CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2022 --- 1st Quarter

WAR SENDS MARKETS REELING

IN THE FIRST QUARTER OF 2022, just as it looked like we might be putting the COVID-19 virus in the rearview mirror and the economy was solidly continuing in its recovery, Russia invaded Ukraine.

It has been a while since we had such a shock to the world economy. The war in Ukraine has hit a wider swath of assets than the outbreak of the coronavirus did in 2020. The disruption to the supplies of oil and food has been dramatic, as has the impact of sanctions on Russia. As a result, stocks and bonds are down, and oil and food prices are up.

Let's check in on the status of **INFLATION**. The Federal Reserve had already signaled plans to raise interest rates in 2022, prior to the invasion, to control inflation. And helping the process, the supply chain congestion was showing signs of improvement as fewer ships waited to dock and dwell times at ports improved. As a result of the war, it would seem the Fed's ability to tame inflation may be limited since oil and food prices are rising because of a steep <u>drop in supply</u> rather than elevated demand. The current projections expect inflation to remain elevated for longer but eventually settle at around a 3% pace by the end of 2023.

With regard to the behavior of stocks, the good news is this is <u>not</u> like we had in 2008-2009. In fact, stocks rebounded nicely in the second half of March. The major indexes experienced sharp gains to end the quarter. The S&P 500 Index ended the quarter at -5% and the NASDAQ Composite Index (which represents smaller companies) was at -9%.

Historically, markets have been challenged during geopolitical conflicts as the emotional reaction to sell stocks rises. However, **<u>after the peak of the conflict has passed, stocks have rallied</u>**. While we do not know when the peak of this crisis will be, we do remain positive on the long-term power of stocks.

WHAT'S NEXT?

Two things are likely to persist this year: high oil prices and more interest-rate hikes from the Fed. The U.S. economy is quite strong and was strong going into this latest crisis. However, there are many unknowns that will likely cause short-term market volatility. We don't know what direction the war in Ukraine will go. Nor can we know with much confidence how it will impact countries and industries around the globe. In addition, we're seeing a COVID-19 resurgence in China and elsewhere that might signal a resurgence in the U.S.

So, a lot of risk and very little clarity. As we usually say in such situations, it makes sense to focus on your goals / investment plan and keep your portfolio in line with that plan.

Diversification is your friend here because we don't know what's next.

Call Nan or Ann at 414-431-6491 with your questions.

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