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September 2022

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Resolute Connections

In this month's newsletter we address three timely topics dominating the financial news this week. *The Downturn in Perspective* touches on the stock market drop that occurred mid-week, while Recession Report looks at the debate on whether the U.S. is currently in a recession.

Some politicians are taking the credit for the falling gasoline prices, however, *Prices Down, Production Up* points to the real reason we are seeing more reasonable prices at the pump.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The Downturn in Perspective

By now you know that market timers and traders were spooked once again, causing a downward ripple across the U.S. investment markets this week. It's not easy to tell what startled them this time. The financial press told us that the reversal was brought on by the release of the August Consumer Price Index report, but one wonders how, at this point, a month-to-month continuation of inflation is much a surprise. And the report was hardly dramatic; the CPI was up 0.1% from July, after no change from the prior month. However, it was up 8.3% over the last 12 months, and the prospect the Federal Reserve will be aggressive in fighting this inflation, probably accounts for the market reaction.

Even though the markets dropped just over 4% in one day, when the dust cleared, the S&P 500 index was still only 0.33% below where it had been the previous Wednesday. Other signs

are definitely less gloomy. Gas and energy prices have been dropping, the employment rate has been consistently high, and economists now believe that higher wages have become the top driver of inflation—which cannot really be bad news for consumer spending and the overall health of the economy. Indeed, retail sales increased 0.3% in August, which took many economists by surprise.

All of that said, the U.S. economy does seem to be experiencing a slowdown that could (emphasize *could*) lead to a recession. The problem for investors, though, is that the stock market tends to be a leading indicator of economic slowdowns. Meaning that, in the past, markets have recovered during recessions as investors start to see the light at the end of the tunnel. This makes predicting future market movements, using economic data, virtually impossible.

Of course, predicting anything based on a startling of the herd of market timers and active traders is patently impossible. It's natural to look at returns this year and want to stop the bleeding, but that would mean selling and taking the risk that the markets will suddenly startle in the opposite direction as traders and market timers experience a sudden fear of missing out on the next upward movement.

If you think that anyone can successfully time the exits and entrances in a way that would avoid downturns and capture upturns, then stop and think for a moment, and try to name a famous, successful market timer. If such a person existed, he or she would not only be right at the top of your mind, but also fabulously wealthy. The fact that nobody comes to mind, coupled with the fact that the most successful investors of the past have consistently preached a buy and hold approach, suggests that people who have the fortitude to stay invested when stocks are on sale tend to come out the other side with higher account balances.

This can be seen on the historical return chart, which not only shows the steady, incremental rise in stock values due to the daily efforts of millions of workers in tens of thousands of companies, but also how unpredictably the timers and traders can move the markets in the short term. Their impact is volatility and anxiety, not consistent wealth-building returns.

Recession Report

Many times, consumers and the person-on-the-street recognize that the U.S. economy has entered a recession long before the economists get around to declaring it. That appears to be the case today. The U.S. Bureau of Economic Analysis just announced that the U.S. gross domestic product (GDP), the broadest measure of economic activity, declined at a 0.9% annualized rate in the second quarter of 2022. That follows a 1.6% annualized decline in the first quarter. Two straight quarters of negative GDP meet the unofficial definition of a recession.

The report noted a decrease in retail trade and residential investment, and sluggish personal consumption expenditures, perhaps triggered by surging inflation. Even so, the National Bureau of Economic Research (NBER), which is technically in charge of declaring recessions, has not yet made that declaration, and probably will not until (believe it or not) the recession is over. The committee meets in secret, and often takes a year to decide whether it believes a recession has taken place.

The hesitation may be warranted this time around. The NBER economists tend to look beyond GDP statistics to company payrolls and consumer spending. Unlike most recessionary periods, the U.S. job market remains strong; indeed, the nation added more jobs in June than

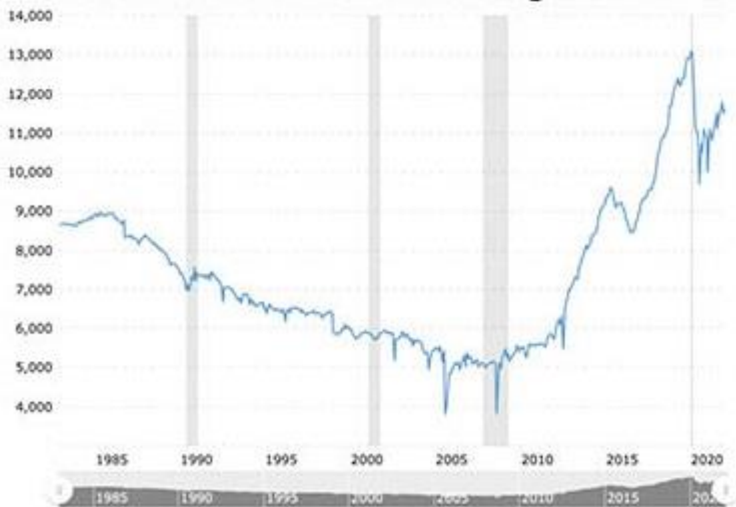
expected, and as the GDP announcement was coming out, applications for unemployment insurance had dropped. The unemployment rate is still at a nearly-unprecedented low of 3.6%. And consumer spending, while moderating, has still grown during the first six months of the year.

Nevertheless, the signs and omens are fairly clear. The Federal Reserve has signaled that it plans to continue raising short-term interest rates, which will curb corporate spending and generally reduce economic vibrancy. Meanwhile, the most popular signal for an economic downturn—an inverted yield curve—is flashing brightly. Yield curve inversions are defined as times when you can get a higher yield on short-term bond than on longer-term issues—a counterintuitive situation that signals uneasiness about the future. As of today, people can get a 2.84% annualized yield on 6-month Treasury notes, but just 2.65% a year if they buy 10-year bonds.

Prices Down, Production Up

Gas prices at the pump have been falling from peak prices recently, but you may have seen projections of a global oil and gas shortage that could send us back to $5 a gallon. The most recent IEA Oil Market Report actually anticipates a close matching of supply and demand this year, with global demand averaging 99.7 million barrels a day and world supply averaging a post-pandemic high of 100.5 million barrels a day. North Sea oil fields, Canada, Kazakhstan and OPEC have all increased the amount of crude they're selling on the markets to make up for declines in Russian oil.

Where does the United States fit into this picture? You might think that the environmental movement has motivated oil companies to cut back on production, but in fact the U.S. remains the world's leading oil producer, and as you can see in the accompanying chart, the domestic producers dramatically raised the amount of oil they were pumping out of the ground from roughly 2007 until February of 2020—when the Covid pandemic sent all economic activity into a spiral. Since then, production has been slowly recovering, somewhat fitfully.



The world may never be quite as dependent on oil production in the future as it has been during the recent unpleasantness at the pump. Currently, renewable energy sources account for about 20% of electricity production in the U.S., and electric vehicle (EV) sales are projected to more than double from 855,000 units this year to just over three million by 2027. Battery costs have dropped 73% since 2010. The remaining challenge is to assure EV drivers that they will have charging stations that are as convenient as gas stations are today—and there we seem to have a long way to go. A recent assessment found the need for 600,000 public 240-volt plugs and 27,500 fast-charging plugs nationwide; compared with 36,000 and 3,300 respectively as of the most recent survey.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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