THE MCCREA - BOLLINGER GROUP

FIRST KENTUCKY SECURITIES CORPORATION

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Inflation- Part 2 (Double Whammy)

THE NOT SO HIDDEN TAX ON THE MIDDLE CLASS

Last year at this time we wrote about the perils of inflation. One year later the CPI is up 8.5% in the 12 months ending in March according to U.S. Department of Labor. Food costs are up 8.8% and energy is up a whopping 32%.

According to the Labor Department's February report, annual wage growth is running at its fastest pace in two decades, but inflation continues to outpace wages for most workers. According to the Wall Street Journal, wages and salaries rose 5% for private workers in the 12 months through March but after adjusting for inflation, incomes fell by over 3%. Further, the Journal noted that last year the average U. S. household lost nearly $276 per month – over $3000 per year in purchasing power. While these costs have hit us all, people living on a fixed income and lower income households spend a large percentage of their income on necessities suffer most from this indirect tax.

THE HIDDEN RISK ON INVESTMENTS - NO WHERE TO HIDE

Our investment approach has always started with a basic approach to managing risk. While most investors are aware of the obvious risk of principle fluctuation, the moderate inflation we've experienced over the past 40 years has lulled many investors into forgetting about the hidden risk of inflation. In our 2021 third quarter newsletter, we warned higher inflation will lead to higher interest rates, a slower economy, and cool off what was an overvalued stock market.

This year the interest rate on the 10-year treasury has nearly doubled, rising form below 1.5% to nearly 3.0%. This rise in long term interest rates has caused the bond market to drop. The Aggregate Bond Index is down more than 8% through the end of April. Equally concerning is the jump in the 30-year mortgage, where rates have risen from below 3% last years to near 5% in April. This rise is likely to cool off an overvalued real estate market. The stock market is down over 10% through April.

"Safer" investments like savings and CDs that may have netted a 1% return this past year, essentially guaranteed a loss of 7.5% in purchasing power after 8.5% inflation. There has been virtually no place to hide - and the Fed has barely begun to raise short term interest rates.

WHAT WE ARE DOING AND RECOMMENDING

We expect elevated inflation to be with us awhile. Over the past year we have increased our exposure to areas that we think will do better in a higher inflation, higher interest rate, slow growth environment. Additionally, toward the end of last year we raised cash across most of our portfolios and rotated toward more defensive areas of the market. While we are more defensive at this point, as always, we take a longer-term approach. We have, and always will experience volatility in the markets.

Stick to your long-term plan. We continue to recommend well-balanced, well diversified portfolio that fits your long-term investment objectives and is suitable for your near-term risk tolerance. However, we do not believe in "riding it out". We will continue to recommend necessary adjustments with the expectation of taking advantage of opportunities as they arise.

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

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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:
Bruce McCrea, Chris McCrea, Bryan McCrea & TC Falkner

First Kentucky Securities Corporation, member FINRA. Securities carried by and orders executed through RBC Capital Markets, member NYSE/FINRA/SIPC.

8% Plus - Government Guaranteed

It seems unbelievable. But it is true. One place to hide some of your money from the risk of inflation is Government I-Bonds. The I-Bond is a savings bond where the interest adjusts with inflation and is expected to yield over 8% for the next six months.

Of course, there are a few "catches". The interest is adjusted each May and November. In most cases the annual limit is a $10,000 investment per person. You must hold them for one year and if you cash out within 5 years you will forfeit three months interest. These can only be bought directly from the government. For more information or to purchase an I-Bond go to TreasuryDirect.gov.

Here's what's new with 401(k) plans this year

Excerpt by Sarah O'Brien, CNBC Business

Contribution limit changes
For 2022, you can put up to $20,500 in a traditional 401(k), up $1,000 from 2021. The 50-and-over crowd is allowed an extra $6,500 as a "catch-up" contribution, for a total of $27,000. Employer contributions do not count toward these limits.

Estimate of guaranteed income
At some point in the coming months, you likely will see illustrations on your quarterly or annual statements showing an estimate of how much guaranteed lifetime income you could potentially get if your account balance were annuitized. "The point is to help participants determine if they're on track to meet their retirement goals," said Jason Berkowitz, chief legal and regulatory affairs officer for the Insured Retirement Institute.

Annuities in your plan
Although companies have been permitted to include annuities in their 401(k) plans, the Secure Act aimed to eliminate companies' fear of legal liability if the annuity provider were to fail or otherwise not meet its obligations.
Now, insurance companies, asset managers and employers are moving toward making these guaranteed lifetime income options more broadly available through 401(k) plans and similar workplace plans.
Source: CNBC Business

To learn more about 401(k) changes, go to
www.cnbc.com/2022/02/05/heres-whats-new-with-401k-plans-this-year.html

Up Coming Events

10th Annual
Client Appreciation Day at the Races

Churchill Downs Turf Club
June16, 2022
Invitations to follow

Market Commentary

US Equity The S&P 500 finished the first quarter down 4.6%. We are still maintaining our focus on inflation-friendly sectors, namely within Energy and Material companies. Now that we have seen a substantial jump in interest rates, it appears that these sectors have performed relatively better (or less worse) than other sectors. The Energy and Utilities sectors were the only two that posted a positive return in the first quarter, 39% and 4.8% respectively. Notably, last year we transitioned slightly away from sectors who would struggle in inflationary times such as Consumer Discretionary and Information Technology. Both of which were down 9% and 8.4%, respectively. Even though broader sectors may struggle, and with the prolonged inflation we will see going forward, it is even more important now to find companies who may trend against their sector competitors and show signs of growth in the coming months. We don't expect to see a bubble in the market this year, but more of a slow leak that will drag markets down.

Interest Rates The 10-Year Treasury bond ended the first quarter at 2.32%, a 52% increase from the year-end 1.52% yield! It was nearly inevitable that seeing the 7%+ annualized inflation numbers over the past few months would eventually raise interest rates. Now as rates are rising, we are seeing bonds decrease in value and the growth in equity markets starting to slow. We are also seeing mortgage rates increase as well; in 2020 you could get a 30-year mortgage for as low as 2.65%. Now those same mortgages have rates exceeding 5%. It is going to become increasingly more difficult for income investors over the next few months and possibly years. The Federal Reserve finally raised interest rates for the first time since 2018, targeting the federal funds rate between 0.25% and 0.5%. We believe the Fed will need to significantly raise rates if it wants to seriously curb the current inflationary pressures. Until the Fed catches up with the rest of the market's expectations, look for inflation to persist for the foreseeable future.

Source: Morningstar, First Trust