

November 10, 2022

## **Fed Faces Confusing Winds: Tailwind is Strong Employment Numbers. But Fed Still Faces Persistent Inflationary Forces.**

It's a confusing time for investors. The **Federal Reserve** threatens to raise the federal fund rate to 5% next year. Even with raising the federal fund rate to a level not seen since 2006 (which ultimately led to more mortgage defaults and the 2007-2009 recession.) **Jerome Powell** says that we can avoid a hard landing. Which translated means we can avoid a severe or even a minor recession. I don't blame the **Fed** for showing uncertainty about interest rate rises. The uncertainty underscores the fact that no one can predict the outcome of any interest rate increase. For example, some economists say we are already in a recession, and you can see that with **Amazon (NASDAQ: AMZN)** down over 16% from the first 0.75 basis point rate hike (June 15, 2022) and down 45% Year-To-Date (YTD), **Facebook (NASDAQ: META)** down over 43% since the same rate hike and 69% YTD, and **Alphabet (NASDAQ: GOOGL)** down over 19% since the first rate hike and over 38% YTD, cutting back employment projections (**AMZN** freezing corporate hiring), especially with massive layoffs (**META** laying off 11,000 employees or 13% of their workforce. November 9, 2022.). We are already in a recession, at least in the tech area. These massive companies, once believed to be impregnable to a macroeconomic downturn, have revealed that this negative performance is shared by strong and weak alike. The **Federal Reserve** is in a position a doctor might be in when he is treating a patient suffering from a cold: he wants to keep up hope, but he knows ultimately that the patient will suffer, but the suffering is only temporary. The patient leans to the doctor and asks, "Will I be okay?" And the doctor, caught between the truth and compassion, wants to say yes and knows that the patient will be okay, but the truth is more complicated than the patient sees. He says, "You will be okay." And the patient relaxes. The patient and the economy will go through some rough spots, often expressed as volatility but will be fine as time marches on. We know, however, that the patient, the economy's fate, is always unpredictable. We may be in a recession, or we may be coming out of an inflationary period, some statistics say. Making predictions about the end of inflation and the beginning of a recession are fruitless. Our job is to focus on companies that will survive the intermittent ups and downs of the stock market, which are inevitable. These companies will produce average annual returns better than those that the indexes produce.

What we have to do is be invested in companies with a powerful franchise for example: **Fair Isaac**, which reported its 4<sup>th</sup> quarter results on November 9, 2022, sending **FICO's** stock price up over 30% on November 10, 2022.

Sincerely,



Fredric E. Russell, CEO

Important research contributions from Brian Valencia, VP of Investments