



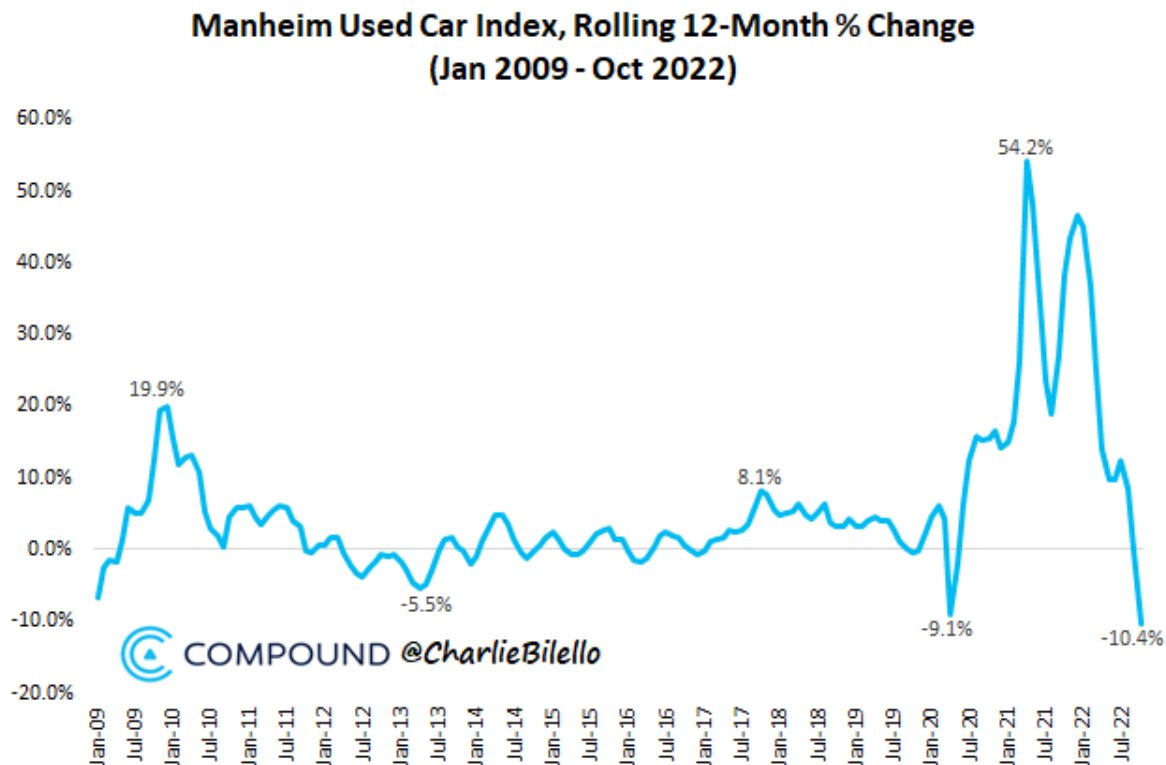
ARE WE OUT OF THE WOODS YET?

Year-to-date markets and most asset classes are still deep in negative territory, the S&P 500 index is down 16.29%, the NASDAQ is down 27.34%, long-term US Government bonds are down 31.79%, while some individual stocks are down 50%, 70% or even over 95%, see Carvana. However, there is hope, the past month has seen positive returns in almost every asset class, with international stocks (EFA) leading the way at 16.41% followed closely by US mid-caps (IWR) at 13.75% and real estate (ICF) at 12.6%.

So, does this mean we are out of the woods yet? Hardly...

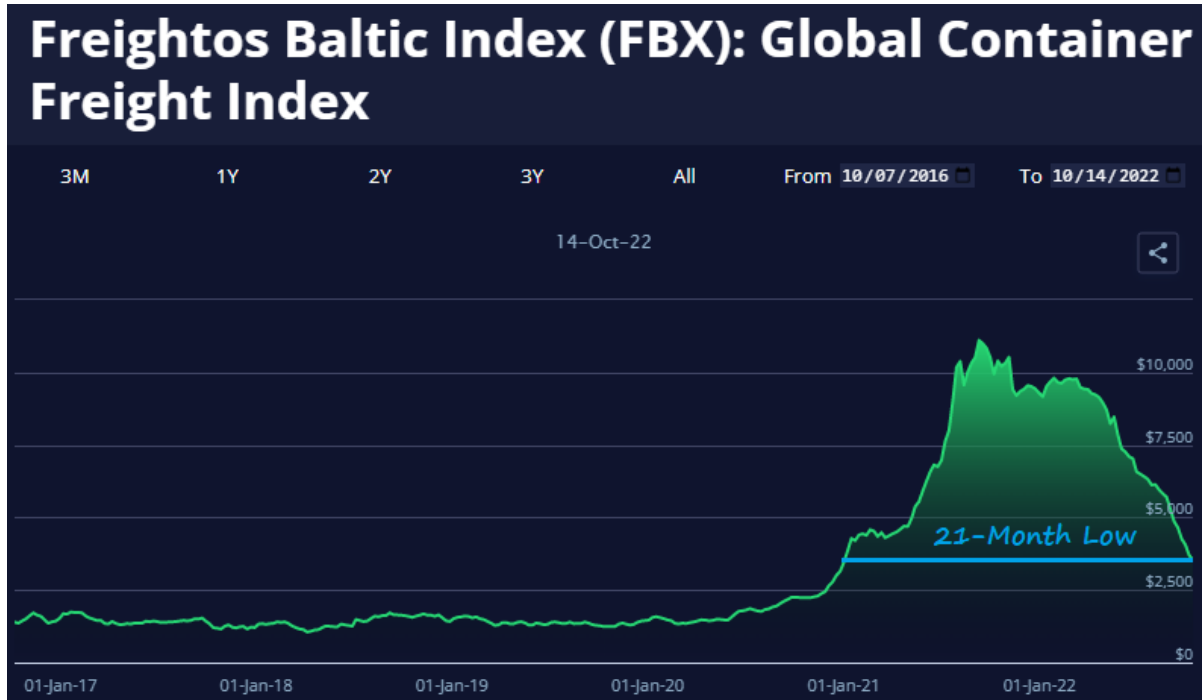
What we are likely seeing with this recent market performance is a cooling of inflation expectations that will eventually lead to the Fed slowing down or pausing interest rate increases. Three leading indicators that inflation may be cooling are money supply (M2), used car prices, and the cost of global shipping containers.

