A strong summer rally quickly reversed as interest rates escalated. What was generally perceived as an inflation peak and Fed pivot to an easier monetary policy, ultimately turned to yet higher inflation reports. An over aggressive fed, sensitive to criticism for their prolonged stance that inflation was "transitory", has morphed into an extremely hawkish mode. The Fed *was* far too accommodative for too long, and now appears to be pushing on a string against inflationary fiscal stimulus (from the Executive Branch and Congress) /continued spending packages. A ten year yield of 3.78%, the highest in over a decade, is wreaking havoc on the economy, fueling a decadeslong strong dollar – all of which have negative implications for the global economy. The primary driver is the afore mentioned fiscal stimulus – the majority of which has been in the name of Covid relief, and is coupled with supply chain issues, wage inflation and continuing restrictions on domestic oil and gas production. More critically, there have been several mentions of a ban on U.S. fuel for export to Europe. In dire need of LNG and fuels, Europe is in for a very tough winter - and the recent mention of proposed export bans will produce more economic pain for our allies in Europe. The Fed will not be completely effective in offsetting these inflationary inputs, which should be targeted directly through reduced fiscal stimulus. Issues surrounding the supply chain are partially connected to a wage inflation spiral. Disruptions from the war in Ukraine, and Covid-19 lockdowns in China explain the majority of remaining factors involved in supply chain constraints.

The Fed's preferred measure of inflation, the PCE – the Personal Consumption Expenditure price index, released last Friday, displayed no abatement of inflationary pressure. It does not appear a short term solution is probable, as Fed policy seems to be placing inflation curtailment ahead of its other mandate - employment. Layoffs are escalating, and economic growth as defined by GDP has now clocked two negative quarters back to back. The Fed has a serious challenge. I trust they are taking the most appropriate steps, as painful as they may be. There is no shortage of bad news, all of which is embedded in current equity/ fixed income prices.

All financial asset classes are significantly impacted. Equities, fixed income, the vast majority of commodities, real estate and crypto- currencies are having a dramatically rough run in 2022. The sole port in the storm: treasuries, which yield very little, and provide no protection against an annual inflation rate of over 8%. Which brings the time factor into focus: Over time, equities outpace inflation; fixed income periodically outpaces, but to a much lesser degree than equities, and treasuries lag inflation *over time*. Inflation of this magnitude is destructive, and is beginning to surpass the dreadful period of the early 1980s. The destructive nature of this cycle is the continually mounting inflation rate. The rally in early summer was predicated on peak inflation, with the worst behind us. Oil took a reprieve – down about 23% from an early June interim peak, but remains significantly elevated. OPEC is discussing cutting production, in an attempt to drive prices yet higher.

An interesting inflation input: California has experienced over $20 Billion in unemployment benefit fraud since early 2020. The national number is closer to $80 Billion fraud in Covid extended unemployment benefits. This is excess money in the economy creating abnormal demand. One example of many unnecessary and unusual inputs driving inflation. Until the spending spree stops, the pain of inflation is certain to continue.

One glimmer of near term hope with history on its side: Midterms have a flawless 80 year record of rising in the one year period following midterm elections – regardless of the election outcome. The average gain is 15%. Glimmer, as all is very pessimistic at the moment regarding consumer sentiment and continuing economic slowdown. The technology sector typically has the strongest rally post midterms.

There is no doubt - this is an extraordinarily painful period. If there is not an immediate need for cash from assets, prices should improve. Investing is a long term endeavor. The current downturn is a setback of unusual magnitude, taking indexes back to approximately August, 2020 prices. Please update if there are any significant cash requirements in the near term. Conversely, in my opinion – this is an exceptional opportunity for long term investment. While impossible to know what lies ahead, investment growth over time has been effective.

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