

July 2022 Pearsall Wealth Management Newsletter

<u>Index</u> ¹	<u>2nd Quarter 2022</u>	<u>Year to Date 2022</u>
S&P 500	-16.10%	-19.96%
Dow Jones Industrial Average	-10.78%	-14.44%
Russell 2000	-17.20%	-23.43%
MSCI EAFE	-14.29%	-19.25%
Barclays Aggregate Bond	-4.69%	-10.35%
US Treasury Bill – 3 month	0.12%	0.16%

The year to date returns noted above reflect quite a bit of pessimism about the US and global economies. The concerns haven't changed significantly from those we noted earlier this year: rising inflation, the war in Ukraine, continued supply chain disruptions, and potential continued disruptions from COVID-19. It is unusual to have both the stock and bond markets decline in the same year, let alone double digits. The last time both the Dow Jones Industrial Average and Barclay's Aggregate Bond index were down significantly was 1976; the only other time both the Dow and Barclay's Aggregate Bond index were both negative for the year since was 1994 when the S&P500 was down 1.5% and bonds were down 2.9%².

So where do we go from here? UBS 2nd half outlook³ (available upon request) lays out four scenarios to consider:

- 1) Stagflation where stocks and bonds continue to fall (they assign a 20% probability)
- 2) Soft landing, where we have a modest recovery in stocks by year end. Inflation is likely to stay elevated. (UBS assigns a 40% probability to this scenario as the most likely at this time.)
- 3) Slump where stocks continue to fall, perhaps an additional 10%, but bonds rise as economic demand drops significantly with growth and inflation dropping sharply. (UBS assigns a 30% probability)
- 4) Reflation where we have a strong equity rally after inflation surprises to the downside (lower than expected) along with a cease fire in Ukraine and an end to the zero-COVID policy in China. (10% probability)



The UBS House View Weekly Global report this week summarized it well⁴:

Markets in the second half of the year are likely to remain volatile and trade based on hopes and fears about economic growth and inflation. While the 6.5% rally in the S&P500 the week before last week reflected hopes that a soft landing could be achieved, last week's volatility reflects comments and data indicating a higher likelihood of a deeper slump in economic activity. A more durable improvement in market sentiment is unlikely until markets see more compelling evidence that inflation can be brought back under control, allowing central banks to pause or stop hiking rates. The US's core Personal Consumption Expenditure measure, released on Thursday, did come in fractionally below expectations at 4.7% year-on-year. And the month-on-month core measure held steady at 0.3%. However, the headline rate of inflation, which has now come into greater focus from the Fed, held steady close to multi-year highs, at 6.3%. A consistent decline in both headline and core inflation readings will likely be needed to reassure investors that the threat of entrenched price rises is passing.

This summer is likely to remain volatile as traders react to the latest data point. It has been our experience that investors are best served to take the long view, focusing on your personal goals (financial and otherwise) and taking advantage of opportunities that present themselves during times like these to make changes in your portfolio in a tax efficient manner or purchase securities at discounted prices. As Shelby Cullom Davis, of Davis Funds fame is reputed to have said, "You make most of your money in a bear market, you just don't realize it at the time."

I'm more optimistic looking a bit further out, though I expect the market to continue to digest the issues of the day into early autumn. One of the cycles that seems to play out for different reasons each time is the "Midterm Election Cycle". Looking back over 94 years the market has only been negative twice in the 12 months following the US midterm election; the first was during the Great Depression (1930-1931), and the second was during the beginning of World War II (1938-1939)⁵. Whether or not this pattern will continue won't be known for 18 months, but given the current stock and bond valuations and amount of fear in the marketplace, those that stay the course with their investment philosophy or opportunistically invest cash they do not need in the short term are likely to be rewarded. As Warren Buffet is famous for saying "Be fearful when others are greedy, Be greedy when others are fearful".

UBS continues to hold excellent video calls with experts on various topics. Replays can be found at:

www.ubs.com/ciolive

We're here to help guide you and provide perspective - Please give us a call if you'd like to discuss your financial plan, portfolio, or catch up in general.



From Melissa-

Pack your books, pencils and Power of Attorney?- Most teens head to college when they are 18. Accidents and illnesses happen to everyone including young adults. It is important to be able to speak to health care providers, keep informed, and help make decisions for your teen during this stage of life.

