Last Year's Up-Down Market Pattern Continues into February

While January was a good month overall for the financial markets, February was more of a mixed bag. Although the stock market finished the month with losses, the pullback was fairly minor considering the fact that long-term interest rates took a big jump. What did it all mean for your portfolios, and what can we expect for the months ahead?

Before I get to those questions, let's take a closer look at what happened in February. Again, after a strong January, Wall Street slipped in February, and all three major indexes finished the month in the red. The Dow ended February down 4.2%, while the S&P 500 fell by 2.6% and the Nasdaq by 1.1%.[1] Meanwhile, even though the Federal Reserve made good on their promise to only raise short-term interest rates by a quarter-percent at their February meeting, long-term rates nevertheless spiked during the month. The interest rate on the 10-year government bond rose from 3.42% on Feb. 1 to 3.99% by March 1.[2]

All of this occurred after a January in which the stock market rose by some 6.5% and long-term interest rates fell by about 0.3%. Why the reversal of fortune, and why the disconnect between the big spike in interest rates and the fairly minor pullback for the stock market?

Let's start with the first question because the answer is easy: the Fed. As I've discussed many times, whenever the Federal Reserve is actively raising short-term interest rates, the markets tend to be volatile. They're up one month then down the next. We saw this pattern throughout 2022, from the beginning of the year when the Fed first announced they intended to raise rates to fight inflation, all the way to the end of December.

Although the Fed has slowed its pace and is nearing the end of its rate-hiking schedule, they are still actively

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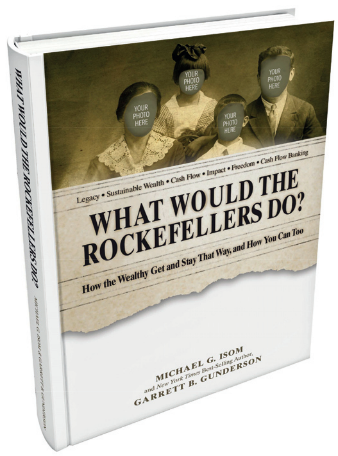

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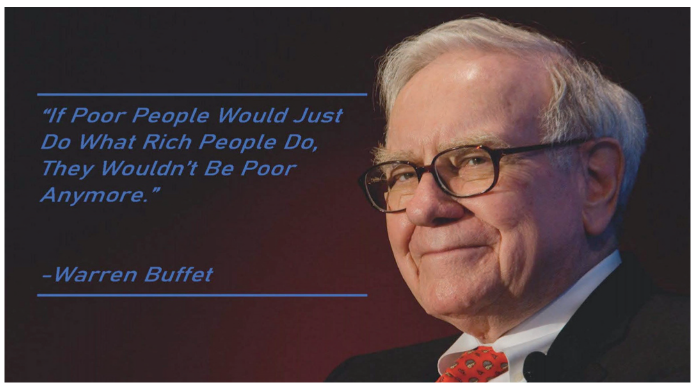

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Reevaluating Your Portfolio

Periodically, you should thoroughly review your portfolio to ensure it is still helping you work toward your investment goals. Follow these steps during that review:

Review your current portfolio mix. List the current value of all your investments. Determine what percentage of your portfolio is held in stocks, bonds, cash, and other investments, but don't stop there. Take a closer look at where the stock portion of your portfolio is invested.

Analyze each investment. Determine whether it still makes sense to own each investment. Review why you purchased each investment and whether those reasons are still valid. Consider whether you would buy it today at its current price.

Determine if changes are needed to your current allocation. If we've learned anything over the past few years, it's that your portfolio should not be highly concentrated in one area or sector. Instead, look to broadly diversify your portfolio. Some points to consider include:

- **Decide how much to allocate to stocks and bonds.** Your stock and bond mix is a major factor in determining your expected portfolio return and how much your portfolio will fluctuate with market movements. Make this decision based on your financial goals, risk tolerance, and time horizon for investing.
- **Reassess your stock allocation.** The stock market moves in cycles, with different sectors outperforming other sectors at different times. Since no one can predict when one sector will outperform, it is typically best to broadly diversify your stocks over all areas.

Move your allocation closer to your desired allocation. When making changes, first consider the tax ramifications of the transactions. If you can make changes without incurring tax liabilities, you may want to make the changes immediately. But if substantial tax liabilities will be incurred, look for other ways to get your portfolio closer to your desired allocation. For instance, any new investments should be made in areas that are underweighted in your portfolio. Or you may be able to reallocatein your tax-deferred accounts, where you typically won't incur tax liabilities. However, if you can't get your allocation in line within a year using these approaches, you might want to sell some of the poor performers and reinvest the proceeds.

If you'd like help reevaluating your portfolio, please call.

Last Year's Up-Down

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raising rates, so it's no surprise that this up-down pattern for the stock market is still going. The Fed has slowed down mainly because inflation also slowed down consistently for the last six months of 2022 before edging back up just slightly in January of this year.

