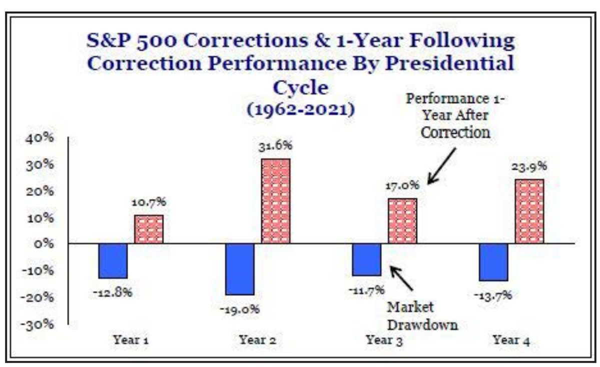
A View
FROM THE TOWER

After a gawdy 2021 S&P 500 return of nearly 29%, the first quarter of 2022 was one filled with headwinds on not only the broad global equity front, but also in the bond segment. Although equities rebounded a bit in March post hitting a low point mid-month, it was definitely a period of difficulty and angst as stocks posted their first quarterly decline in two years. Additionally, bond prices and corresponding yields experienced material volatility throughout the quarter as rates increased significantly across the yield curve. In fact, it was the worst quarter for bonds in nearly forty years.

After two years, it finally seems like the COVID-19 environment, for a variety of reasons, may have diminished to a point where most people may be able to return to a much more normal day-to-day existence. Of course, we all hope that a new, strong variant doesn't rear its ugly head and set things back once again. And certainly, many will still feel uncomfortable in various aspects of public for the foreseeable future. Lastly, questions remain to what degree an additional vaccine booster will be broadly needed, or at least recommended, along with whether or not COVID shots will become an annual event, like those for the general flu.

As we entered 2022, one thing we particularly noted was mid-term election years tend to be the most volatile within the four-year Presidential cycle and include many relatively sharp stock market selloffs, accompanied by very strong rebounds. This has certainly been the experience so far this year as there have been some very volatile days, and even weeks; unfortunately, more to the downside than upside to date.

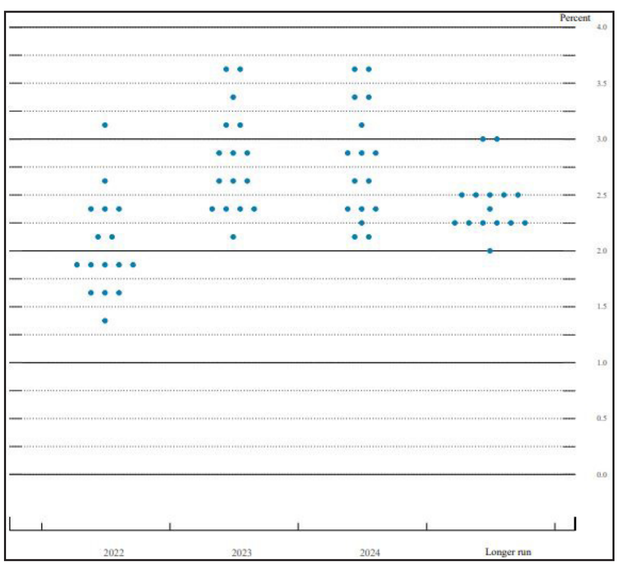


Source: Strategas

Some of the reasons for this volatile environment were anticipated: the continuation of labor issues; Omicron overhang; supply chain disruptions; inflation concerns; and higher interest rates. In regard to labor, the tightness of this segment is exemplified by the unemployment rate falling to a pandemic era low of 3.6% after fifteen consecutive months of workforce expansion. On the positive side of the ledger, significant liquidity, strong consumer financial positions/spending and stellar corporate profits were thought to be positioned to provide ample support. As tends to happen, however, the unexpected can arise and tilt the scales. Certainly, this has been the case in regard to the Russian invasion of Ukraine. In addition to the horrible devastation and human tragedies accompanying this unfortunate circumstance, the economic uncertainties surrounding it produced financial market skittishness, including a spike in oil prices, a key Russian commodity. The concern is that this dynamic will not only produce additional pressures on inflation and interest rates, but also result in a global economic slowdown, particularly in Europe and the United Kingdom. To potentially curb the rise in petroleum prices in the U.S., in particular, late in the quarter President Biden announced the daily release from the Strategic Petroleum Reserve (SPR) of one million barrels per day over a six-month period.

