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An upheaval in the financial markets during the first quarter of 2022 left many investors with a feeling of uneasiness. The rocky start began with increased fears and anxiety over the COVID "Omicron" variant. Geopolitical tension quickly became the global focal point after the Russian invasion of Ukraine. As images of this brutal and senseless war emerged, countries across the globe united to penalize Russia and to provide support for the Ukrainian government as well as assist with the humanitarian crisis.

Russia's act of aggression had serious economic consequences on the global landscape. The European pandemic recovery was solidifying until the war heightened uncertainty and weakened consumer confidence. Western nations implemented harsh economic and financial sanctions as a response to bring Russia to the negotiating table and to cripple their financial capabilities. As a major supplier of oil and natural gas, the sanctions against Russia also forced a decline in global demand/supply for their valuable export. While the economic cost to Russia has been severe, global consumers suffered as energy and commodity prices soared higher and supply chain disruptions were amplified. Domestically, the U.S. economy experienced higher inflation, slower growth, and increased financial market volatility.

Uncertainty and instability contributed to a downturn in equities during the quarter as areas of the market fell below correction levels (decline of 10.0% from a recent closing high) for the first time since the 2020 pandemic. Fortunately for investors, financial markets rebounded at quarter end to erase some losses. After recording seventy (70) new all-time closing highs and a total return of 28.71% in 2021, the S&P 500 Index only reported one new closing high on the first trading day in 2022. The following three-month period was filled with volatility as the index finished the quarter at 4,530.41 points and a total return of -4.60%. The Dow Jones Industrial Average (DJIA) experienced a similar trajectory to finish the quarter at 34,678.35 points and a total return of -4.10%. For investors, the pain was widespread in most asset classes except energy sectors where rising prices contributed to double-digit positive performance in natural resources, commodities, and oil/gas.

During the 1st Quarter, economic data pointed to the fading effect of the pandemic on the domestic situation. Real gross domestic product (GDP) increased at an annual rate of 6.9% (fourth quarter data) versus a 2.3% increase during the previous quarter. The rise in real GDP reflected increases in private inventory investments, exports, consumption expenditures, and nonresidential fixed investment.

Other economic news included: low unemployment, manufacturing activity growth, corporate profit improvement, wavering consumer confidence data, and housing market struggles.

Persistently high inflationary data continued to be a troubling economic sign. The Consumer Price Index (all items) rose 8.5% for the twelve months ending March. Further details showed it was the eleventh straight month of inflation over 5.0% (annual rate) and the largest 12-month increase in 40 years boosted to a new high by soaring prices for a broad range of goods and services.

Inflationary impacts can be seen at the gas pumps (prices up 33%) but also in the grocery stores. The Bureau of Labor Statistics (BLS) reported that the average price of food in the U.S. jumped 8.8% in the twelve months ending March with the meat, poultry, fish, and eggs category increasing 13.7%.

The Federal Reserve confirmed the economic data in the recent Beige Book and the March 2022 Federal Open Market Committee (FOMC) meeting minutes. The Committee stated that indicators of economic activity and employment continued to strengthen while inflation remained elevated reflecting supply and demand imbalances, higher energy prices, and broader price pressures. They also stated the invasion of Ukraine by Russia is likely to create upward pressure on inflation, but the economic implications were highly uncertain at this time. The Committee did deliver on the promise of higher interest rates in support of their long-term objectives with an increase of 25 basis points (quarter of one percent) to raise the target range for the federal funds rate from ¼ percent to ½ percent and they anticipate ongoing increases will be appropriate given higher inflationary data. As always, the Fed reaffirmed their commitment to monitor the implications of incoming information and adjust the stance of monetary policy as threats emerge.

Based on the events during the quarter, our outlook for the rest of the year has been cautiously adjusted. We still believe the domestic economy is in good shape (for now), but we feel Russia's war with Ukraine and higher inflation will slow growth. The Fed is ramping up to curtail higher and persistent inflation by increasing interest rates more aggressively. This most likely means the Fed plans to increase rates by 50 basis points (half of one percent) at the next two meetings in May and June with expectations of rates approaching or surpassing two percent by year end. Conditions will obviously dictate the level of change needed, but the Fed must consider the delicate path of engineering an economic soft-landing vs too much action sending the economy into a recession. Going forward, we believe the financial health of consumers will be important for economic prosperity. Currently, consumer strength remains healthy, but a much tougher and potentially volatile environment is ahead.

