MOMMAERTS MAHANEY
FINANCIAL SERVICES, INC
ACHIEVE MORE.

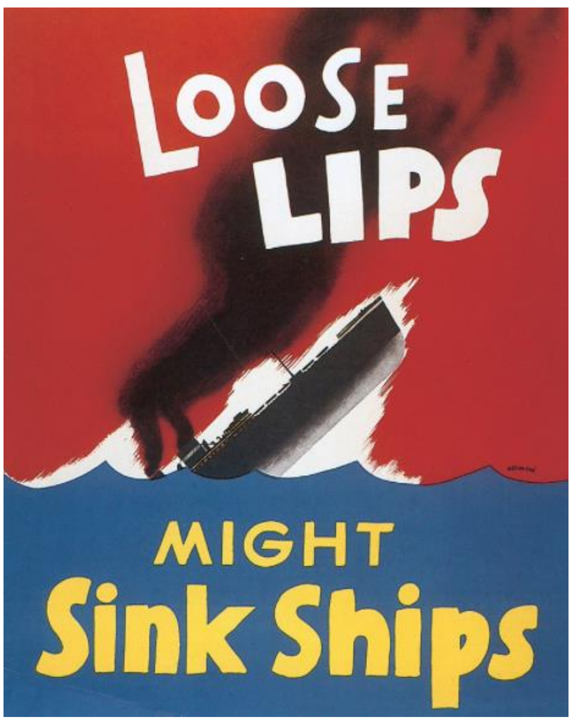
989 W Washington St., Suite # 101
Marquette, MI 49855
(906) 226-8711
www.mommaerts-mahaney.com

October 27, 2022

Loose Lips Sink Ships

Editorial Note - What started out as a sincere effort to explain recent market volatility turned into a bit of a rant, perhaps a therapy session. What follows may provide little to no value to you as a reader - but we feel much better.

At the onset of WWII, the United States War Advertising Council created the *Loose Lips Sink Ships* campaign. The campaign's purpose was to warn U.S. servicemen, as well as U.S. citizens, against unguarded talk. Careless talk falling into the wrong hands could undermine military missions. Another goal of the War Advertising Council's campaign was to discourage careless rambling and speculation about the war. They understood this would only serve to create unnecessary anxiety and confusion on the homefront.



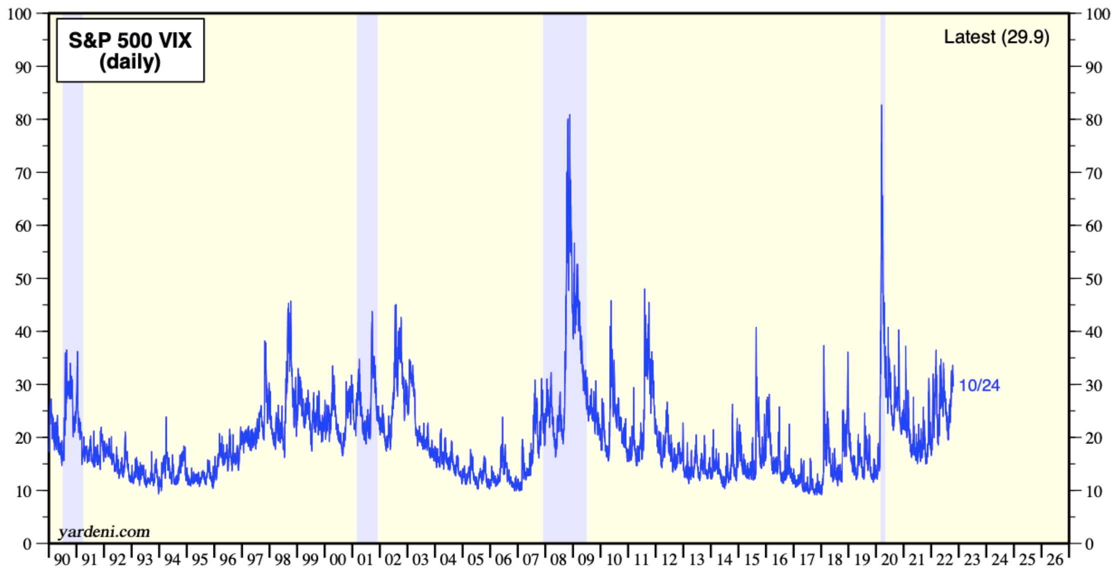
The United States Central Bank is the U.S. Federal Reserve. It is commonly referred to as the *Fed*. The impact of the Fed's loose lips is in no way comparable to the seriousness of loose lips during the war effort. Nevertheless, there is a lesson to be learned. Careless speculation and inconsistent rambling create confusion and anxiety about the future path of our economy.