Speaking of interest rates, which, as mentioned previously, spiked considerably during the first quarter, given a variety of factors, the Federal Reserve has pivoted to a much more hawkish position than initially expected in an effort to crush inflation for the first time in decades. Approaching 2022, we knew the Fed would be tapering bond purchases and were under the assumption/guidance that up to three rate hikes would be in the offing this year. Including a .25% increase in March, it is currently anticipated there may be up to seven rate hikes in 2022, with some being as much as .50%. Additionally, the Fed will likely be shrinking its balance sheet by letting its bond positions begin to "runoff" at a rate of $95 billion monthly. A concern is that the rate hike process will result in an overly corrective pendulum swing, and potentially a recession. A casualty of this environment could be on what has been a robust U.S housing market, as rising mortgage rates impact affordability. Also, we will be keeping tabs on any yield curve inversions (defined as scenario where shorter-term U.S. Treasury securities yield more than their longer-term counterparts) as this circumstance tends to indicate a Fed policy error and is often a precursor to an economic slowdown. However, historically there has been a lag time with any recessions connected to inversions, ranging from seven to thirty-five months, with an average of twenty months.

Federal Open Markets Committee (FOMC) Participants' Assessments of Appropriate Monetary Policy: Midpoint of Target Range or Target Level for the Federal Funds Rate:

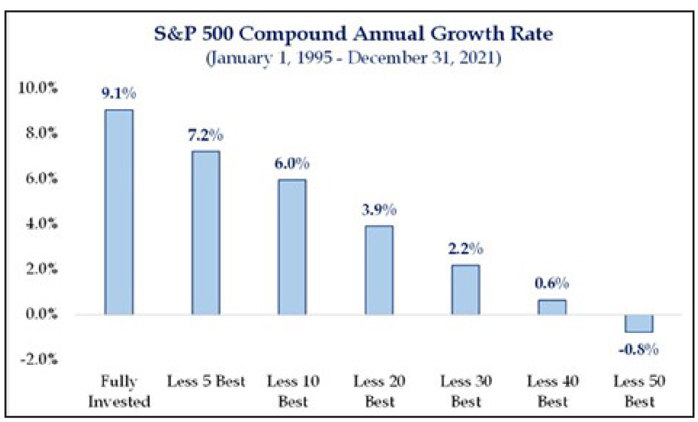


Source: Federal Reserve

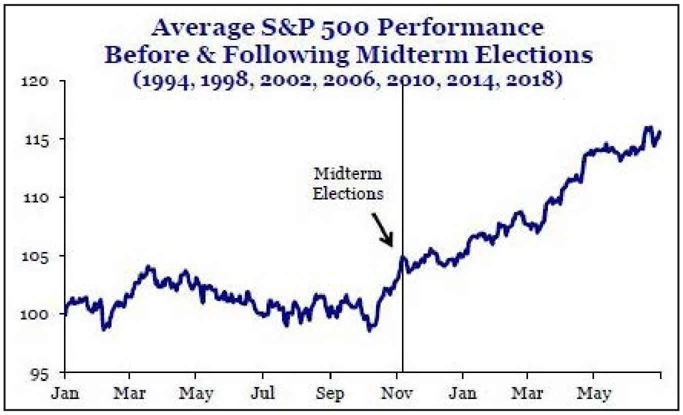
As we had mentioned consistently in 2021, overall state and local operating budgets are in their best fiscal conditions in several decades and are experiencing their second consecutive year of surpluses in light of strong GDP growth and the federal government's decision to pay for everything COVID related. We also stated that in some locations, taxes on items such as gasoline and groceries are being reduced, or even eliminated in regard to the latter. Given the continued, elevated inflation statistics and the rise in gasoline prices due to the spike in oil prices alluded to earlier, these tax cuts have gained even more momentum, with nearly half of the states discussing potential moves on either or both fronts.

Additionally, in our nation's capital, Build Back Better (BBB) legislation, which was considered virtually dead, has now been given at least some new life in what would likely be a trimmed down version, as key West Virginia Senator Joe Manchin has signaled a potential renewal of limited support. History tells us while it is rare for one Senator from a sitting President's own party to kill a priority policy of that President, legislation of this magnitude sometimes needs to fail before it succeeds. For example, Obamacare "died" three times before it ultimately passed. The end result could be the passage of a bill with a select number of programs in place for an extended period (ten years, for example) and presumably fully paid for, versus a large number of initiatives in place for one, three or five years. However, Senator Manchin did voice his lack of support for President Biden's wealth tax proposal late in the quarter, possibly adding additional clouds to this picture.

Despite the difficult market environment so far this year, we remind you once again that we believe the race is usually won by the investor focused on the long-term versus those chasing the illusion of "timing", as missing just a handful of market "best days" could result in a materially lower long-term, realized return. And we should note that the S&P 500 has not declined in the twelve months following a mid-term election since 1946.



Source: University of Michigan



Source: University of Michigan

All of us at Country Club Trust Company, along with the entire Country Club organization, continue to hope that you and your families are well. Please be assured that we continue to work diligently on your behalf, remaining fully capable to provide the level of service you have come to expect and deserve. As always, we are ready and more than willing to be of assistance in any way we can. Should you have any questions, we are always here for you.

Thank you!

Take care!

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