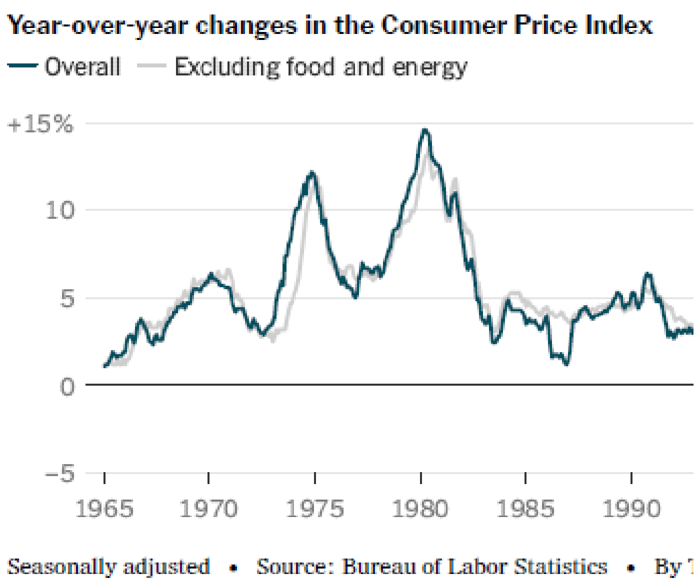
Prices climbed 7.5 percent in January, the fastest inflation since 1982.

Consumer Price Index data show that prices climbed over the past year more rapidly than economists expected. On a monthly basis, prices rose 0.6 percent.



A key inflation measure showed that prices are climbing at the fastest pace in 40 years and more quickly than economists had expected, the latest unpleasant surprise for the White House and Federal Reserve after a bruising year for American consumers.

Consumer Price Index data for January, released Thursday, showed that prices have climbed 7.5 percent over the past year, more than the 7.2 percent projected in a Bloomberg survey. On a monthly basis, they picked up 0.6 percent.

That is rapid by historical standards, and although it is slower than the fastest monthly increases in 2021, it too was above economists' expectations. The underlying details of the report showed that price pressures are broadening and moving into longer-lasting categories, a development that is likely to prove worrying for economic policymakers and painful for consumers.

Forecasters expect that inflation will come down meaningfully in 2022: Many expect it to finish the year closer to 3 percent. But economists regularly predicted that price gains would fade quickly in 2021, only to have those projections foiled as booming consumer demand for goods collided with roiled global supply chains that could not ramp up production fast enough.

High inflation has been a political liability for the White House, as rising prices have eaten away at household paychecks, leaving consumers feeling pessimistic.

And today's price increases are hitting consumers in hard-to-avoid ways, as they show up in necessities: January's inflation was driven by food, electricity and shelter costs, the Bureau of Labor Statistics said.

"It was more than expected, and it was broad-based," said of the data. As a result, likely inflation will fade by less this year than previously projected.

Policymakers have expressed more humility around their outlook for inflation in recent months, especially at a time when ports remain clogged, rents and restaurant prices are on the upswing and wages are rising, all factors that could keep inflation hot.

“Along with trillions, yes trillions of taxpayer dollars for inflationary unjustified Government Budgetary Spending, during a time of supply chain mismanagement, the effects of misguided “COVID,” policy, and inappropriate, non-existence of a “National Energy Policy.”

These current issues, seems to be spiraling, like a runaway train, and this train is carrying no freight of resolve.

High inflation has been a political liability for the White House, because rising prices have eaten away at household paychecks and detracted from a strong labor market with solid wage growth, leaving consumers feeling pessimistic.

“While today is a reminder that Americans’ budgets are being stretched in ways that create real stress at the kitchen table, there are also signs that we will make it through this challenge,” President Biden said in a statement following the release.

Rapid price gains have also prompted the Fed to pivot away from its patient policy setting meant to foster a quick economic rebound from the pandemic, including keeping interest rates at rock bottom. Investors now expect that central bankers might lift interest rates six times this year as they try to slow down the economy and tamp down price gains.

Just months ago, The FED stated that inflation is timid, until; The PPI, Producer Price Index wen though the roof, the highest in 40, FOURTY Years. And recently THE FED states that inflation will be prevalent into mid 2022.

“So, let’s see, if this bears any fruit and hopefully the tree, (The Broad U.S. economy-not just Wall St) doesn’t cascade, because of some fumbling fools.”

Let’s look at the numbers………………

“The current Inflation Rate in The U.S., accelerated to 7.5% in January 2022, the highest since February of 1982 and well above forecasts of 7.3%...

Focus economics panelists sees inflation average at 3.2% in 2022, which is up 0.3 percentage points from their last month’s forecast. I guess they missed the que…..

In 2023. This panel expects inflation to average 2.5%! “Take care of today, I think will impact your expectations”….

