

The Dow Jones Industrial Average closed at 30,775.43, a decrease of 15.3% for the year. The S&P 500 ended at 3,785.38, down 20.6%. The NASDAQ decreased 29.5%, resting at 11,028.74. The Bloomberg Aggregate Bond Index closed lower by 10.35%. These statistics represent a snapshot in time and do not imply that the capital markets will not recover. They have always bounced back over previous decades. It is logical to estimate, that until the Federal Reserve completes its interest rate hikes and businesses adapts to a new higher cost environment, the stock market may be range bound in the coming months. Markets are discounting mechanisms and much of the bad news for inflation and lower earnings may already be priced into stocks and bonds.

The war between Russia and Ukraine will remain a permanent outlier in any economic or political forecast over the next one to two years. Ukraine continues to lose 100 soldiers per day in a war of annihilation that Russia is conducting on a narrow front. Strategically, Russia outnumbers Ukraine in all metrics of population, armed forces and natural resources. Russia learned a hard lesson in Afghanistan in the 1980's: victory can only be achieved when the population surrenders. Given the widespread destruction suffered by the Ukrainian populace, it is highly unlikely that they will submit to Russian occupation, even if the war would be lost. If the West continues its support, Ukraine prospects for a negotiated peace remain possible.

We hope you have a most enjoyable summer. Despite the difficult markets, investing requires a long term perspective. Maintaining a consistent approach helps weather market volatility, even in uncertain times, such as we are experiencing. We appreciate your patience in the near term as we endeavor to achieve your financial goals in the long term. Thank you for your continued trust and confidence.

David Breuhan

Vice President