To: **Valued Clients**

From: F3 Advisors

Date: May 31, 2022

Re: **Holiday !!**

Years ago, during periods of market volatility, we would publish a chart of a major index like the S&P 500 large company stock index, then overlay the market patterns as we rolled into holidays.

A noticeable pattern was that markets used to rise into the holidays.

There are a lot of different reasons that markets move … a lot of reasons!

Recognizing that the chart of almost every asset you look at moves in waves, it is easy to deduce that prices (a reflection of the value that investors / human beings place on assets of various types) always ebb and flow … in waves. They move up, then back down.

A lot of this comes from assessment of value, then re-assessment, and so forth. Prices trend up as investors judge that the near-term future looks more promising than current prices are reflecting, and conversely, they move down as investors conclude potential problems ahead may reduce value. Prices also move up and down because of the usual gaming by the market participants: traders, market-makers, large institutions and the like. Here is today:

As the Fed decides whether or not they will print more money and fiddle with interest rates (which drives much of price action), we note that whereas in 2021 they printed $120 Billion every month up to November 2021. They have ceased that activity and starting June 1st, tomorrow, they *say* they will begin ***removing*** $30B per month … to combat the inflation their money printing created in the first place.

The Fed influences prices two ways: 1) by manipulating the money supply and/or causing interest rates (the cost to borrow money) to move up or down, and 2) by 'jaw-boning'.

'Jaw-boning' is the term the industry widely uses to describe the various Fed members running around and babbling about what they individually think they might do in the future. That they are actually thinking individually is a bit of a farce. It is much more widely held that they say something, monitor its influence on market prices, then send out other members to express different/opposite 'opinions' if prices move in a direction that is undesirable. Jaw-boning ***is*** an actual formal 'tool' they state they have in their 'tool-box' (yet another Fed term). What the Fed decides with regards to money-printing will affect prices. More dollars chasing asset prices mean every item should cost more dollars and rise in price, while fewer dollars in the marketplace mean prices should decline … simple.

Based on the inflationary pressures the Fed has already caused, they have rightfully embarked on efforts to make prices decline. Numerous retailers reported results last week and some of the largest ones announced their sales were under pressure as people bought fewer of the more expensive goods. The input costs of those same goods have risen, which reduces profits of the companies that make and sell the items. Walmart, Target, Ross Stores, the Gap and others all shared the same worsening results, weaker forecasts and so forth. A number of companies have announced lay-offs and other cost-cutting efforts.

The reactions by these companies align directly with the 'Phase 3' of the economic cycle we wrote about in our recent Quarterly Letters. Phase 3 includes tightening of the money supply, increases in interest rates, higher costs for companies, fewer sales for companies and so forth. If you did not read about it before, you can find it in our 2021 Q4 letter here.

In our previous Market Update, 'the Return of Chicken Little', we discussed the potential for a strong bounce (and quipped that we pretty much expected it since our inter-Quarter Updates have a tendency to coincide with such), but we also suggested that when it arrived, investors should read the tea-leaves, so to speak, and decide if they were comfortable with their risk levels and underlying allocations. If not, if Phase 3 of the economy is anticipated, allocations may be in line for adjustment for a less aggressive posture.

If you are thinking about Phase 3 and using this rally to adjust, one *might* expect that since the reduction of money supply begins June 1st , the prices of stocks and other assets *might* be expected to decline as a result. But … that is the funny (?) thing about markets. It may be that we rolled into the Memorial Day holiday on the usual bounce (sending everyone to the beaches, lakes, campgrounds, etc. in a feeling of relief), and we could roll over right away on June 1st. Or, it may be that markets continue to roll on upward … at least into the next Fed meetings June 9th & 10th where the Fed will almost surely hike interest rates another 0.50%. The important thing at the next Fed meeting will be whether they confirm in their message that will hike yet another 0.50% in July, *and* convey what they will do thereafter. They already sent out their Atlanta region Fed-head, Raphael Bostic, to jaw-bone that maybe they will 'pause' in September, but they *will* hike in June and July and some pain may be involved. (It should be noted that by the time September's meeting arrives, the Fed should have already removed $90 Billion from the marketplace: $30B each in June, July and August. In September, they're supposed to bump it to $60B.)

Wall Street does not like higher rates nor having less money to play with. The Economic Cycle Phase 3 is not a quick thing either … more stories like those from Walmart, Target etc. are likely to follow. Inflation should cool, for a number of reasons, which may prompt relief-rallies over the next quarter plus, the question will be … 'relief from what levels'.

While you enjoyed your Memorial Day holiday and the kick-off to Summer. Maybe we rally into July 4th. Please consider your acceptable risk level, consider your allocations, and plan a call at (614) 698-0333 (FFF) with us if we can help!