“We were told, Inflation was timid…….only months ago, sort-of-like, no big deal, Right?”

The Producer Price Index for final demand rose 9.7 percent in 2021, This index reflects, higher costs that producers, production pays, before the product or goods goes to market.

The highest spike since 1982, now along with supply bottlenecks persisting, which the U.S., has never experienced.

In my opinion this is not going to resolve overnight…..

Many retailers tried their best not to pass along higher costs to the consumer, but eventually, the higher costs are passed on…to the consumer.

Inflation is a TAX on everyone!

Months ago, this “fundamental,” economic measurement wasn’t even mentioned by this current FED, or current Administration…please correct me if I’m incorrect!

Job Sector….

For the 12-month period between September 2020 and September 2021, the BLS reported salary and wage cost increased: 4.2% for civilian workers. 4.6% for private industry workers. 2.4% for state and local government workers 10. Jan 19,2022.

Federal Government workers is proposed a 5.1% average Pay Raise…Jan 13, 2022.

So….The wage increases are below the PPI Producer Index, and Below the CPI, Consumer Cost Index..

And this should be applauded?

As of my observation the proposed increase is only 2.2% for all federal employees, plus a locality increase of 0.5% must be signed by year end, January 2022.

In the meantime….how does anyone make ends meet?

Again, should inflation persist, and currently The Corporate tax rate is 19% for the fiscal year beginning 1 April 2021 through April 2022.

The new corporate tax rate Proposed by House Democrats, of 26.5% The Democrats slashed the previous rate from the proposed 28%

37%	Over $539,900	Over $647,850

Whatever your tax bracket, allow someone to provide you a tax analysis, no matter your income bracket.

Let's share one common understanding about BUDGETS, your personally Employed, Your Small Business, you're a Private Business, or to be fortunate, "A Publicly Traded Entity."

Without a solid Income, and Expense, Budget, that reflects your Personal, or Business Income and Expense, you are financially at risk!

Risk and Measurements, are you financially stable, or financially overweight?

Again, The FED reflects….

"Making appropriate monetary policy in this environment requires humility, recognizing that the economy evolves in unexpected ways," Jerome H. Powell, the Fed chair, said at his news conference last month.

The Fed aims for 2 percent inflation on average over time, though it defines that target using a different inflation index that is also elevated but not quite as sharply.

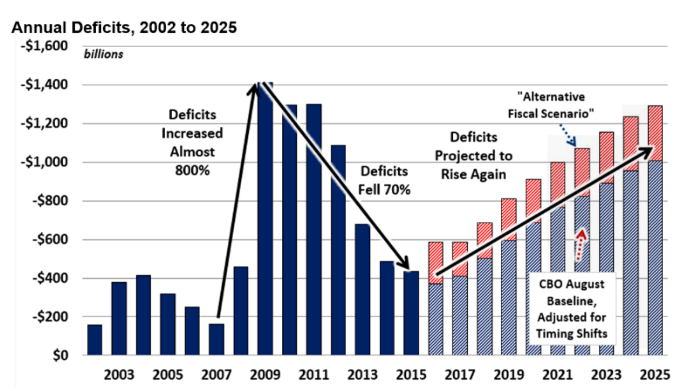
The new data prompted market investors and economists to up their expectations for the Fed to raise interest rates by half a percentage point in March, rather than a standard quarter-point move.

Inflation increasingly appears to be driven less by the pandemic and more by a strong economy.

Price increases in 2021 were driven heavily by roiled supply chains that sent new and used car prices and furniture costs up drastically. Those continue to be a big factor elevating overall inflation, but other areas are also fueling the rapid rise.

What are those other areas fueling the Rapid Rise?

Government Spending Increases?



What Is the Current US Federal Budget Deficit?

The federal budget deficit is projected to reach a new record.

US ECONOMY
FISCAL POLICY
• • •
BY
Updated KIMBERLY AMADEO January 20, 2022
REVIEWED BY
EBONY J. HOWARD

The U.S. federal budget deficit was projected to reach $2.3 trillion in 2021. it reached $2.8 trillion for the fiscal year 2021. [1] It was the second-highest deficit since 1945; the 2020 deficit of $3.1 trillion as a result of the COVID-19 pandemic takes the top spot. [2] [3]

COVID-19

In March and April 2020, Congress passed several laws to offset the damage done by the coronavirus pandemic:

The Coronavirus Preparedness and Response Supplemental Appropriations Act provided $8.3 billion to federal agencies to respond to the pandemic. [7]

