> "When we strive to become better than we are, everything around us becomes better too."
>
> — Paulo Coelho

Year in Review

- 30 year mortgage rates reached a high of 6.26%
- 10 year Treasury reached a high of almost 3.4%.
- New higher mortgage rates can have a dramatic effect on mortgage payments for new home buyers. It's important to contact us to discuss how interest rate increase may have an impact on your monthly payments.
- The Euro as compared to the US Dollar is at a 20 year low and almost at parity with the US Dollar.
- Recession risks remain as rates increase and slow the economy. Will the US enter a recession and if so how deep.
- July CPI report will be announced on July 13th. June's CPI number was 8.6%

BENCHMARKS YTD THROUGH 6/30/2022	
FTSE World Gov't Bond Index 3-7 Yr. Hedged	-7.25%
Russell 2000 (US Small Cap index)	-23.93%
S&P 500 (US Large Cap index)	-20.58%
Wilshire 5000 (US Total Market index)	-22.49%
MSCI EAFE (International Stock index)	-20.97%

INFLATION

After almost 15 or more years of relatively tame inflation, the country is dealing with an exceptional increase in inflation across the marketplace. Gas, food, services, home supplies have all increased over the last year putting pressure on household budgets as well as the markets.

We have seen how addressing inflation has had a negative effect in the markets over the last six months. Initially the Federal Reserve treated inflation as transitory. When that theory was proven wrong, the Fed sought to address inflation by aggressively raising interest rates. They are determined to increase interest rates to, hopefully, bring inflation under control as quickly as possible.

This comes with additionally volatility in both the Bond and Equity markets. Bond prices are inversely affected by interest rate changes. As rates rise, bond prices decline—as rates rise aggressively and quickly, bond prices drop accordingly. We have had generally very low bond yields over the last 10 years. This is a reset of those yields. Typically it might take years to get to a more normal yield but in an inflationary environment this reset is happening much more quickly. The silver lining in bonds is as rates increase and bonds mature, new bond purchases will be purchased at a higher yield. The equity markets are also in a reset of sorts due to inflation. This is due to a lot of factors including interest rate uncertainty (how high for how long), earnings, consumer spending and so forth.

The challenge is when does all this end. When will interest rates stop increasing and when will the equity markets begin to settle. The answer is—in general—when inflation begins to subside for a meaningful period of time. It's not enough for inflation to go down for a month or two it will have to be on a long term controllable decline to calm the markets and provide some level of certainty to the markets.

An additional challenge is when interest rates are being raised to this degree, there is a risk of those increases having a negative effect on the economy leading to a recession.

Through short term volatility its important to remain focused on the long term. We have seen market volatility in 2008, 2020, and now 2022. It's a part of being a long term investor and this year is a part of that process.

QUARTERLY CLIENT WEBINAR

Date: Thursday , July 21st, Starting time: 12:00 pm, Eastern Standard Time

Meeting Number: 2634 537 6918 Password is **1234** if asked

Website link: https://afadvisorsevents.webex.com/afadvisorsevents/onstage/g.php?MTID=eb5c0295ad4d4a73b47d1fb5171b8e913

To join the teleconference only: US TOLL: +1-415-655-0002 Access code: 2634 537 6918

If you cannot join us for this important webinar, we will post a recording of the entire presentation on our website at www.afadvisors.com.