HIGHTOWER

FARR MARKET COMMENTARY

WITH MICHAEL FARR, HIGHTOWER'S CHIEF MARKET STRATEGIST

# Storm Strategies – Fed Hikes 75 Basis Points

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Well, this certainly isn't much fun! It has been quite a while since there's been a Bear Market in the US. There was a brief one in December of 2018, but then the Fed began lowering interest rates (again) and shares quickly rebounded. This time, the Fed doesn't really have that option. Rapid price increases for food, fuel and other goods and services are forcing the Fed to raise rather than lower interest rates. And the central bank is promising to continue raising interest rates until the upward pressure on prices subsides. Unfortunately, this process is likely to cause some economic pain for the consumer as borrowing costs for things like houses, autos and credit cards will all adjust higher. It is a blunt instrument for sure, but the Fed is using the only tool at its disposal to reduce demand and, therefore, inflation – an economic affliction recently referred to by President Biden as "the bane of our existence."

Newer investors haven't experienced a real Bear Market in over a decade, and certainly not one in which the Federal Reserve is raising interest rates. **My opinions are three-fold: this downturn is likely to last several more months; the bottom in stock prices can't be trusted until the Fed indicates it is approaching the end of its tightening cycle, and the US economy will likely go through a recession, which occurs when there are consecutive quarters of economic contraction.**

Bear Markets aren't fun, but investors shouldn't panic. Every Bear Market in US history has passed, and this one will too. Panic almost guarantees loss. Successful long-term investors suffer through these periods and endure. I promise that Warren Buffet isn't panicking. He's excited to see great companies on sale and thinking about what he can buy. If the pressure starts to get to you, talk with us. Please don't be the person who sells at the bottom and regrets it for years.

We entered 2022 having benefited from an extraordinary period of equity market strength in recent years. While it is human nature to extrapolate such amazing share price increases forever, it was inevitable that, at some point, the market would remind us that the returns achieved since the pandemic plunge were, quite literally, "extra-ordinary." As this year has proven, volatility is an inherent part of the investment experience, and the path for any investor inevitably will include both ups and downs. What we are seeing in 2022 is one of the inevitable downs.

So, how concerned should we be looking ahead? The recent performance of the stock market and the media headlines certainly could lead one to believe that the end is nigh. We are nowhere near that pessimistic. To the contrary, we believe that what we are witnessing is a stock market and an economy that are recalibrating to get healthier, which bodes well for sensible long-term investors. That process takes a toll, but it is necessary, and overdue.

My friend Jenny Harrington and I agree on the following:

1) *We will not broadly sell out of our portfolios just to get ahead of a potential recession. Recessions, and even bear markets, are a natural part of the investment cycle, and we have seen too many attempts to time the market end very badly to believe that we (or anyone else) can successfully time both a departure from and a reentry into the market.*
2) *History shows us that expansions are long and contractions are relatively short. It is not our goal to AVOID contractions, but, rather, to get through them intact, to invest opportunistically when dislocations arise, and to reap the benefits of being there for the renewed expansion on the other side.*
3) *We will not let our emotions overrule our absolute belief that, over the long-term, the stock market will deliver positive returns, and that investing in companies that generate consistent cash flow in any market environment will help us to deliver a combination of strong results and emotional comfort to our clients.*

I know that these downdrafts are worrisome. We've been through them before and will have others in our future. We will also enjoy sunnier days and higher highs, but it may take a while. Please email or call with questions and expect a much more in-depth quarterly letter in a few short weeks.

Peace,
Michael





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