1. The Families First Coronavirus Response Act provided $3.5 billion for paid sick leave, insurance coverage of coronavirus testing, and unemployment benefits. [8]
2. The largest, at over $2 trillion, was the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). It sent $1,200 stimulus checks to eligible taxpayers, expanded unemployment insurance, assisted small businesses, and funded stateand local governments. [9] (The 2021 American Rescue Plan also provided $1,400 stimulus checks to individuals and families, provided funding for COVID-19 testing, vaccinations, and prevention, and more.) [10]
3. The largest, at over $2 trillion, was the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). It sent $1,200 stimulus checks to eligible taxpayers, expanded unemployment insurance, assisted small businesses, and funded state and local governments. [9] (The 2021 American Rescue Plan also provided $1,400 stimulus checks to individuals and families, provided funding for COVID-19 testing, vaccinations, and prevention, and more.) [10]

4. The Paycheck Protection Program (PPP) and Health Care Enhancement Act allocated $483.4 billion for small
1. businesses, hospitals, and testing. [11]

This spending largely increased the federal budget deficit, but it was necessary to keep the U.S. economy afloat during stay at-home orders throughout the country.

However, additional unnecessary spending that is not a National Security issue nor pandemic, is in my opinion, untimely.

Tax Cuts

Tax Cuts ~ Political Game…..

Tax cuts immediately reduce revenue and add to the national debt. For example, the Bush tax cuts added $5.6 trillion to the national debt between 2001 and 2018. [12] The national debt and the federal deficit are related because the national debt is the accumulation of each year's deficit. So every year, tax cuts add to the deficit by reducing revenue.

The Trump tax cut reduced revenue by lowering taxes on personal income, small businesses, and corporations. The Joint

Committee on Taxation projected that these cuts would add nearly $1.5 trillion to the debt between 2018 and 2027. [13]

Some economists say that tax cuts boost the economy so much that additional revenues in the long term will offset short term losses.

The National Bureau of Economic Research found that in the long run, only 17% of revenue from income tax cuts may be regained, while half of the revenue from corporate tax cuts may be regained. [14]

U.S. Military Spending

The War on Terror and related defense spending have added trillions to the national debt since 2001.

That includes increases to the budgets of the Department of Defense, the Department of Veterans Affairs, and Overseas Contingency Operations.

Unfortunately, it's difficult to reduce the budget deficit without cutting U.S. military spending.

U.S. military spending is greater than the next 10 largest government expenditures combined.

It's almost three times greater than China's military budget, and 10 times bigger than Russia's defense spending. [17] It plays a large factor in the federal budget deficit because of its size.

Government Spending, GDP, GNP, and the Budget Deficit…

A budget deficit occurs when government spending exceeds revenue. The federal government's revenue is the income it collects from taxes, fees, and investments.

When spending is less than revenue, it creates a budget surplus.

When's the last time we experienced a budget surplus?

The president and Congress overspend on purpose.

They realize that the more the government spends, the more it stimulates the economy.

Government spending is itself a component of GDP. It is the country's total economic output for a year.

The pockets of businesses and families so that they spend money, which then helps create a stronger economy.

Thats' what we're told…Spend until you go broke…..

One must Manufacture, and Produce, and outsourcing, makes US, dependent on a frail supply Chain….

This is a underlying economic fundamental, otherwise, nothing can be offered to purchase…and our US technologies not be stolen, or copied…

I think, Made In America. Is a good brand!

If the debt-to-GDP ratio exceeds a tipping point of 77% for an extended period, it slows the economy.

Every percentage point of debt above this level costs the country 1.7% in economic growth. It's even worse for emerging markets, in which each additional percentage point of debt above 64% could slow growth by 2% each year. [18]

There is also some cause for concern when the economy is doing well.

The government should be reducing the deficit to lower the national debt. Deficit spending in a healthy economy could make it overheat, and that could create a boom and-bust.

Now, The Government is doing what? The opposite, "Spending, beyond the Pandemic Needs!

And this will lead to a bust cycle, which could lead to a recession.

Observation…..

Individuals, small business, mid-size business, large business, publicly traded companies must have a budget, otherwise your-out-of-business.

Why is it, that the Federal Government has no balanced budget requirements, when every other individual and business requires a budget?

There is no balanced budget provision in the U.S. Constitution, so the federal government is not required to have a balanced budget and Congress usually does not pass one. Several proposed amendments to the U.S. Constitution would require a balanced budget, but none have been enacted.

Perhaps it's time…..A Mandatory Balanced Budget is enacted, after all, every successful individual and businesses are Mandated to a budget, to pay its tax individual tax, payroll tax, tax on profits, Social Security Tax, Medicaid, Medicare, tax on your retirement income, limitations of how much you can contribute towards your senior years, Income limitations at retirement or you could jeopardize your Social Security benefits.

It appears individuals, and business need to adhere to a budgetary discipline to meet its obligations, and hopefully it is profitable after meeting all these mandatory limitations, taxes, and penalties.

Afterall, as an individual, small business, or publicly traded entity, without a balanced budget, you're in a deficit, a financial hole, and this can also affect the state of our country's financial health, plus it can affect your personal, health.