Strong Data

Ironically, the reason the stock market didn't see a bigger pullback in February probably has a lot to do with the fact that inflation is, as of now, still higher than normal. Remember, inflation comes from too much demand chasing too few goods and services. The whole idea behind raising short-term rates is to try to decrease demand by raising borrowing costs. Although we're seeing some signs that the strategy is working, the bottom line is that demand remains high, which is a sign the economy is fairly strong. And it's not the only sign.

In January, the U.S. unemployment rate fell to 3.4%, beating estimates and hitting a 53-year low.[3] The strong job data came on the heels of news that GDP growth for the fourth quarter of 2022 was a healthy 2.9%. Add all this to the fact that the Fed is slowing down and nearing the end of their rate hike schedule, and it probably explains why the stock market ended February with only a minor pullback even though long-term interest rates spiked by over half a percent.

Still, it was a pullback which means that, despite all the positive data, investors remain somewhat concerned about the potential of a recession hitting sometime this year. Although recession fears have ebbed since last year, many analysts believe a sharp economic downturn could still happen in 2023. I also still believe a recession is likely, given that the Fed's historic record for achieving a "soft landing" when raising rates is not great. But, as I've also said before, I think that if a recession does occur it will be relatively minor and brief.

Your Portfolios

And speaking of minor, just as the impact of February's interest rate spike was fairly minor in terms of the stock market, it was also minor in terms of your portfolios. At the end of January, most of you saw your values up by 7-8% on average, depending on your holdings, and—as you might recall — I noted in last month's newsletter there was a good chance we'd give some of that back, given that the Fed was still raising rates. And in February we did give some of it back, but only about 2-2.5% on average, which means most of you are still up by about 5% for the year.

Psychologically that's good, but, of course, as I always point out, regardless of whether the values of the bonds and bond-like instruments in your portfolios go up or down (as they likely will continue to do for a while yet), it's largely irrelevant when you're investing for income. The most important point is that your interest-and-dividend return has remained consistent and that you can continue to count on that consistency no matter what the markets do from one month to the next.

As always, be sure to contact our office if you have any questions about your statements or any other questions or concerns at all. In the meantime, Think Spring!

1 *"Dow Erases 2023 Gains as Stocks Finish February in the Red," MarketWatch, Feb. 28, 2023*
2 *MarketWatch.com*
3 *"Jobs Report Shows Increase of 517,000 in January as Unemployment Rate Hits 53-Year Low," CNBC, Feb. 3, 2023*

Who We Are:

Empowerment Resources International Corp(A+ Rated & Complaint Free, per the Better Business Bureau) offers Insurance & Financial Planning Services. We're located in the Chicago Mercantile Exchange (CME) Center in Downtown Chicago. Eric K. Williams is the President of ERI and has achieved Qualifying Life Member Status, currently **Top of The Table**, in the Million Dollar Round Table, MDRT, the premier association of Financial Professionals®.

What We Do:

We Expose and Address the Systemic Root Causes of Inadequate Financial Freedom. Our Proprietary Technology, Conservative Strategies, and Progressive Income Model help our Clients achieve their goals. Some of those goals being: **Creating** Their Own Bank; Replacing **Retirement Risk**, Fees, & Losses with **GUARANTEED LIFETIME INCOME**; Eliminating **ALL** Debt, including their Mortgage(s) and Student Loan(s), **in 9 Years or Less**; Earning **Uninterrupted** Compound Interest & Dividends; & **Reducing** the amount of **Taxes** & **Interest** they pay.

UNIQUE PROBLEMS SOLVED FOR OUR CLIENTS:

•STOCK MARKET VOLATILITY, UNKNOWN EXCESSIVE FEE STRUCTURE

Average Family Pays $155k in Hidden Wall Street Fees, (Frontline "The Retirement Gamble"-4/2013), (ABC World News, 05/2012) Real Cost of Owning Mutual Funds is 3.17% - 4.17%, (Forbes Magazine, April 4, 2011)

• DEBT & THE REAL COST OF BORROWING MONEY

The Real Interest on Mortgage(s) and Student Loan(s) is 60% - 100%, not the advertised rate of 2% - 7% that we're misled to believe to be paying.

Total debt over the age 70 increased 543% from 1999 through 2019 (CNBC, February 26, 2020)

• TAXATION IN AMERICA

U.S. Census Bureau statistics show that 74 cents out of every dollar coming into the Household goes to Interest & Taxes.

REPLACE RETIREMENT RISK, FEES & LOSSES WITH *GUARANTEED* LIFETIME INCOME!

DID YOU KNOW:

- Retirees don't live on *ASSETS*, they live on *INCOME*!
- Market returns and retirement timing can significantly impact how long your nest egg may last
- Typically, you will need 75-85% of your current gross monthly income to maintain your current lifestyle

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- Flexibility
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