CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2022 --- 2nd Quarter

A VERY WEAK QUARTER

AT THE START OF 2022, we expected global economies to continue to recover from the effect of the COVID-19 pandemic. Heading into the year, rising interest rates meant to manage inflation and increased stock market volatility were forecast. However, we thought it would likely be a smoother, more gradual process. The Russia/Ukraine war contributed to higher energy prices, and supply-chain problems were more prolonged than expected, both causing inflation to spike. The second quarter of 2022 was negatively affected by fears of recession and the anticipation that the Federal Reserve would speed up their interest rate hikes.

CHALLENGES STILL AHEAD.
The consumers in the U.S. entered the current period in a stronger position, with excess pandemic savings. However, those savings are likely to support spending for only a limited period, as inflation has created an additional challenge. Should manufacturing and the current tight employment situation slow, consumers may become more cautious and reduce purchasing to essentials.

Concerns about slowing economic growth encourages both companies and consumers to act more cautiously, which in turn can create a cycle of slowing growth. Kind of a "catch-22".

It is a balancing act facing the Federal Reserve as they make their decisions to help bring inflation under control. The Fed misjudged the effects of pandemic supply constraints and government stimulus payments, pushing up consumer demand at a time when inventories were at historic lows. This helped to fuel inflation. Their main focus right now is controlling inflation. We expect the Fed to continue hiking interest rates aggressively and that they will accept the temporary consequences to the stock market, economic growth and company profits until there is a clear peak in inflation, followed by a return to normalized conditions.

BACK TO BASICS AND PATIENCE.
From an investing perspective, defensive areas of the market have lived up to their reputation and held up best during the downturn. They include sectors like healthcare, utilities, and consumer products that are required in both good and bad times. A diversified investing approach will have these types of companies already in the mix. They are considered less volatile and less affected by the ups and downs of market cycles.

Economic uncertainty may have peaked in the first half of 2022, but it remains high. Stocks are likely to continue to feel the weight of Federal Reserve policy tightening and slower economic growth through the rest of this year.

Remember where the action is right now. It is with the portfolio managers of your various mutual fund strategies who are, in this environment, finding buying opportunities that will enhance future performance!

Feel free to call Nan or Ann at 414-431-6491 with your questions or concerns.

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