Barrett Capital Partners

2nd Quarter 2022 **Newsletter #4**

	Q2	YTD
S&P 500 TOTAL RETURN	-16.1%	-19.96%
US AGGREGATE BOND TICKER: AGG	-4.41%	-9.54%

2022 Mid-Year Review

The stock market is quietly down 20% this year, while the bond market is *only* down 10%. I say "quietly" in that there has not been any media panic, and we have not had any significant systemic financial stresses.

Unemployment is *down* this year, and we are adding almost 400,000 jobs every month. There are almost two job openings for every one unemployed person. And to top it off, those jobs are paying 5% **more** than last year!

That was the good news.

Now for the bad news.

The inflation numbers are not slowing down, which means the Federal Reserve is going to continue to raise rates aggressively (better late than never). The goal of higher rates is to moderate inflation to about 2% by slowing the economy down. (More on that in the Education section at the end.) *This also has the adverse effect of putting pressure on stock valuations, although it gives us an opportunity to buy great companies on sale*.

The Federal Reserve & Rising Rates

The Federal Reserve raised rates by 0.75% in June after inflation numbers rose above 9%. The market is expecting the Fed to raise another 0.75% this month. Some Fed governors have said they expect the Federal Funds rate to be 3.5-4% by the end of 2022. It is 1.75% today.

While we are generally optimistic about the future, we do worry about the health of consumers if the inflation rate does not begin to moderate in the second half of the year. Consumer credit card debt is rising (see below), though we believe it is driven as much by inflated prices as it is by increased consumption.

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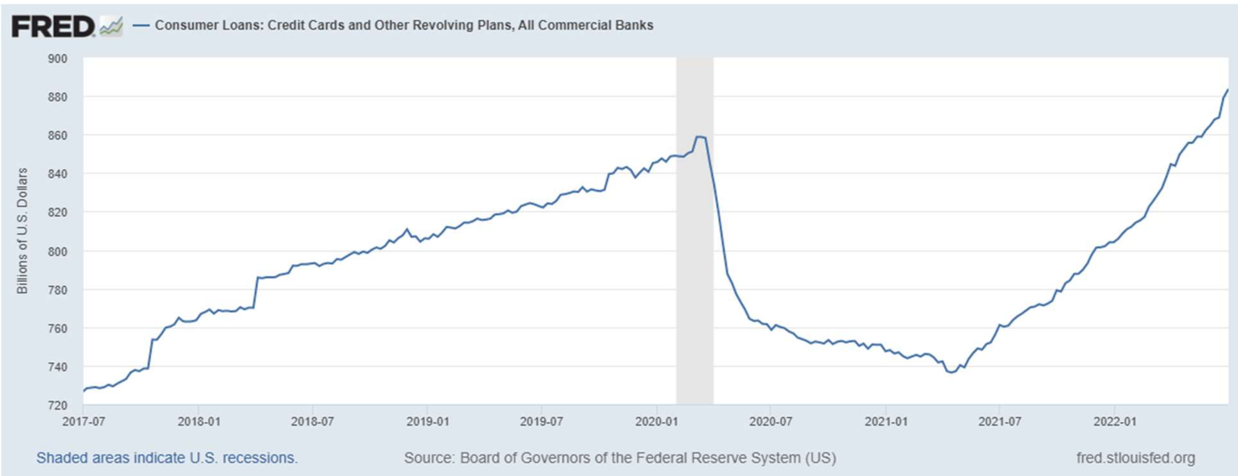

<u>A Little Perspective</u>

Behind my desk are two photos. Over my right shoulder is Brant Point Light on a beautiful Nantucket afternoon. Over my left is a lighthouse off the coast of Brittany, France called La Jument, taken during a brutal storm with waves violently crashing over the top.

Virtually all financial planners have a photo of a lighthouse somewhere in their office or on their website (*guilty as charged on both*). "Guiding you through the storm" is the corny catchphrase here.

I'm more literal. Think of the two photos behind me and imagine both lighthouses are for sale with open houses on the day those photos were taken. Brant Point is offering charcuterie boards and expensive wine with a breathtaking view of Nantucket Harbor. La Jument… you are handed a life jacket and a Bible.

Which lighthouse do you think you are going to buy at a discount?

In the markets today, we are not at either of these extremes, but it is certainly not a beautiful day on Nantucket. Some of the strongest companies on Earth are down 30, 40, even 50%. Fortress balance sheets, strong growth, and now…great values. This market is giving us opportunities. These opportunities may not pay off now or even two years from now, but in the long term these investments will likely look like a steal when the storm is over.

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Education: Inflation

Inflation is the increase in prices of goods and services. The Federal Reserve has a bucket of about 80,000 goods and services that they track the prices of—the change in which they call the Consumer Price Index. 65% of the bucket is made up of three expenditures: Housing, Food, and Transportation (energy).

The basic drivers of inflation are Supply and Demand.

Prices increase when either:

1. Supply decreases
2. Demand increases

Prices decrease when either:

1. Supply increases
2. Demand decreases

In our real-world example, the pandemic created the perfect storm of *supply decreases*, and *demand increases*. The supply chain was backed up, which limited the availability of goods. Consumers had tons of money saved—or given to them by the government—and they went online and ordered anything and everything.

This created the perfect storm. **Limited supply + over demand = higher prices.**

What the Federal Reserve is doing is raising interest rates. Think of the interest rate as the price of money. If money is more expensive, you will spend less of it, leading to lower prices. Long story short, they are trying to lessen the demand that is fueling inflation.

We are all hamsters in their experiment. Let us see how it pans out.

We hope that you are enjoying your summer! As usual, feedback is appreciated!

We'll see you soon,

Patrick and Joe

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