Perhaps, what's missing from the equation is, A Balanced Budget requirement of the Federal Government.

Inflation?

It's a tax on everyone..

In such a short period of time, the Broad U.S., economy went from a stellar economic growth, as to GDP, to economic mayhem.

That started when U.S. Corporations began outsourcing our manufacturing, Textile, and yes, technology, ~ "For Cheap Labor."

Yet, without "Mandate," as to National Security," so of course, some foreign Governmental entities, welcomed this free trade~ to only steal, copy, "American Ingenuity."

How many "Parts," are imported for your American Product.

"Why is everything made in China; One of the reasons companies manufacture their products in China is because of the abundance of lower-wage workers available in the country

. ... China has been accused of artificially depressing the value of its currency to keep the price of its goods lower than those produced by U.S. competitors.

Could these events lead to recession….?

Wall Street's go-to recession indicator is starting to get attention

By Julia Horowitz, CNN Business

Updated 9:41 AM EST, Fri February 11, 2022

London (CNN Business) Past may not be prologue for financial markets as the global economy continues to reel from the pandemic. But a traditional recession signal is still catching Wall Street's attention.

What's happening: The US government bond market sold off on Thursday alongside stocks following the news that inflation reached 7.5% in January — its highest level in four decades. The yield on the benchmark 10-year US Treasury, which moves opposite prices, shot above 2% for the first time since 2019. It was close to 1.5% at the end of last year.

Investors were particularly worried, however, about the yield on shorter-term US bonds like the two-year note, which has been rising even more dramatically. It's now above 1.5%, gaining about 110% so far in 2022.

Why this matters: Typically, investors *demand higher payouts for longer-dated bonds,* since it's harder to predict risk and economic conditions over extended periods.

But if yields on shorter-dated bonds jump above the 10-year — producing an "inverted yield curve" — that's a sign that investors expect a deterioration in near-term economic conditions and aggressive intervention from the Federal Reserve.

In 2018, the Federal Reserve Bank of San Francisco published research that found a yield curve inversion preceded every recession since 1955, producing a "false positive" just one time. (It looked specifically at the yield on one-year Treasuries.)

Investors indicated on Friday that they're watching to see if this happens again. Jim Reid, a strategist at Deutsche Bank, called the run-up in the yield on the two-year Treasury an ***"ominous sign."***

The worry is that because the Fed is now playing catch-up on inflation, it may make a mistake and pull back support for the economy too quickly, causing a recession.

Goldman Sachs said Thursday that it now expects the Fed to hike interest rates at every meeting left this year. And Federal Reserve Bank of St. Louis President James Bullard told Bloomberg that he now supports a rapid increase of rates by July.

Bullard implied he'd back one supersize hike of 0.5 percentage points before then. The central bank hasn't executed a half-point hike since 2000.

But Michael Hewson, chief market analyst at CMC Markets, told me a yield curve inversion is "not necessarily a reliable indicator." He noted that the curve inverted in 2019 and that didn't seem to predict anything. There was a recession in 2020, but that was triggered by Covid-19.

Despite higher inflation, the International Monetary Fund expects the US economy to grow by 4% this year, down from 5.6% in 2021.

Hewson said that the curve may be a "warning to the Fed that maybe if they tighten too quickly they could cause more damage than they intend."

Yet he sees "stagflation" — rampant inflation and weak economic growth — as a larger risk than a recession.

"*That's the bigger concern right now — that inflation starts to outweigh GDP,"* Hewson said.

A little more Economics, and this isn't' economics 101….

"In many important ways, the financial crash of 2008 had never ended. It was a long crash that crippled the economy for years. The problems that caused it went almost entirely unsolved. And this financial crash was compounded by a long crash in the strength of America's democratic institutions. When America relied on the Federal Reserve to address its economic problems, it relied on a deeply flawed tool. All the Fed's money only widened the distance between America's winners and losers and laid the foundation for more instability. This fragile financial system was wrecked by the pandemic and in response the Fed created yet more new money, amplifying the earlier distortions."

—Christopher Leonard, *The Lords of Easy Money* (2022) (h/t Michael Lewitt)

Well Said, In my opinion…….

They need a complete restructuring because the Fed isn't accomplishing what we all need it to. Worse, it is causing problems we could do without.

I believe Fed officials are largely responsible for the cycles of bubbles, booms, and busts over the last 30 years. Further, they share some of the blame (clearly not all) for the growing divisions and tribalism in our society.

Much of it springs from the wealth disparity they aided and abetted.

I've talked before about how the Fed has painted itself into a corner. All the options are bad and getting worse.

The reasons it is in this position are no mystery. Indeed, this is all inherent in the Federal Reserve system's design.

It is trying to do things it shouldn't be attempting.

