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September 12, 2022

Brevity Series – Please Remain Silent

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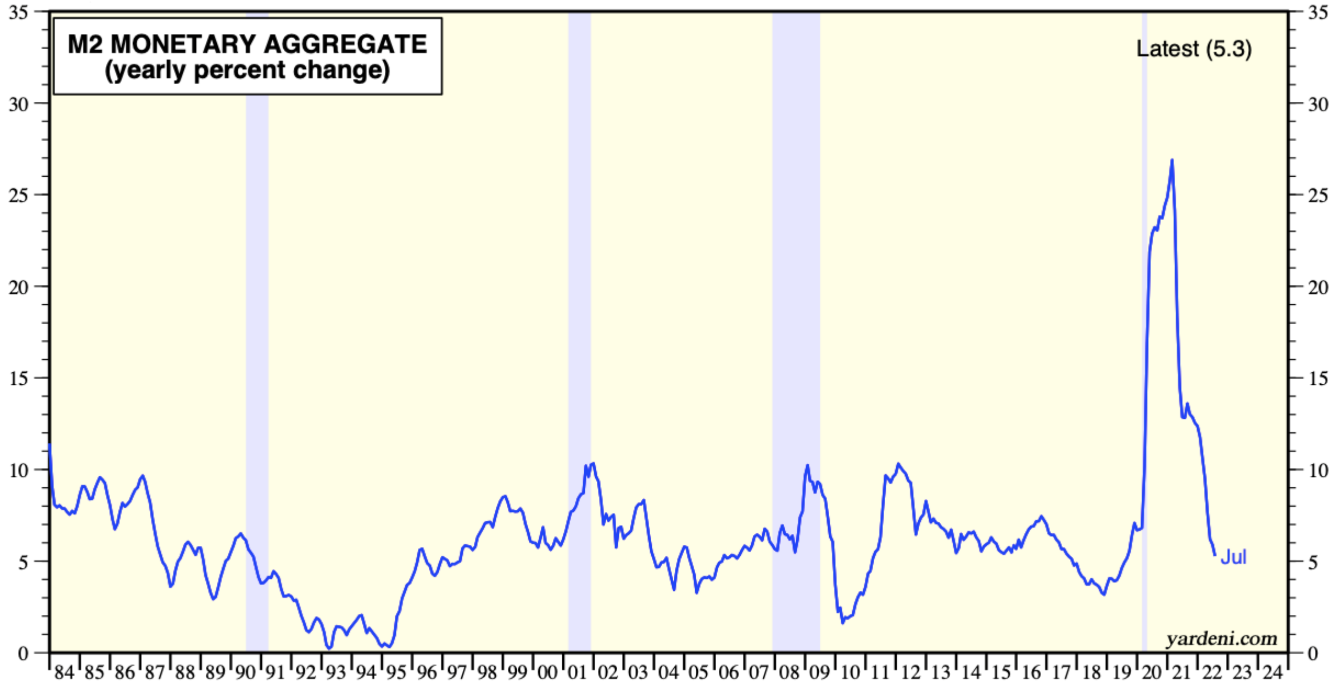
We suspect our original title for this commentary would not have made it past your spam filters. After several deep breaths and several edits, we retitled this commentary and are politely requesting that Fed Chair Jerome Powell, along with his fellow Fed Governors, consider speaking less.

The original purpose of the Federal Reserve was to provide a safety net for the U.S. banking system. Americans could be confident that their deposits in regional banks would be safe since the U.S. Central Bank was backing those deposits. This helped to alleviate fear and prevent "runs" on banks. A century, and 22,947 employees later, the mission of the Federal Reserve has greatly expanded.

The Federal Reserve's stated dual mandate is *maximum employment and price stability.* It attempts to achieve its goal by conducting economic studies and implementing monetary policy. They use tools such as the Fed Funds Rate and Quantitative Easing/Tightening to actively expand and contract our nation's money supply. This is widely referred to as Keynesian economics. We may have mentioned once or twice that we are skeptical of Keynesian economics and prefer laissez-faire economics. Some might refer to us as Monetarists. We prefer a monetary policy that targets a constant growth rate in the money supply. Keynesians argue they can help moderate the natural booms and busts of business cycles by expanding and contracting the money supply. We've argued that uncertainty around active monetary policy creates far more volatility than it cures. It's our observation that Keynesian Monetary Policy often creates the economic issues it claims to solve. For example, it appears that ultra-easy monetary policies are largely responsible for the current high inflation rates. The need to aggressively tighten monetary policy (shrink money supply) wouldn't be necessary if they hadn't first aggressively eased monetary policy (expanded money supply). We understand that our opinion will not sway the Fed into changing its Keynesian ways. Might we request a compromise? Do whatever you want, but please, just stop talking.



