Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – July 1, 2022

Nearly all men die of their remedies, and not of their illnesses. ~Molière

While the playwright's quotation above might not be completely true in the strictest sense any longer, we know that even today our best medical cures are often quite hazardous to our immediate well-being. At the very least every surgical or pharmaceutical intervention carries with it some measurable risk for complications or death.

The same can be said of our maladies and cures in the economic realm. Economies, like our living bodies, are complex systems with branching feedback loops that affect distant processes in sometimes unexpected ways. And to be clear right off the bat, we are not saying that rising interest rates *MUST* kill the economy. We are merely reminding clients that there are trade-offs or costs and benefits to every action. The broader the action, the broader its effects will be felt.

And the Fed's activities are among the broadest weapons available. Their zero-interest rate policy and multi-pronged quantitative easing programs during the pandemic (which also involved manmade programs with lasting consequences), propelled asset prices skyward. Right now, the Fed is driving in the other direction. Asset prices have begun to respond to the force of gravity.

Yet, we support the Fed's efforts. As late as they may be. As single-focused as they may be. We support them. For, their imperfect remedy is better than the illness of inflation.

The challenge is that reducing the money supply and increasing the cost of access to money <u>doesn't directly address the core issues that are causing inflation today</u>. It will eventually remedy <u>one</u> of the causes, i.e., too much money. But it cannot fix the major issue facing us today which is too few goods (supply is totally disrupted).

The only way the Fed's monetary policy can hope to fix the supply issue is by crushing demand until it drops enough to match global supply. Now, that outcome *WILL* mean recession and that is the risk the market is debating every moment of every day. Will global manufacturers, shippers, retailers, and everything in-between be able to increase supply before the Fed has sufficiently soured demand?

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-832-1211

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The Fed is taking their time (probably too much) in order to give policymakers and business folks room to repair supply chains. In our missives from late 2021 and January 2022, we believed easing pandemic restrictions would be able to offset spiking inflation by the middle of this year. However, China's zero-COVID policy, the Russia-Ukraine war, and our own continued pressure against fossil fuels made such forecasts seem silly indeed.

As we suggest we are entering a recession, we are very comfortable in hoping our forecasts are wrong. If we must admit the economy and market bounced back when we thought it unlikely, then so much the better! We'll all be richer for it.

In the meantime, we carry more cash and short-term bonds. These act as shock-absorbers against market stress. We hold solid companies, viable for the long term in all sorts of environments. And it is important to note that if prices remain weak, you might actually see us pick up even more shares of companies. So, brace yourselves.

While the goal is easy to articulate – accumulate more shares at lower prices. In practice, it is exceptionally difficult. During times of market stress, our emotions work in overdrive to take our eyes off the prize. Instead, we tend to drift toward whatever solution promises immediate relief.

Which brings us right back to the beginning. When we grasp for short run fixes, remedies, or cures, we very well may end up killing our ability to achieve our long run goals. While doctors pledge to do no harm, a more fitting pledge for physicians and financial advisors might be to do no lasting harm.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
Jason Born, CFA
President

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