

INVESTMENT COMMENTARY

WE LOOK BACK TO 2021 AND FORWARD TO
THE REST OF 2022

PART I

In November 2009, the Federal Reserve took revolutionary steps to rescue the American economy from imminent collapse. The Fed aggressively stepped into the treasury market, spending billions of dollars to buy long-term United States government obligations, a bold move that pushed up prices and lowered yields, making credit less expensive throughout the economy. (When bond prices go up, bond yields or returns decline).

The Fed's decisions, unorthodox but decisive, pulled the country from the brink of financial disaster and set the stage for a multi-year economic expansion, gave a backstop to the banks, fresh psychological energy to millions of Americans, and support for every credit-sensitive sector of the American economy.

When measured by such bellwethers as the Dow Jones Industrial Average, stock prices began a slow but steady recovery from the beaten-down subdued levels reached in 2008. They scored multi-year highs through the end of 2021—with credit much cheaper, borrowing to build and expand returned to the regular borrowing dynamic. Drawing confidence from the country's dramatic recovery, stock market investors experienced a new wave of bullishness.

Today we face a different kind of challenge. Inflation is back and Russia has invaded Ukraine.

From 1976 through 1979, the United States experienced a tidal wave of inflation. Then, the newly installed Chairman of the Federal Reserve System, Paul Volcker, understood the threat to the country's stability. He engineered a powerful rise in interest rates. Inflation fell dramatically.

President Biden is a skilled diplomat and negotiator.

Jerome Powell, who now heads the Federal Reserve, has much experience with the credit markets. He has made several smart moves to steer the economy through some troubled periods in the last few years. He is astute and determined, as are the rest of the people at the Federal Reserve, to control inflation.

There may be six to nine months ahead of more than the usual volatility and some retreat from some rich prices, but the markets will deal successfully with these problems.

Sincerely,



Fredric E. Russell