The only real solution is a wholesale redesign and reconstruction. What we have today isn't working and the time has come to amend the Federal Reserve Act and change its purposes and authorities.

I realize these are bold words. I fully acknowledge the gravity of what I'm proposing here. And I am totally open to ideas of what a new and better Fed would look like. I know any transition from here to there will be tricky, too.

The advisory trading sessions have been active, to say the least and the following reflects the current market performance across multiple sectors.

In midday trading on Monday, the Dow Jones Industrial Average sank more than 1,100 points and the Nasdaq Composite Index crumbled nearly 5%. They recovered to close slightly up for the day, then sank again early Tuesday before clambering back.

The Nasdaq Composite Index is down roughly 12% so far this year.

These steep drops came after almost two years of a nearly relentless rise in prices—even for many stocks that professional investors regarded as garbage. After such widespread gains, small declines loom larger than they do when losses occur with more-typical frequency.

Above all, what matters isn't what the market does—but what you do in response.

As I wrote in the previous market downturns,

Individual investors should tune out the futile efforts by commentators and strategists to extrapolate the market's latest swings into a prediction of what will happen next.

Instead, use the recent volatility to make an honest reassessment of what kind of investor you are and how much risk you can stomach….

The advisory on a continual basis, reviews financial – market data and aspects of information, both fundamental and technical as it relates to your advisory managed account.

We believe, the current financial fundamental's and market technical's, reflect and support's the advisory to increase cash on your managed account(s) at this current time.

In the interim, always feel free to contact the advisory to discuss your concerns.

"It isn't investments that get tested in turbulent markets; it's investors."

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Braintree, MA 02184

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Fund name	Symbol	YTD as of 02/11/2022
DIA		-4.34%
NASD 100 QQQ		-12.77%
S&P 500		-7.26%
Short-Term Corporate Bond ETF	VCSH	-1.86%
High Dividend Yield ETF	VYM	-0.61%
Financials ETF	VFH	1.54%
Energy ETF	VDE	25.34%
Russell 2000 Growth ETF	VTWG	-13.60%
Mid-Cap Growth ETF	VOT	-13.38%
Small-Cap Growth ETF	VBK	-13.10%
Growth ETF	VUG	-12.79%
Mega Cap Growth ETF	MGK	-12.60%
Russell 1000 Growth ETF	VONG	-11.97%
S&P 500 Growth ETF	VOOG	-11.84%
Consumer Discretionary ETF	VCR	-11.37%
Information Technology ETF	VGT	-11.33%
Real Estate ETF V	NQ	-10.81%
S&P Small-Cap 600 Growth ETF	VIOG	-10.38%
Communication Services ETF	VOX	-10.44%
Extended Market ETF	VXF	-10.09%

US junk bonds hit by sharpest sell-off in more than a year

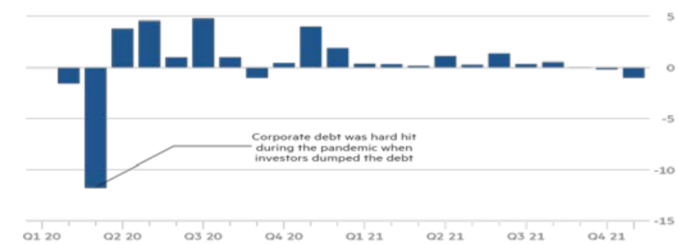
High-yield market suffers as traders re-evaluate companies' ability to repay debt

The bonds of triple C and lower-rated companies returned minus 1.4% last month © AP

US junk bonds fell in November by the most in more than a year on fears the spread of the Omicron coronavirus variant will hinder the ability of low-rated companies to repay their debts. A high-yield bond index compiled by Ice Data Services dropped just over 1 per cent in November, marking only the second month this year in which the gauge has posted a negative total return and its worst showing since September last year. The decline was driven by a slide in the price of the debt, which offset the interest payments the bonds provide. It is one of the clearest indications yet of how the emergence of a new strain of coronavirus has prompted global investors to shift away from stocks and bonds of companies that are considered to be most vulnerable to the potential hit to the global economy caused by the new variant. The selling last month was even more severe for the lowest-rated corner of the market. The bonds of triple C and lower-rated companies returned minus 1.4 per cent, reflecting worries that a boom in financing for risky companies could be knocked by tightening monetary policy or stricter social curbs in response to the new coronavirus variant. Much of the downturn came on Friday last week, as concerns about Omicron prompted governments to rush to reimpose restrictions in an attempt to stem the spread of infection. Leisure was the worst-hit sector in the debt market on Friday, with airline bonds also suffering.