Stock and Bond Market prices represent the consensus view of what is deemed to be the fair price of financial market securities. If the expectation is that inflation and interest rates are going to be higher/lower in the future, current bond prices will move lower/higher to reflect that. If expectations are that the economy and earnings are going to increase/decrease in the future, today's stock prices will move higher/lower to reflect that. Investors buy securities when they believe the price of the security is less today than it will be in the future and investors sell securities went they believe the price of the security today is more than what it will be in the future. While it's a little more involved than that, that's the general theme of how investing works.

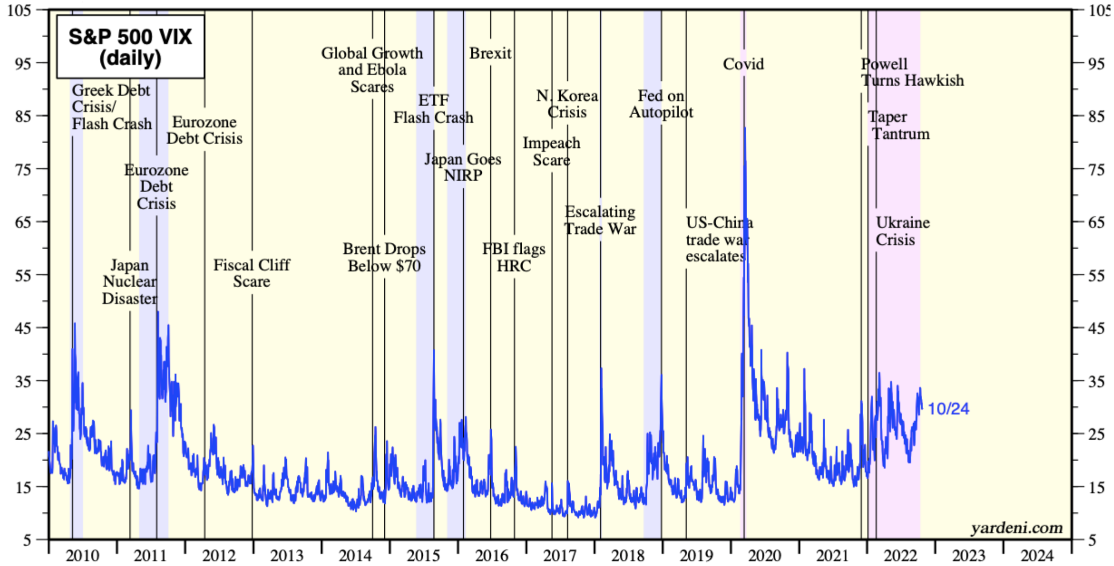
There are two broad classifications assigned to market participants, *Investors* and *Traders.* The most obvious differentiator between an Investor and a Trader is their investment horizon. Investors have longer-term investment horizons while Traders have shorter-term horizons. For some Traders (Day Traders) investment horizons are measured in minutes. They quickly buy and sell the same securities several times within the same day. Implied in these differing strategies is that Investors focus on longer-term economic data and Traders focus on "market action". Short-term liquidity, momentum, buy/sell imbalances, etc. Investors dislike volatility because volatile markets de-emphasize economic data in favor of market action. Traders love volatility. There is far more opportunity to profit in rapidly moving markets that ignore economic fundamentals.

We are Investors, we are not Traders. To be clear, we have no issue with Traders. On the contrary, we appreciate them and have nicely coexisted with them our entire careers. They've always been a component of financial markets and provide an important function. They create disequilibrium. Short-term disequilibrium provides long-term Investors an opportunity to reallocate assets and enhance their longer-term returns.

Investors are the dominant market force in the majority of market environments. It is difficult for Traders to create volatility when the economy and monetary policy are stable. When the economy and monetary policy are unstable, it is far easier. High volatility is a product of uncertainty. The S&P 500 VIX index measures the volatility of the S&P 500. Needless to say, market volatility is high.



Historically, volatility storms have been associated with the news cycle. Covid-19 and the Russia-Ukraine War are recent examples. These events create economic uncertainty, and economic uncertainty creates volatility. As Investors, we've always been somewhat tolerant of volatility created by macro events. We suppose it's because we don't have control over things like pandemics or wars. We understand the power of focusing on long-term market averages and accept that short-term volatility is the price we must pay to achieve higher returns. What we find frustrating about the current volatility is our belief that it is mostly self-inflicted and avoidable.



