



# THE MCCREA – BOLLINGER GROUP

## LEGACY FINANCIAL INDEPENDENT ADVISORS

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## Transitioning from Stagflation to Stagnation

In last year's first quarter newsletter we discussed the coming "stagflation" – a stagnant economy accompanied by higher inflation, a phenomenon last seen in the 1970s. When the 2021 inflation proved to be not so "transitory," last spring the Federal Reserve began a mission to dampen the economy in an attempt to bring inflation under control. Through a series of increases, short-term interest rates rose from near 0% in the spring of 2022 to over 5% this spring.

By the first quarter of this year, the Fed's mission appeared to be taking hold. On the plus side, inflation is slowing; however, it appears to be at the expense of a slowing economy. The year-over-year increase of the Consumer Price Index subsided from the June 2021 peak of 9.1% to 5.0% this past March. While inflation has begun to moderate, we still have a way to go, as it remains well above the desired 2%. Economic growth in the first quarter slowed to an anemic 1.3%, with many economists calling for a recession by year end. As inflation continues to come down, it appears the only thing left of stagflation will be stagnation.

While inflation remains stubbornly above 2%, it is likely that interest rates will remain higher than the market expects over the next year. Higher costs and higher borrowing rates will continue to cramp consumer budgets while continuing to put the squeeze on corporate profits. According to First Trust, profits - excluding Fed losses - declined 2.7% in the first quarter, the largest drop for any quarter since 2020. Moving forward, we expect corporate profits to soften further as the economy continues to re-normalize after the massive fiscal and monetary stimulus of 2020-21. In turn, this will be a headwind for equities.

With weaker corporate earnings, the stock market appears to be mildly overvalued by most long-term measures. While we don't anticipate a major economic recession, we do foresee a continued earnings "recession" keeping a cap on growth in the stock market.

### What this means to you

A slower stock market accompanied by higher interest rates tends to favor bonds over stocks. If you like 5% interest on your money for one year why not lock in a portion for the longer term? We continue to recommend increasing exposure to longer-term bonds that will lock in some of the higher yields that are currently available. In the stock market we remain more defensive and favor companies with higher dividends, and undervalued companies that we believe will do better in a slow-growth economy.

### Upcoming Events

**11th Annual**  
Client Appreciation Day  
at the Rye  
Churchill Downs Turf Club  
June 15, 2023

Rescheduling for late September

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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, Sheree, Chris, Bryan, TC, Jennifer and Vickie

## We hear "What's Important to You"

Whether through one-on-one meetings or mailings, we hear what's important to you, then work with you to update your investments and Clear Path plan to reflect your priorities. Planning for retirement and tax management strategies tend to be the most important financial planning priorities. Within investment management, we hear most often that you want us to address your overall portfolio risk, plus explain and navigate current economic and market conditions.

Of course, financial planning goes much deeper: you also look to us for advice on education funding, large purchases, Roth conversion decisions, timing of Social Security, pension withdrawals, and gifting and distributions.

Your investment performance is important to us because it's one measure of value delivered. We know how important transparency is also, that's why your performance shows on each monthly statement. We invite you to meet with us or call, so we can put that performance into context with your portfolio strategy, the overall market, economic conditions, and world events.

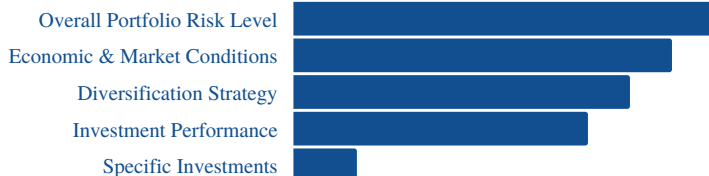
### What's Important To You?

#### *Client Feedback*

#### FINANCIAL PLANNING



#### INVESTMENT MANAGEMENT



### New office update

Renovation is underway on our new office space in St. Matthews, at Lakeview Office Park off Bowling Boulevard. The office is new, but you can expect the same continued, trusted, hands-on service you know.

We are excited to welcome clients later this summer. Stay tuned for news of an Open House after we've moved in.



### New name. Same great service.

Let us continue to create a lasting legacy for you.



### McCrea-Bollinger Group

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