Junk bonds suffer biggest losses since September 2020

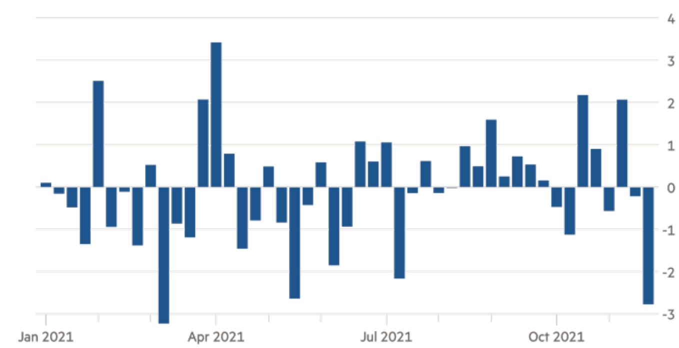
Monthly total return (%)



Source: Ice Data Services
© FT

US junk bond funds suffer biggest withdrawals since March

Weekly flows into high-yield corporate bond funds ($bn)



Source: EPFR Global
© FT

Investors also pointed to the seasonal slowdown in the build-up to Thanksgiving, with traders looking to book profits and trim risk before trading activity dwindles, as bankers and portfolio managers break for the holidays. Despite the selling, yields on junk bonds are still in line with levels from around the same time a year ago, signaling borrowing costs will remain near historically low levels for many borrowers.

Source: Financial Times.

LIPPER FUND FLOW REPORT

FUND FLOW REPORTS FOR THE WEEK ENDED 02/09

For the week ended 02/09/2022 Ex ETFs - All Equity funds report net outflows totaling -$1.549 billion, with Domestic Equity funds reporting net outflows of -$2.147 billion and Non-Domestic Equity funds reporting net inflows of $0.598 billion...Ex ETFs - Emerging Markets Equity funds report net inflows of $0.378 billion...Net inflows are reported for All Taxable Bond funds of $0.655 billion, bringing the rate of outflows for the $3.929 trillion sector to -$2.121 billion/week...International & Global Debt funds posted net outflows of -$0.598 billion...Net inflows of $1.083 billion were reported for Corp-Investment Grade funds while High Yield funds reported net outflows of -$1.962 billion...Money Market funds reported net outflows of -$33.404 billion...Ex ETFs - Municipal Bond funds report net outflows of -$0.539 billion.

Top 10 Redemptions (All ETFs)

Ticker	Fund Name	Net Flows*	Details
SPY	SPDR S&P 500 ETF Trust	-22,935.50	
QQQ	Invesco QQQ Trust	-4,390.93	
IWM	iShares Russell 2000 ETF	-3,822.55	
TLT	iShares 20+ Year Treasury Bond ETF	-3,610.04	
HYG	iShares iBoxx USD High Yield Corporate Bond ETF	-3,581.86	
TIP	iShares TIPS Bond ETF	-3,142.59	
LQD	iShares iBoxx USD Investment Grade Corporate Bond ETF	-3,057.29	
VLUE	iShares MSCI USA Value Factor ETF	-2,513.56	
BSV	Vanguard Short-Term Bond ETF	-2,430.69	

Age of Innocence for Bond Traders Ends in Latest Inflation Shock

A big day on Wall Street as traders up bets on Fed rate hikes
'There will be more days like this,' says Gokhman at AlphaTrAI

By
Liz McCormick
, Michael Mackenzie
, and Lu Wang

February 10, 2022, 6:22 PM EST *Updated on February 11, 2022, 8:21 AM EST*

For the Treasury market, it was a one-two gut punch: The fastest rate of inflation since Ronald Reagan was president and a Federal Reserve official calling for a full percentage-point increase in interest rates by July.
The twin blow sparked big moves across global markets Thursday -- schooling anyone on Wall Street with lingering doubts that the hawkish monetary era has arrived.

Two-year yields jumped Thursday by the most in more than a decade as U.S. government bonds sold off across the curve. Ten-year yields rose above 2%. Stocks weren't spared, with the S&P 500 closing down 1.8% amid fresh losses in speculative tech companies. While some relative calm returned to markets in early trading Friday, few are banking the worst is over.

Bond investors were hit by the latest annual reading on U.S. consumer prices that showed the fastest increase in four decades. Hours later, St. Louis Fed President James Bullard called for a concerted pace of policy tightening.

While Bullard's view doesn't reflect the consensus of Fed officials, his comments still spurred traders to launch ever-more aggressive wagers on upcoming interest-rate increases.

Goldman Sachs Group Inc.'s economists now expect the Fed to raise rates seven times this year, up from from five projected earlier. They don't tip a 50 basis point move in March but said this may change if others join Bullard.

In contrast to him, other officials don't appear to be in a rush to raise rates prior to their scheduled policy meeting next month, nor to favor a half percentage-point move in March yet.

Fed Doesn't Yet Favor a Half-Point Hike or an Emergency Move

"Short rates have been rising for months now in anticipation of a hawkish Fed," said Jim Bianco, president of Bianco Research. "But the CPI report was almost a bridge too far. And if the Fed's priority has shifted to inflation -- then get out of the way because here comes a lot of hikes."