It's obvious to anyone watching markets on a daily basis that current volatility is largely attributable to uncertainty around the Fed's monetary policy. Unlike its predecessors, Fed Chair Powell has promised that this Fed would be transparent about how they make monetary policy decisions. The Fed evidently defines transparency as encouraging Fed Governors to constantly riff about their latest thoughts. Here is the most recent calendar of Fed Governor speeches.

Day	Time	Event
Mon 10/10	1:35 p.m.	Speech -- Vice Chair Lael Brainard Watch Live ***Restoring Price Stability in an Uncertain Economic Environment*** At the National Association for Business Economics (NABE) Annual Meeting, Chicago, Ill.
Wed 10/12	1:45 p.m.	Speech -- Vice Chair for Supervision Michael S. Barr Watch Live ***New Technologies, the Fed, and Inclusion*** At 2022 D.C. Fintech Week, Washington, D.C.
	6:30 p.m.	Speech -- Governor Michelle W. Bowman ***Forward Guidance as a Monetary Policy Tool: Considerations for the Current Economic Environment*** At Money Marketeers of New York University, New York, N.Y.
Fri 10/14	12:15 p.m.	Discussion -- Governor Christopher J. Waller ***Central Bank Digital Currency*** At the Harvard Law School Symposium Digital Currencies and National Security Tradeoffs, Cambridge, Mass.
Thu 10/20	12:30 p.m.	Discussion -- Governor Lisa D. Cook Watch Live ***Brief Introductory Remarks*** At The View from Spartanburg, South Carolina: A Panel Discussion and Listening Session with Local Community and Business Leaders, Spartanburg, S.C.
	1:30 p.m.	Speech -- Governor Philip N. Jefferson Watch Live ***Opening Remarks*** At Exploring Careers in Economics – Fall 2022 (virtual)
	1:45 p.m.	Discussion -- Governor Lisa D. Cook Watch Live ***Moderated Discussion on Diversity and Careers in Economics (via pre-recorded video)*** At Exploring Careers in Economics – Fall 2022 (virtual)
	2:05 p.m.	Speech -- Governor Michelle W. Bowman Watch Live ***Welcoming Remarks (via pre-recorded video)*** At the 2022 Federal Reserve Community Development Research Seminar Series: Toward an Inclusive Recovery (virtual)

Unfortunately, the only consistent theme across all these speeches is inconsistency. Some Fed Governors think they should tighten monetary policy further while others believe they should pause. Although it's likely that most of you have already listened to all their speeches, here are a few highlights just in case you missed any of them;

Markets sold off hard during Fed Vice Chair Lael Brainard's speech at the New York Federal Reserve. She warned of financial instability, “As monetary policy tightens globally to combat high inflation, it is important to consider how cross-border spillovers and spillbacks might interact with financial vulnerabilities.”

A strong market rally occurred as a result of Federal Reserve Bank of St. Louis President James Bullard saying he expects the central bank to end its front-loading of aggressive interest-rate hikes by early next year and shift to keeping policy sufficiently restrictive with small adjustments as inflation cools.

Stock and Bond Markets sold off hard during Philadelphia Federal Reserve President Patrick Harker's speech in New Jersey. He said that the Fed will continue to raise rates "for a while" and that won't stop until "sometime next year" and then "we should hold at a restrictive rate for a while to let monetary policy do its work."

Here's the good news. You may have noticed there were no scheduled Fed speeches on the calendar for last Friday. There are also none scheduled for this week. Don't get too excited, the Fed has not changed its loose lips policy. The Fed is in a mandated blackout period that started last Friday and lasts until the day after the November 1-2 Fed meeting. That means Fed Governors are not allowed to talk to the press or give speeches. Fed Chair Powell (you guessed it) will give a speech following the conclusion of the conference on November 2nd. Although we have no idea what he will say in his speech, we expect a 75basis point rate hike in the FFR. Enjoy these glorious few days of Fed silence.

The MMFS Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a founding member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

Jason Rolling, Financial Advisor: Jason has been in the financial services industry for the past 15 years. His financial experience includes retail banking, consumer & commercial lending, bank management at the local, regional and SVP level, wealth management, and financial planning.

Haley Wainio, Financial Advisor: Haley has over 9 years of experience in the financial services industry. Her experience includes retail banking, treasury management, commercial lending & financial planning.

Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
989 W. Washington Street, Suite 101 Marquette, MI 49855
(906) 226-8711