



CAPITAL MANAGEMENT GROUP

The Hefter Report – April 2022

This past Friday, April 22, US stocks fell about 2.5% in indiscriminate selling across virtually all industries including recent safe havens such as value stocks, commodities, utilities, and consumer staples. Thus far in 2022, the tech heavy NASDAQ has been hit the hardest, down around 19%, while the broader S&P 500 index is down around 11.5%. Per the Wall Street Journal, for the past few days value stocks declined more than growth stocks and investors seem to have nowhere to hide. This includes high quality US bonds which are down about 10%.

Technically, if the S&P 500 can hold above the March 8 closing level of 4170, we could see an end to the downturn and the beginning of, at least, a short-term rally. However, if we close below the March 8th low, we think the S&P 500 could drop to the 3900-4100 level (another 3%-8%). At that point, we would feel more confident that stocks could resume their long-term upward trend.

Although the economy appears to be relatively strong right now, we think that the Fed will raise rates aggressively, eventually slowing growth and perhaps inducing a recession. This is a normal phenomenon in the cycle of economic expansion and retraction and not a fundamental financial crisis. We remain optimistic about the market long term. We believe high quality stocks with strong balance sheets should hold up well and may lead to a rally in the second half of the year. For long term investors, we think that the Fed will be successful in slowing the economy and inflation. Once that is achieved, the Fed will be able to lower rates once again, if needed, to spur economic growth. We feel patient investors should be rewarded.

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