



CAPITAL MANAGEMENT GROUP

The Hefter Report – May 2022

In October 2008, at the height of the financial crisis, Warren Buffett wrote: “Be fearful when others are greedy and be greedy when others are fearful.” Since then, the S&P 500 has rallied over 400%¹.

Investors who became nervous in ‘08 and sold near the market lows have likely missed a good part of the ensuing rally. Markets go through periods of distress from time to time but as long-term investors, we know that staying in cash, historically has been a poor alternative. It’s worth noting that over the past 4 decades, equity markets had 31 up years and 9 down years and have averaged about 8%².

The current rapid spike in inflation along with a recently hawkish Fed and quantitative tightening is reducing liquidity in the system and causing a repricing of assets. Consequently, as interest rates rise, valuations across the board are declining. The shift has brought down the current price earnings level for the S&P500 index from 22 to about 17 – 18 which is closer to the long-term average.

The question now is what will earnings look like for the rest of this year and what will the inflation trajectory be? We have recently seen softer earnings data from companies like Walmart, Target, and others. The companies attribute the slowdown to higher labor, transportation, and finished goods costs. These reports have already impacted the markets, raising the level of fear among investors, increasing volatility, and perhaps pushing us closer to so called “capitulation”- usually an early signal that we may be near a bottom. Following the 2nd quarter, corporate guidance should start to provide us with a better view of what inflation and the supply chain’s impact will be on earnings.

Equities may still have further to drop however, over time, most companies do gain pricing power as supply and demand reach equilibrium and valuations increase. Given the current low unemployment rate, improving supply chain issues and productivity gains, we think that inflation will start to decline later in the year and markets will stabilize.

As always, please feel free to reach out to any of us to review your portfolio. We would also welcome an opportunity to review other investment accounts you have elsewhere.

Steve, Ben, Charlie and Micah

Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN), Member SIPC. HLM Capital Management is a separate entity from WFAFN. CAR #0522-03932

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¹ Bloomberg News

² FactSet Standard & Poor's

DISCLOSURES

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