The McCrea - Bollinger Group

First Kentucky Securities Corporation

First Kentucky Securities | 4360 Brownsboro Road, Suite 300 | Louisville, KY 40207 | (502) 893-7288 | www.firstky.com/mbg

The Coming Stagflation

While every economic cycle is different, the after effect of COVID has certainly been unlike anything we have experienced in the past. However, over the coming years we are likely to see a revival of the 50-year-old term of "*stagflation*". In the 1970s, the U.S. economy experienced a long period of slow economic growth combined with rising inflation that became known as stagflation.

What does that mean for investors? Last year we wrote about concerns of "too much money" (the stimulus) chasing too few goods (supply chain issues) leading to higher-than-expected inflation. The early effects were mostly positive as unemployment fell and economic growth returned. The markets partied as the early growth helped inflate the stock market, real estate, and other commodities. We believe the party is mostly over and the hang over is just beginning to be felt as consumers spend more but are getting less. Meanwhile the Federal Reserve, belatedly, has laid out plans to raise short term rates to dampen inflation.

The Fed appears to be behind the curve. Long term interest rates have been rising for over a year. Anticipating higher inflation down the road, the yield on the 10-year treasury bond has more than doubled – rising from below 1% to over 2%. Our concern is that inflation remains high and interest rates will rise higher and maybe faster than expected. While 2% interest rates are not likely to wreck the economy, a significant rise in interest rates over time could substantially cool the hot stock and real estate markets leading to a stagnating economy.

WHAT WE ARE DOING AND RECOMMENDING

By definition, our investment approach is always long term in nature. Investing during stagflation becomes quite challenging. Because of high inflation, low returns on cash and savings guarantee a 5-6% loss in purchasing power. Bonds and real estate do not do well in a rising interest rate environment. Stocks don't grow much in a stagnant economy.

Diversification is always important. But going forward, how you are diversified will be key. We are investing in areas that we believe will do better in a higher inflation, higher interest rate, slow growth economy. We are more defensive and favor higher dividend, undervalued companies and are increasing exposure to commodity and materials companies in our portfolios. As always, we will keep you apprised of the risks we see and continue to help you navigate the challenges in the path ahead.

These statements are the opinion of the author and not those of First Kentucky Securities Corp. The content presented is for informational purposes only.

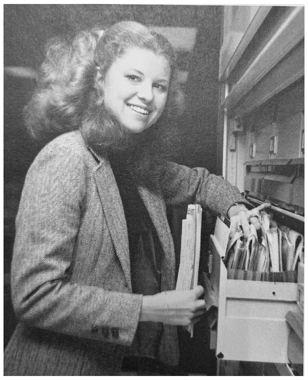
The investment markets are constantly changing. As long-term investors, we look at these changes as opportunities for your overall investment strategy. What is your timetable? How best to balance risk and rewards based on your objectives? What are the important reasons for you to build and protect wealth? We monitor each investor's portfolio against changing market conditions to maximize performance. It is our simple approach to wealth management.

Your Team: Sheree Bollinger, Bruce McCrea,
Chris McCrea, Caroline Flatt, & Bryan McCrea

THE McCREA - BOLLINGER GROUP

FIRST KENTUCKY SECURITIES CORPORATION

A note from Shereé Bollinger as she starts her new path



It's been an amazing journey.

I started my career in 1981 clipping coupons in the trust department at Liberty National Bank. In 1984 Liberty was starting a discount brokerage area and I was involved in the shaping of that and on the path to becoming a financial advisor. I began building lifetime relationships with my clients, many of whom are still with me today. In 1997, I moved my practice to Prudential Securities, one of the largest investment firms at the time, and within a few years, I had the opportunity to partner with Bruce McCrea and Jim Kane.

By 2005, Bruce, Jim and I were looking for a way to offer a more personalized service to our clients, so we decided to launch the Louisville office of First Kentucky Securities where we officially formed the McCrea-Bollinger-Kane Group. Since then, First Kentucky has provided the resources and security of a large company but has allowed for the personal attention of a small firm.

As part owner of First Kentucky Securities our growth has been phenomenal- we now help more 2,500 households and manage over $1 billion in assets. Throughout my almost 40 years in this business, I have worked with hundreds of individuals and families to reach their goals of financial security.

Beyond the role of financial advisor and owner, I consider many of my clients to be personal friends and hope to stay in touch as they are considered lifetime friends. Outside of the office I will continue my commitment as a member of The Fillies®, The Louisville Woman's Club, TWHBEA, and on the Board of Directors for Green Hill Therapy.

Retirement means more time with my family and friends. I will remain in the office on a limited basis and to serve with First Kentucky Securities on the Board of Directors, Executive Committee, and as the company HR Director.

It has been a wonderful career and as Bruce says to many of you "What are you going to do with the rest of your life" and I certainly hope to find out!

Sheree

Market Commentary

US Equity The S&P 500 rounded out the year up 28.7%, with a 11% fourth quarter return. This marks the third best annual return since 2000. Many of the cyclical sectors outperformed in 2021, including Energy and Financials. Looking forward, we believe the Energy, Financial, and Material sectors are favorable in the equity environment. We expect these sectors will continue to build off commodity prices and seek higher returns. We lowered Industrials down to a neutral weighting, which underperformed in 2021. Alternatively, we have underweighted our exposure to Health Care and Consumer Staples. The S&P's historically high multiples could tilt the market into a correction in the near term. We expect 2022 to be a flat to down year after the big year 2021 had.

Interest Rates The 10-Year Treasury bond ended 2021 at a yield of 1.52%, the same return from the end of the third quarter in 2021. The Fed has begun discussing raising rates by 0.75% or more next year in an effort to combat inflation. Raising short term interest rates will indeed slow the economy, but we fear these small increases in monetary policy will not fully calm the over-heated economy. Looking ahead to 2022, we are still expecting to see bond yields outpace the Fed's expectations. Look for the yield on the 10-Year Treasury to finish the year above 2.5%.

__Sources__: S&P Dow Jones Indices, First Trust, and Morningstar. We believe the information contained in this material to be reliable but do not warrant its accuracy or completeness.

By the Numbers

FINALLY IN THE BLACK

The US government's **$119 billion surplus** in January 2022, breaks a streak of 27 consecutive months of deficits, and its **first surplus** month during the **pandemic**. (source: US Treasury)

HUNGER PAINS

A "**food price index**" that measures the **change in food prices** internationally was **up 19.6%** on a year-over-year basis as of 1/31/2022. (source: Food and Agricultural Org. of the U.N.)