Tim's Mid-Year Letter

I hope this finds you and your family doing well!

For most of 2022, news outlets have bombarded us with talk of inflation, interest rates increases, bear markets and now, recession. Over time, the economy expands, but bad news sells. Let's talk recession and take stock of the first half of the year.

First, are we in a recession? Currently, no, we are not in a recession. Could we be in a recession in the future? Yes. In fact, the financial markets have pointed to that possibility in 2022 with only the 12th bear market, a 20% or more decline in the S&P 500 from a previous established record high, since World War II. Since 1980, we've averaged one recession every seven years and the S&P 500 has averaged 11.8% per year over this same period of time.

Official recession calls come from the National Bureau of Economic Research. In the past, a recession was two negative quarters of Gross Domestic Product (GDP). GDP is the standard used to measure the value created through the production of goods and services in a country over a certain period of time. Now, they define a recession as "a significant decline in economic activity that is spread across the economy and lasts more than a few months." The first two quarters of 2022 have been negative. The first quarter declined around 1.60% and the second quarter around .90%, final numbers take time. Compare that to the 4th quarter of 2021 where GDP increased 6.9%.

So why aren't we in a recession right now? President Biden, Federal Reserve Chairman Jerome Powell and other government and Federal Reserve officials have pointed to strong labor markets and rising wages. Alabama, Georgia, Kentucky, Louisiana, Minnesota, Mississippi, Missouri and New Hampshire recorded their lowest state jobless rates in history in June of 2022. In history! The national unemployment rate is around 3.6%. Currently, these are not recessionary numbers.

It's important to understand that, usually, the NBER is late in calling a recession and late in announcing we're out of it. On July 19, 2021, they announced the two-month recession of March and April of 2020 had ended. It took them 15 months and an almost 100% increase in the S&P 500, mainstream stocks, to give the all clear signal.

We cannot wait on greenlights from others. It's important to our long-term financial health that we stay invested whether the markets go up, down or sideways in the near term. Over the last 20 years ending 12.31.21, the S&P 500 enjoyed annualized results of 9.52%. If you missed the best 10 days over those 20 years, your results dropped to 5.33%. Over that period, seven of the best 10 days occurred two weeks after one of the worst days. Please reread the previous three sentences.

We have to remain forward thinking and act with deliberate intention on our visions, goals and dreams. The financial markets are forward looking. They will pullback when dark clouds start forming on the horizon and they'll be long gone when the sun comes back out. It's just how it works. That's why there is a difference between what's happening on Wall Street and what's happening on Main Street. They get to similar spots, one just happens to do so earlier than the other. To pursue financial independence, we must understand that the best opportunities for growth, in life and investing, often present themselves when the going gets tough.

What should we do from here? We do the same things we've talked about for years. Start early, act on a well thought out financial and life plan of purpose, shore up our Emergency Fund, get our arms around our spending, pay off consumer debt, have a plan to pay off our home, save 15-20% of our income for our retirement or when our work life evolves, stay growth oriented, stay invested, don't try to time the markets, remain calm and patient, understand that our biggest obstacle is to outpace the cost of living over time and that mainstream stocks have done it on average of 7% per year since 1802, when Thomas Jefferson was President. I know, this is not sexy, cocktail party talk. It's hardwork. Over time it works, and you'll be the life of that sexy, cocktail party. Keep it simple and easy.

We are now going on the ninth consecutive week without a new S&P 500 low. Currently, the low was put in on June 16, 2022. That might be it for this pullback. I don't know, and, without being clairvoyant, neither does anyone else. If June 16th was the bottom, it was a heck of an opportunity as the S&P 500 had pulled back 23.6% from the peak on January 3, 2022.

Expect the Federal Reserve to keep raising rates. They are doing so to slow down inflation. It's better medicine than allowing it to continue to run hot. Last week, inflation came in lower than expected and the equity markets responded positively. Lowering inflation has been quite the task post pandemic with unprecedented government spending, supply chain issues and Russia's war in Ukraine. The Fed wants inflation around 2%, and they have a way to go to get there.

The best way to get in position for a financial event down the road is to get your financial house in order today. Take a second look at the items listed a couple of paragraphs above. I'm here and taking this walk with you and your family. Remember, we enjoy 100% open lines of communication to talk about anything that's on your mind. We can talk, Zoom or meet in person. Continue to follow us on our social media platforms to stay up to date with new information. We post multiple times a week with facts, figures and fun stuff that just makes you smile and feel good.

In closing, I'm reminded of the Winston Churchill quote, "The further you can look back, the farther forward you are likely to see." Act on a well thought out financial and life plan of purpose, stay growth oriented, remain patient through the ups and downs and think lifetime or longer.

Thank you for allowing me to be of service to you and your family, it is a privilege.

Best,

Tim

Tim Evans, CFP® CLTC
Founder

References:

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www.eastwoodwealth.com

1213 Culbreth Drive, Wilmington, NC 28405 | 910.509.7123 | Fax 910.509.7125