Happy Friday

Only one more week until we officially welcome the beginning of "summer" and all of the wonderful events that go with it. I love everything about summer; the heat, the sun, all the festivals and events, and people generally seem to be in a better mood!

We were set to be in a good mood with regards to the markets today, but just as I started to write the newsletter, a news flash came across the screen stating that the "Debt Negotiations" have stalled. The Dow dropped about 170 points. Then, about a minute later another headline flashed across the screen quoting Powell as saying, "rates may not have to rise as much as expected to curb inflation." Now the Dow is down about 80 points. Doesn't this sound like the same old song that we have been hearing for the past 18 months, just a different day?

There are some notable events that have happened the past two weeks that I believe we should pay attention to:

- Earning reports are coming in with mixed results. I would suggest that we are starting to witness the results of the rising rates on some retail sectors as consumer spending may be becoming more focused on "needs" based spending versus "wants" based spending.
- Total consumer debt reached $17 Trillion. This is a huge number and one that is hard to imagine. This figure is about $2.9 Trillion higher than it was pre-covid. The strong labor market must be supporting the payments because delinquency rates are still very low. This debt level could become very troublesome for the US economy if the labor market softens or interest rates continue to increase.
- Interest rates may not be done rising. There are members of the Fed committee who have publicly declared that they believe rates should continue to increase. I am still hopeful for a rate hike pause when the Fed meets in June, but my hope is waning.
- The debt ceiling negotiations are entering the final days before the limit is reached. I would like to say that we have seen this playout before where a deal is made in the last moments, but I believe that this may be different. I believe that there are enough in congress who would want the government to cut its spending first. While I agree with them, I am not ready for the chaos that could ensue if the US defaults on their obligations.

I remain optimistic for our country's economic future, but the above-mentioned items are causing me concern for the short term (6-9 months) investment outlook. With two major hurdles ahead of us; the debt ceiling, then the next Fed meeting there could be a lot of volatility with the markets. In addition to these two hurdles, there are many traders who are content to move their portfolios to cash during the summer. When this happens, any type of volatility is magnified and will appear worse than what it is, but could cause panic selling.

With an uncertain short-term future due to upcoming events and the fact that many Money Market Funds are currently yielding over 4%, I am growing more comfortable with allocating a portion of market assets to the money market, but there is some downside to doing this.

Please call or email me if you would like to discuss this option, and we will review how such a reallocation could impact you.

Have a wonderful weekend and take care!

Brett