



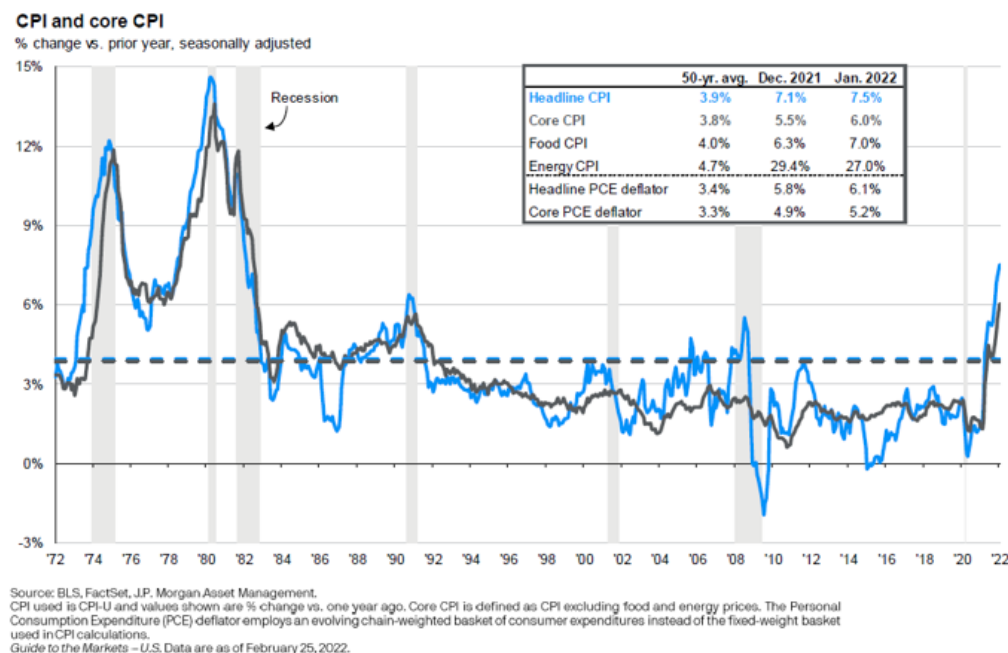
## Market Monitor

2022 is off to a volatile start. Recent headlines have focused on geopolitical events, inflation, and the likelihood of interest rate hikes. Below, we detail our observations of what is driving the recent volatility, how our strategy has changed, and some suggested actions investors can take to achieve their financial and retirement goals in this market environment.

### Observations

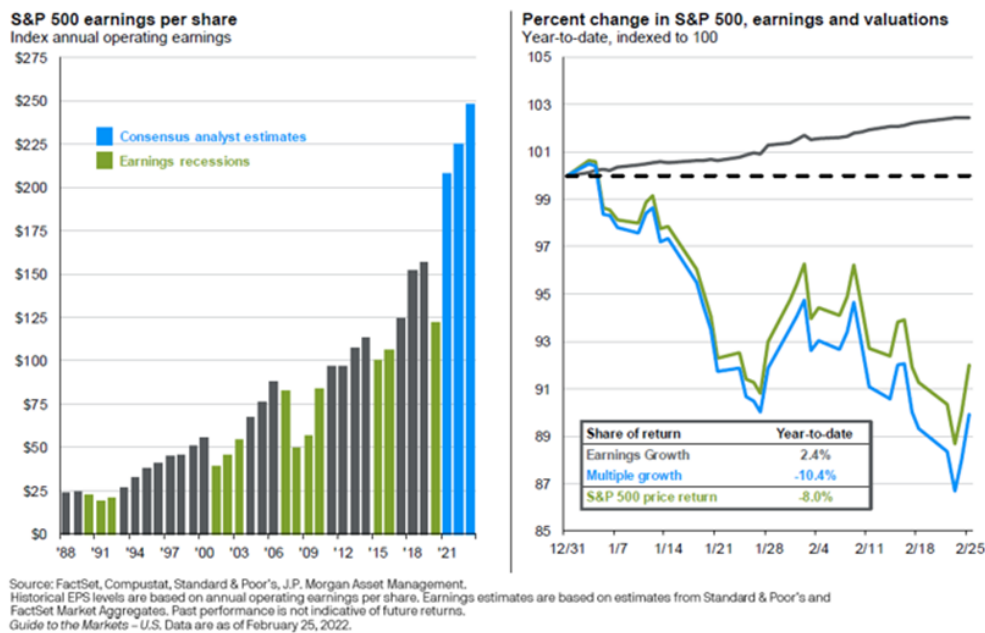
- The war in Ukraine and the economic sanctions that have been imposed on Russia are increasing risk premiums in the market. Actions by western governments to target Russia's financial system will likely have long-term unintended consequences which may keep risk premiums elevated in the intermediate term.
- Inflation is at multidecade highs, and the increase in energy costs from the war in Ukraine will likely overwhelm any benefit gained from supply chain improvements in the near term. High inflation is causing reductions in real average hourly earnings, which historically has led to lower consumer spending, which accounts for almost 70% of the economy in the U.S.

### Inflation



- Corporations ended 2021 with record profit margins. Corporate earnings are expected to almost double in the next three years from the lows of 2020, although a small number of companies have reduced their earnings outlooks.

## Corporate profits and sources of total return



- Short-term interest rates are expected to rise as the Federal Reserve plans to reduce the monetary stimulus that was put in place during the pandemic. Federal Reserve Chairman Powell stated that he will vote to increase the Fed Funds rate a quarter point at the March FOMC meeting, and the market now expects the Fed funds rate to reach 1.25% by the end of the year.
- Consumer finances are very strong, with debt service costs at decade lows and household net worth at record highs.

## Strategy Outlook

- We are reducing our exposure to growth companies at the margin as higher real interest rates may hurt valuations.
- We are increasing our exposure to value and small capitalization companies at the margin as higher rates improve relative valuations and profitability.
- We are reducing exposure to emerging markets companies due to the risk of a strengthening dollar hurting their economies.
- We plan to keep durations on bond portfolios low to reduce exposure to rising interest rates.
- We plan to slowly reduce our exposure to inflation protected securities as nominal rates increase.

## Investor Actions

- Be mentally prepared for continued volatility as geopolitical and economic events work themselves out.
- Review your cash flow needs and let us know of any changes.
- Take comfort in the fact that you have an investment plan that is sound and has anticipated these types of events.

As always, if you have a question about your wealth management plan, please reach out to your Garde Capital advisor at any time.

Visit [www.gardecapital.com](http://www.gardecapital.com) for more information.