Bets that only weeks ago sounded far-fetched now have better-than-even odds: The swap market projects an over 90% chance of a 50 basis-point hike in March -- and close to 110 basis points all-in over the next three central-bank gatherings. Traders are even speculating on the idea of an inter-meeting increase in rates.

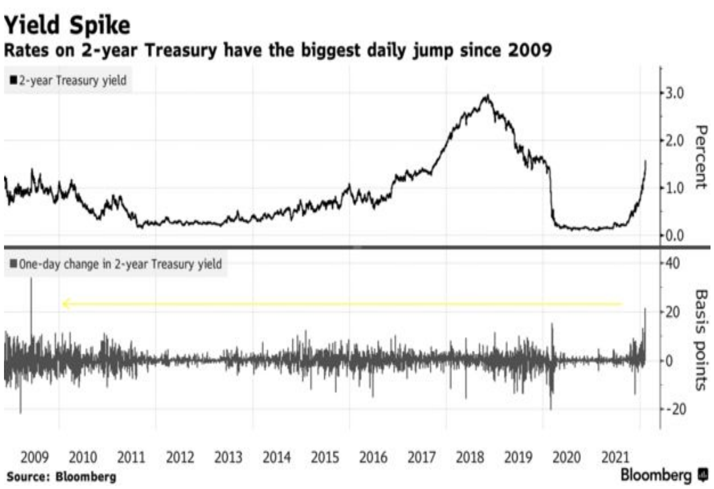
It all suggests the age of innocence is over for young bond traders lulled by the pre-pandemic years of disinflation.

Two-year Treasury yields rose over 20 basis points Thursday, the biggest one-day move since June 2009, while Treasury Secretary Janet Yellen's debt managers had to pay up for an ill-timed 30-year bond sale. Down more than 3% so far in 2022, U.S. Treasuries could well close out the year in the red at this rate, in what would be the first back-to-back annual loss in history.

And with megacap companies falling, Max Gokhman, the chief investment officer at systematic money manager AlphaTrAI Inc., says more investors are fading the so-called Fed put, or the idea U.S. policy makers will step in to support financial markets at the first sign of trouble.

"I think the market keeps having these realizations," he said. "There will be more days like this."

Traders Lean Toward Half-Point Fed Hike After Inflation Surge



While stocks have historically tended to advance in the first year of policy tightening, the pace makes a big difference, according to Ned Davis Research, which defines a fast cycle as a hike per meeting. Since 1946, the S&P 500 fell 2.7% on average in this scenario while rising 11% during slower ones.

Unlike in the past, when the Fed tended to raise rates amid accelerating growth, this time is different when it comes to corporate earnings. Profits from S&P 500 firms are expected to increase 7% this year, down from 50% in 2021, data compiled by Bloomberg Intelligence show.

All that suggests it's time for investors to cut equity holdings and raise cash to prep for more market turmoil, said Ed Clissold, a strategist at Ned Davis.

Bond investors could be set for more pain too. At quant shop AlphaSimplex Group LLC, Kathryn Kaminski says technical signals remain ultra bearish across the asset class. That suggests the Thursday data should be a wake-up call to anyone still downplaying the threat of elevated price pressures.

"People were sitting there thinking 'well, inflation is going to go away because Covid has calmed down some, so the Fed isn't going to act,'" said the portfolio manager and chief research strategist. "But the inflation print of 7.5%, worse than last month, made them realize this is really happening."

— With assistance by Vildana Hajric, Jeremy Herron, Sam Potter, and Marcus Wong

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Active vs. Passive Portfolio Management

Proponents of active portfolio management believe that a skilled investment manager can generate returns that outperform a benchmark index. Advocates of passive investing argue that the best way to capture overall market returns is to use low-cost index-based investments.

One of the longest-standing debates in investing is over the relative merits of active portfolio management versus passive management. With an actively managed portfolio, a manager tries to beat the performance of a given benchmark index by using his or her judgment in selecting individual securities and deciding when to buy and sell them. A passively managed portfolio attempts to match that benchmark performance, and in the process, minimize expenses that can reduce an investor's net return.

Each camp has strong advocates who argue that the advantages of its approach outweigh those for the opposite side.

Active investing: attempting to add value

Proponents of active management believe that by picking the right investments, taking advantage of market trends, and attempting to manage risk, a skilled investment manager can generate returns that outperform a benchmark index. For example, an active manager whose benchmark is the Standard & Poor's 500 Index (S&P 500) might attempt to earn better-than-market returns by overweighting certain industries or individual securities, allocating more to those sectors than the index does. Or a manager might try to control a portfolio's overall risk by temporarily increasing the percentage devoted to more conservative investments, such as cash alternatives.

