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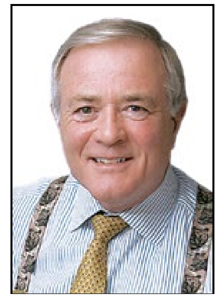

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OP-ED: A trifecta of concerns disturbing investors

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Investors have a plethora of concerns in the current market. In the forefront is the Federal Reserve's worry about inflation. For years, the Fed has targeted an annual rate of inflation of about 2 percent for the U.S. economy. Sure, shocks to the economy came and went, but the Fed was largely able to keep inflation in this 2 percent range. However, last year, inflation began to significantly affect most market sectors.

Initially, the Fed dismissed the increase, saying the higher inflation rate was just transitory and related to COVID shutdowns and supply chain issues in the manufacturing and service sectors. It was supposedly a one-off situation that soon would resolve itself. Officials chose to look the other way regarding the impact that their zero real interest rate policy and the government stimulus payments were having on the demand side of inflation.

One of the problems with inflation is that it feeds on itself, so as the rate of inflation began to compound rather than correct itself, the Fed belatedly recognized this and grew alarmed. The Fed and other central banks around the world began to clamp down on inflation by raising interest rates to cool the demand side in their economies.

Interest rate increases were not received well by the markets. Higher interest rates mean not only less economic activity, but increasing costs to debtors across the global economy, including the U.S. and other governments that dramatically increased their debt to keep their economies afloat. While more resilient than many, the U.S. economy began to chase its own tail. Inflation began to feed on itself.

The Fed became even more alarmed, realizing it had supported low-cost, easy money for too long and so increased rates by a large amount and more often. The rate increases have had a devastating effect on most all asset classes, including stocks, bonds and real estate. Vladimir Putin's disastrous war in Ukraine, with its shock to energy and agricultural supplies causing dramatic price rises worldwide, is exacerbating the inflation problems and uncertainty. By now we all know that markets do not like uncertainty, and so they served up a witches' brew of lower bond values and falling stock market prices.

As of this writing, inflation remains stubbornly high. The economy is slowing; how slow is uncertain. The equity markets demonstrate a will to go up, but the Fed won't let them. The economy is proving resilient, but the Fed wants it slower.

Speculation abounds about the Fed's next move in interest rates. One point of view is that the Fed should hold fast with its tightening policy or risk losing credibility and all that it has achieved in its war on inflation. The other argument is that the Fed's actions are already taking effect, and too much additional tightening will drive the economy into a recession with all its implications. Those who claim that higher rates are having the desired effect, even though this is not yet reflected in the data that is used to make policy decisions, are arguing for continued tightening, but at a much-reduced rate. It's yet more uncertainty to spook markets and investors.

Putin's recent saber-rattling about the use of tactical nuclear weapons, of which Russia purportedly has a very large stock, has introduced additional uncertainty into the world economy and the markets. At the moment it appears that Putin is in the process of losing his war, but he does not like losing, and his next moves are unpredictable. He appears to know he has a losing hand, as he has stooped to name-calling; surely, it's a sign of weakness that may result in more aggression against global economic stability. While the U.S. is more insulated than most countries from Putin's actions, his war does impact the cost of daily life for Americans and has substantially damaged our important European export market. Witness the strength of the U.S dollar versus the Euro, which reached its highest point ever on Sept. 27.

As we get closer to the next defining moment in Ukraine and the next chapter of our interest rate/inflation issue, markets and investors are getting more nervous. We can expect more volatility. If you have a near-term need for cash, you may want to consider raising it in market rallies. But remember that over time real growth above the rate of inflation will come from ownership of a diverse portfolio of stocks in growing companies.

Don't forget to handle tax selling. Consult with a tax advisor regarding the best moves.

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