For most there are three forms that help facilitate the involvement of a parent (or whoever is designated) in an emergency:

1. *Power of Attorney-* most states have their own version you can easily find with an internet search, but it's important to make sure it is the most up to date version, for example New York updated its version last summer. In general this document allows someone else to act on another person's behalf in financial matters in perpetuity after the document's execution, even in the event of incapacitation. The appointed person should be someone close to the principal, a person who is capable but also trustworthy. With any legal document it is important to consult with an attorney for advice.
2. *HIPAA Release-* this document allows someone to get information from healthcare providers treating a loved one. It can be very narrow in scope, meaning a teen can authorize specifically what they do not want disclosed to another party. These documents are usually provided by a doctor's office.
3. *Healthcare Proxy-* This authorizes someone to make medical decisions on a teen's behalf and it gives that person access to medical records and the ability to converse with their medical health care providers. By signing a healthcare proxy, someone is appointing another to act on their behalf in making medical decisions in case they cannot make those decisions for themselves. Many times a person can ask for this document at a doctor's visit and in my experience at my own doctor's office they encourage it at all ages.

Concerned about inflation?- UBS Chief Investment Office editorial team recently wrote a piece about how to offset concerns about inflation⁶ and I thought I would share as inflation and how to cope with it is one of the most frequent conversations we are having these days. They recommend the following high level tips:

1. *Revisit your budget-* look at your fixed expenses (i.e. rent mortgage, utilities, groceries etc.) and then your discretionary expenses in detail. If you need to reduce overall spending due to inflation, your discretionary expenses are where you want to look first to make adjustments. Make sure to consider paying down any high interest rate debts, as they typically increase during high inflationary times.
2. *Build an emergency fund-* unexpected expenses can be especially worrisome if you are not prepared. Living in a time of economic uncertainty, challenging as it may be, is the best reason to prioritize saving for an emergency. If you need help figuring out how to do that or even how much you should have please reach out to us.



3. *Review your investment strategy*- make sure your portfolio is well positioned for the current inflationary environment. Set up a time to review your overall asset allocation and make sure you are in line with your risk tolerance and goals.
4. *Start saving early for any big expenses*- when it comes to retirement planning and college expense planning, it's never too early to start saving. The more you invest and the earlier you start means your savings will have that much more time and potential to grow. Consider automating your savings as much as possible from paychecks and bank accounts. If possible think about leveraging a Health Savings Account (HSA) if you are in a high deductible plan to use later in your retirement years.

For more details and other great articles from our Chief Investment Office visit their [website](#).

From Tara-

Confirming Client Identity: In the coming weeks we will be adding **text authentication** for clients who have a mobile number on file with UBS as a new way to ensure client safety and security. This will supplement existing call verification and call back processes, such as security questions. Text authentication will allow us to text a code to your mobile device for you to verify your identity. Please make sure we have an updated mobile number on file for you. For clients that do not have a mobile device, voice code authentication will be used with your land line.

Sign in to OLS with QR code: No username, no password, no problem! You can now scan a QR Code with your mobile device to sign in to UBS Online Services on your computer.

1. Make sure you have the UBS Financial Services app downloaded onto your mobile device.
2. Log in to the mobile app using OLS credentials, enable biometrics and allow notifications.
3. Open UBS Online Services on your computer
 - a. Select sign in with QR Code
 - b. Open UBS Financial Services app on your mobile device
 - c. Tap the QR code scanner on the top right
 - d. Scan the code and just like that you are signed in.

If you any questions about this process please give us a call and we would be happy to walk you through it.

Best wishes for a great Summer,

Adam E Pearsall, CFP®
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Wealth Management
Senior Portfolio Manager

Melissa Battiste, CRPC®
Senior Wealth Strategy Associate

Tara Johnson
Client Service Associate

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¹ Thomson Reuters via UBS Portfolio Management Report performance data

² The Wall Street Journal, Stocks and Bonds are Falling in Lockstep at Pace Unseen in Decades, May 3, 2022
<https://www.wsj.com/articles/stocks-and-bonds-are-falling-in-lockstep-at-pace-unseen-in-decades-11651551170>

³ UBS 2H outlook; Stagflation, reflation, soft landing, or slump? June 23, 2022, CIO GWM Investment Research

⁴ UBS House View – Weekly Global – Pessimism returns to markets, July 4, 2022 CIO GWM Investment Research

⁵ UBS Election Watch: 2022 US midterm elections, April 21, 2022 CIO GWM Investment Research

⁶ "Planning with Inflation", UBS CIO Editorial Team June 24, 2022