An actively managed individual portfolio also permits its manager to take tax considerations into account. For example, a separately managed account can harvest capital losses to offset any capital gains realized by its owner, or time a sale to minimize any capital gains. An actively managed mutual fund can do the same on behalf of its collective shareholders.

However, an actively managed mutual fund's investment objective will put some limits on its manager's flexibility; for example, a fund may be required to maintain a certain percentage of its assets in a particular type of security. A fund's prospectus will outline any such provisions, and you should read it before investing.

Passive investing: focusing on costs

Advocates of unmanaged, passive investing — sometimes referred to as indexing — have long argued that the best way to capture overall market returns is to use low-cost market-tracking index investments. This approach is based on the concept of the efficient market, which states that because all investors have access to all the necessary information about a company and its securities, it's difficult if not impossible to gain an advantage over any other investor. As new information becomes available, market prices adjust in response to reflect a security's true value. That market efficiency, proponents say, means that reducing investment costs is the key to improving net returns.

Indexing does create certain cost efficiencies. Because the investment simply reflects an index, no research is required for securities selection. Also, because trading is relatively infrequent — passively managed portfolios typically buy or sell securities only when the index itself changes — trading costs often are lower. Also, infrequent trading typically generates fewer capital gains distributions, which means relative tax efficiency.

Note: *Before investing in either an active or passive fund, carefully consider the investment objectives, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing. And remember that indexing — investing in a security based on a certain index — is not the same thing as investing directly in an index, which cannot be done.*

Blending approaches with asset allocation

The core/satellite approach represents one way to employ both approaches. It is essentially an asset allocation model that seeks to resolve the debate

All investing involves risk, including the potential loss of capital, and there can be no guarantee that any investing strategy will be successful.

A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to a significant level of volatility and risk.

about indexing versus active portfolio management. Instead of following one investment approach or the other, the core/satellite approach blends the two. The bulk, or "core," of your investment dollars are kept in cost-efficient passive investments designed to capture market returns by tracking a specific benchmark. The balance of the portfolio is then invested in a series of "satellite" investments, in many cases actively managed, which typically have the potential to boost returns and lower overall portfolio risk.

Note: *Bear in mind that no investment strategy can assure a profit or protect against losses.*

Controlling investment costs

Devoting a portion rather than the majority of your portfolio to actively managed investments can allow you to minimize investment costs that may reduce returns.

For example, consider a hypothetical $400,000 portfolio that is 100% invested in actively managed mutual funds with an average expense level of 1.5%, which results in annual expenses of $6,000. If 70% of the portfolio were invested instead in a low-cost index fund or ETF with an average expense level of 0.25%, annual expenses on that portion of the portfolio would run $700 per year. If a series of satellite investments with expense ratios of 2% were used for the remaining 30% of the portfolio, annual expenses on the satellites would be $2,400. Total annual fees for both core and satellites would total $3,100, producing savings of $2,900 per year. Reinvested in the portfolio, that amount could increase its potential long-term growth. (This hypothetical portfolio is intended only as an illustration of the math involved rather than the results of any specific investment, of course.)

Popular core investments often track broad benchmarks such as the S&P 500, the Russell 2000® Index, the NASDAQ 100, and various international and bond indices. Other popular core investments may track specific style or market-capitalization benchmarks in order to provide a value versus growth bias or a market capitalization tilt.

While core holdings generally are chosen for their low-cost ability to closely track a specific benchmark, satellites are generally selected for their potential to add value, either by enhancing returns or by reducing portfolio risk. Here, too, you have many options. Good candidates for satellite investments include less efficient asset classes where the potential for active management to add value is increased. That is especially true for asset classes whose returns are not closely correlated with the core or with other satellite investments. Since it's not uncommon for satellite investments to be more volatile than the core, it's important to always view them within the context of the overall portfolio.

Tactical vs. strategic asset allocation

The idea behind the core-and-satellite approach to investing is somewhat similar to practicing both tactical and strategic asset allocation.

Strategic asset allocation is essentially a long-term approach. It takes into account your financial goals, your time horizon, your risk tolerance, and the historic returns for various asset classes in determining how your portfolio should be diversified among multiple asset classes. That allocation may shift gradually as your goals, financial situation, and time frame change, and you may refine it from time to time. However, periodic rebalancing tends to keep it relatively stable in the short term.

Tactical asset allocation, by contrast, tends to be more opportunistic. It attempts to take advantage of shifting market conditions by increasing the level of investment in asset classes that are expected to outperform in the shorter term, or in those the manager believes will reduce risk. Tactical asset allocation tends to be more responsive to immediate market movements and anticipated trends.

Though either strategic or tactical asset allocation can be used with an entire portfolio, some money managers like to establish a strategic allocation for the core of a portfolio, and practice tactical asset allocation with a smaller percentage.

Note: *Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.*