Tillotson Kenefick

Private Wealth Management
of Wells Fargo Advisors

It's 1 O'clock…

2nd Quarter 2022 Newsletter

Roughly 100 years ago we had a pandemic and a world war in Europe…It really does make you stop and think about how far we have come as a society and how much we remain the same. We drafted our forecast for 2022 and wrote our Newsletter before Christmas. Since then, the world has changed, or should we say… changed back.

The Russian invasion of Ukraine has shocked the civilized world and rallied democratic countries into a united front of support for the Ukrainian people. The level of support and degree of participation from the West is continuing to unfold. The hopes we had for a post-pandemic world, where supply chain issues improved, inflation declined and international travel commenced, have been dealt a blow.

Against this back drop and a quarter into the year, we refine our expectations for 2022. The risks to our forecast have increased since the beginning of the year, but we still expect a positive year over year close for the S&P 500. That may sound confusing so let us elaborate. Risks are *potential* negative outcomes, not forgone conclusions. The "risks" mean volatility both up and down. We knew this year would require more vigilance on our part. That has not changed, only amplified. We managed cash flow for retirees and the deployment of capital for savers in a market that moved in a 12% range during the quarter.

Economic data is operating in the extremes of what would be considered normal. The most important data points to our forecast include: the price of oil, the pace of Fed rate hikes and mortgage rates. The price of a barrel of crude oil is comfortably above $100. Since the war in Ukraine began, the price has ranged from $90 - $130. The tipping point for us is ~$150 per barrel when the earnings for the S&P 500 are negatively impacted and the economy slows. The first rate hike, in what the Fed pledged to be a reduction of stimulus and end to an accommodative monetary policy, was .25% with additional hikes planned at every meeting this year. That implies a Fed Funds rate change from .25% to 2% or higher by yearend. If the pace is too slow to combat inflation, they risk stagflation (high inflation and no growth in GDP). If the pace is too fast, they risk recession (negative GDP). This move in rates has a big impact on mortgage rates too. We have seen the 30 year fixed mortgage rate move above 5%. The continued increase in costs, as rates rise, will impact the housing market.

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So what does all this mean? It underscores the importance of disciplined portfolio management and proactive cash flow analysis to maneuver in the volatility and best capitalize on the markets' movement to provide entry points for savers and exits for retirees.

As always, we thank you for the privilege of serving your family's financial needs and we look forward to sharing more on our market update Zoom on April 7th!

Marcia C. Tillotson	**Joy M. Kenefick**
Managing Director-Investments	**Managing Director-Investments**

[1]2022 Global Outlook, Black Rock Investment Institute. December 2021.
[2] 2022 Outlook, Wells Fargo Investment Institute. December 2021.
*Keeping in mind index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.
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