The Federal Reserve turned noticeably more hawkish at the start of 2022. Fed Chair Powell warned of the need to dampen consumer demand by raising the FFR while also ending the Fed's Quantitative Easing program. (Prior to 2008, the Fed only controlled short-term interest rates. They did so by adjusting the FFR. During the credit crisis of 2008, the Fed implemented Quantitative Easing/Tightening, the practice of buying and selling long-term bonds on the open market. This allowed them to also manipulate long-term rates). He explained that supply chain issues had created a supply/demand imbalance. The S&P 500 promptly sold off 24% over fears that tighter monetary policy would cause an earnings recession. Markets bottomed on June 16th.

During June, various Fed Governors gave speeches (Fed Governors love to give speeches) indicating that the Fed may be able to stop raising interest rates sooner than originally anticipated. Stocks rallied considerably on the news. On July 27th, Fed Chair Powell held a press conference and also pivoted towards a more dovish stance saying that the Fed Funds Rate was now at "neutral". The S&P 500 rallied another 10% over the next week and a half (17% total of its June lows) on Powell's comments. The worst appeared to be over.

A few weeks ago the Kansas City Fed held its annual Jackson Hole conference at the base of the Grand Tetons. The stunning views were not enough to put Fed Chair Powell in a good mood.

Powell concluded the conference with a short 8-minute speech. It was a noticeable pivot from what he said only a month ago. $2 trillion in stock market capitalization has been lost since that speech, including a 3.4% drop in the S&P 500 in the hour immediately following his speech. Here's the highlight reel of the Fed Chair's comments;

- “Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance.”

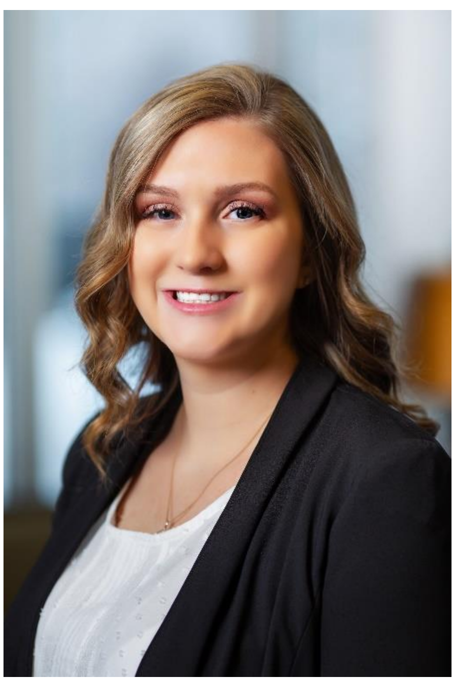
- “Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy.”

- “Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

It's hard to believe, but up until recently Fed Governors rarely spoke. The Fed would simply release the minutes of their meetings and that was that. The current Federal Reserve has vowed to be more transparent. They hold many more press conferences and give many more speeches than prior Federal Reserve Boards. Unfortunately, their message is not consistent. Some Governors give dovish remarks while others give hawkish remarks. The Fed Chair himself goes back and forth from being a dove to being a hawk. We think Powell is sincere in his quest to be more transparent, but this isn't working. Their messaging is inconsistent and is spooking investors. Although it's the Fed's actions and not their words that will ultimately matter, we prefer the old way. Stop talking, just release the Fed minutes and let investors make what they may of them.

Silence is underrated,

The MMFS Team



Mommaerts Mahaney Financial Services would like to welcome the newest member to our team, Haley Wainio!
Haley has over 9 years of experience in the financial services industry. Her experience includes retail banking, treasury management, commercial lending & financial planning. The Negaunee native is a 2013 graduate from Negaunee High School and a 2019 graduated from Northern Michigan University where she received her bachelor's degree in Finance & Risk Management. Haley currently resides in Negaunee with her husband and two children.

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 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.

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Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.

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