Raymond Capital Advisors, LLC

April 17, 2022

Stock & Bond Benchmark Total Returns (%) For Periods Ending March 31, 2022					
	QTR	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Dow Jones Industrial Average	-4.10	7.11	12.57	13.40	12.77
Standard & Poor's 500	-4.60	15.65	18.92	15.99	14.64
Bloomberg Barclays U.S. Aggregate Bond	-5.94	-4.16	1.69	2.14	2.25
60% Stocks / 40% Bonds TAA Composite Index	-5.13	7.72	12.03	10.45	9.68
3-month Treasury Bills	0.07	0.10	0.62	1.03	0.58

Returns (%) include capital gains, dividends and interest, and are **annualized** for periods greater than one year.
Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: Inflation Ignites

Price volatility for most asset classes returned in Q1 2022. During the quarter, stocks corrected 14.2% from their all-time January 3rd closing high before bouncing from their intra-day lows on February 24th, when Russia invaded Ukraine. For the full quarter, stocks fell -4.60% (Standard & Poor's 500 Index, including dividends), while bonds returned -5.94% (Bloomberg Barclays U.S. Aggregate Bond Total Return). It was the largest quarterly pullback for stocks since the pandemic selloff in Q1 2020. Bonds also had their worst quarter since Q3 1980 as inflation surged. Since late 2020, RCA's fixed income strategy has maintained significantly lower interest rate sensitivity than its bond benchmark, and also purchased short-dated maturity Treasury Inflation Protected Securities in an effort to reduce risks of rising interest rates and inflation. This has helped RCA balanced accounts to outperform. An added exposure to large-cap Value stocks also helped RCA's Multi-Cap Core Equity strategy to outperform during the quarter.

To be sure, inflation has proved to be stronger and more persistent than the Federal Reserve has expected, leading to its strategy shift to quickly raise interest rates and normalize its balance sheet. Everything from food and energy, transportation, and housing have all become more expensive in recent months. Russia's invasion of Ukraine has added fuel to the immediate inflation embers by raising energy and grain prices, but also added to longer-term inflationary pressures by accelerating de-globalization. As a result, recession risks have also increased, although economic growth is still the odds-on favored outcome. Currently, consensus earnings expectations for stocks from Wall Street analysts continue to rise +8.3% for 2022, and +9.4% for 2023. Analysts are not yet signaling an earnings recession.

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Outlook: Economic Soft or Hard Landing? Stagflation?

Economic & Market Comparison: Post WW II vs. Today					
Year	Unemployment Rate	GDP Growth Annualized	Inflation Y/Y	Baa Corporate Bond Total Return	S&P 500 Total Return
1945	1.90	-1.00	2.20	6.80	36.43
1946	3.90	-11.60	18.10	2.51	-8.24
1947	3.60	-1.10	8.80	0.26	5.09
1948	4.00	4.10	3.00	3.44	5.00
1949	6.60	-0.60	-2.10	5.38	17.81
2021	3.90	5.70	7.00	0.93	28.71
2022 YTD	3.60	1.0 est	8.50	-5.94	-4.60
All values are shown as %, for the period ending 3/31/2022.					

The Federal Reserve Act mandates that the Fed promote both full employment as well as stable prices. With the economy strong and the unemployment rate at 3.6% (the lowest since 1969), the Fed is now shifting its strategy to fighting inflation. To combat inflation, the Fed's plan is to raise interest rates to slow economic demand and allow more time for supply chains to untangle. Markets currently expect the Fed to raise its Fed Funds target interest rate by the end of 2022 to between 2.25% and 2.75%. The Fed will also slowly begin to shrink its balance sheet (currently $9 trillion) by selling Treasury bonds and mortgage-backed securities. This will put additional upward pressure on interest rates, but also provide additional room for the Fed to lower rates or provide stabilization in the event of future economic crisis.

Can the Fed put out the inflation fire without tipping the economy into recession? Economists' views are currently split on this issue. But perhaps a useful analog is the 1946 period. During that period supply chains were disrupted as the economy retooled from wartime production to consumer manufacturing. Inflation spiked to a whopping 18.1%, before simmering to lower levels over the next couple of years. Unemployment was also at a low 3.9%, like today. Stocks were volatile during that period and ended 1946 down 8.2%, but then rose 5.1% in 1947, and another 5.0% in 1948. Bonds returned 2.5% in 1946. In all, the 1946-48 period may serve as an example of how supply chain problems can take a couple of years to untangle. Although, with so many changes having taken place to the economy since the 1940s, we hesitate to read too much into it as a roadmap. Mark Twain's quip that "History never repeats exactly, but it does often rhyme" seems well to the point.

In all, our longer-term outlook expectations for somewhat higher inflation, taxes, and slower growth remain undeterred (see our letters of Q2 2020, and Q3 2021). Stocks are likely to provide lower returns than in recent past decades, but are also still likely to outperform bonds, and remain an important investment asset class given their liquidity and their correlation to long-term economic growth. Volatility will likely remain elevated. But patience is likely to be rewarded.

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All the best,

Geoff & Lance

Raymond Capital Advisors, LLC
A Retirement Wealth Advisor

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