Used Cars:





Shipping Containers:



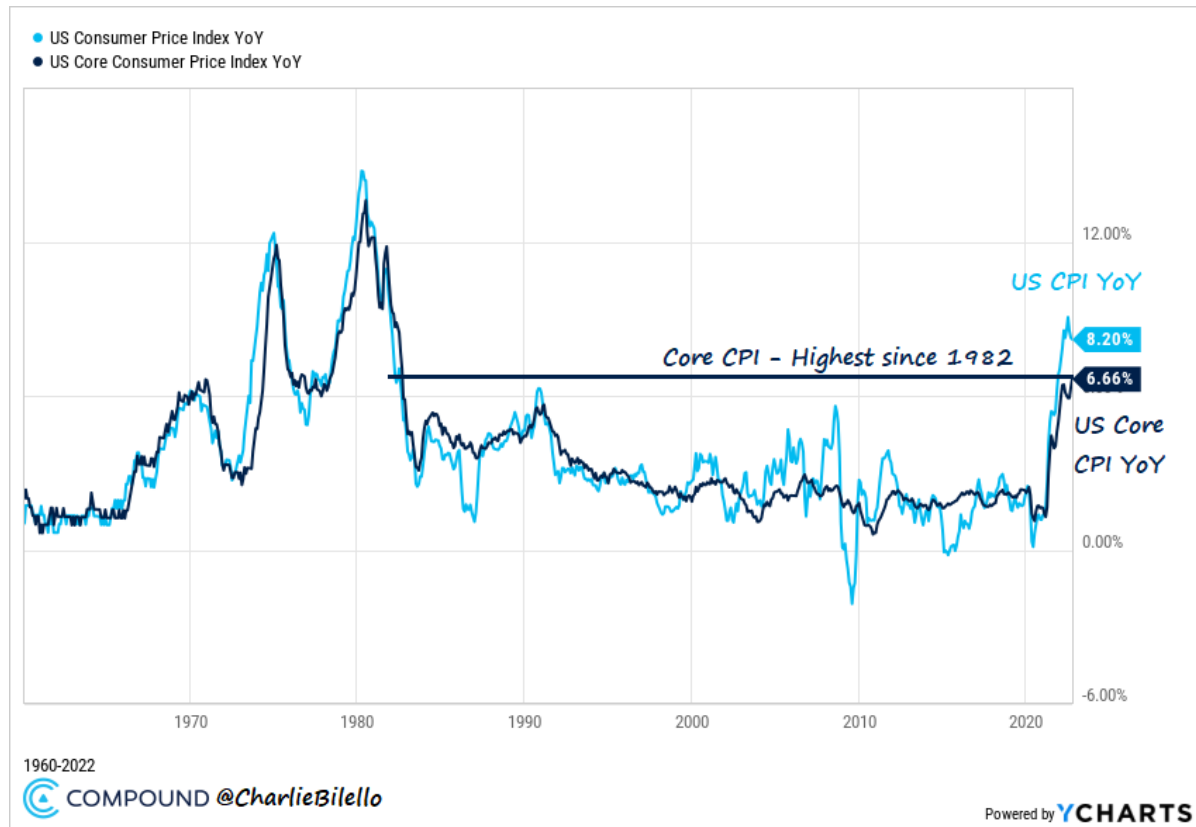
M2:



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While these indicators leave me hopeful that inflation has peaked the Fed will be wary to stop raising rates too quickly. As you can see from the chart below the 70's began with inflation cooling from the late 60's but it quickly reversed course and spiked higher.



My expectation is still that the next year or so is going to be a difficult environment for both the economy and markets and we must remain cautious. US consumer debt has reached an all-time high, while interest rates are higher than they've been in a decade, this makes the cost of carrying all that debt expensive. Layoffs have mostly been focused on the tech sector but if that spreads to other industries there would be a significant negative economic impact. The Fed knows all this, and they are willing to accept it to beat inflation.

Enjoy the recent market performance but accept that we aren't out of the woods yet and we will likely have to live through some further market turmoil.

Best,