We believe the economic impacts of the war will vary depending on location and duration of the conflict. An end to the war that results into a slow global growth environment is a scenario that would be favorable. Conversely, an outcome that results in a long-term stalemate or an escalation in hostilities would be less than ideal for global economic prosperity. The U.S. is less vulnerable to this geopolitical chaos due to a stronger dollar and lower energy dependence, but Europe's reliance on Russian oil and gas makes them extremely vulnerable to price and supply side shocks. Compounding the issue, Russia and Ukraine are key exporters of aluminum, palladium, wheat, corn, and fertilizer. The lack of these exports will certainly increase the strains on global supply chains. The historical displacement of Ukraine's population is another concern that is likely to have a negative short-term impact, and the logistics and costs of managing the humanitarian crisis will have to be a shared financial effort. As millions of people search for permanent relocation, regions that embrace these refugees could eventually be in positions to reap economic benefits of an increased labor force and economic activity improvement. Too much uncertainty still exists to speculate, but we are hopeful a diplomatic solution to the war can be achieved.

The recent quarter was a prime example of how fragile the global economy can be, and the risks we see on the horizon include the following: the conflict in Ukraine, the Fed's hawkish stance on monetary policy, sustained inflation, fiscal policy uncertainties, prolonged supply chain disruptions, labor market imbalances, energy and commodity price shocks, new COVID variants, natural disasters, cyberattacks, terrorism, and escalating geopolitical tensions. As the year pushes ahead, we are proceeding with a watchful eye and optimism for the global economy and financial markets despite the recent turbulence and uncertainty.

An important tip for investors during volatile and uncertain times is to simply hit the pause button and take a deep breath. Here are some additional suggestions to help mitigate market volatility.

DO

- Stay calm and be patient
- Remain invested
- Maintain a diversified portfolio
- Monitor your investments
- Understand your risk tolerance
- Set realistic expectations
- Consult William Howard & Co. to make sure you stay on track

DON'T

- Panic
- Make emotional investment decisions (separate money from your moods)
- Attempt to time the market
- Lose focus of your long-term financial goals

As I have often stated, our investment philosophy remains based on the fundamentals. ***We believe it is time---not timing---that matters most.*** History shows the successful long-term investor is patient, weathers market swings, and adheres to a disciplined investment process that includes a diversified asset allocation strategy based upon a tolerance for risk and need for return.

Strong investment gains in recent years and a changing investment landscape suggests that it might be a good time for a financial check-up to evaluate your financial health, highlight adjustments needed, and develop and implement a plan for success. If you would like to discuss changes to your financial situation, schedule a meeting, or have any questions, please contact our office.

In closing, I want to thank you for the opportunity of working with you and for your continued confidence and trust. I wish you and your family good health.

Enclosed you will find the William Howard & Co. Financial Advisors, Inc. Privacy Policy, and Form ADV Part 2 A and Part 2 B that has been updated to include background and qualifications for Brian D. Barthol, CFP®.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

Enclosures: Index Performance and U.S. Economic Data
WHC Performance Statement
William Howard & Co. Financial Advisors, Inc. Privacy Policy Disclosure
William Howard & Co. Financial Advisors, Inc. Form ADV Part 2 A and Part 2 B

2022 Total Return Index Performance		
Asset Class	**Index**	**1st Qtr.**
Cash	BofA/ML Three-Month U.S. Treasury	0.04%
U.S. Bonds	Barclays Intermediate-Term Treasury	-4.21%
U.S. Large Co. Stocks	S&P 500	-4.60%
U.S. Small Co. Stocks	Russell 2000	-7.53%
International Stocks	MSCI EAFE (net div.)	-5.91%
Real Estate	DJ Select Real Estate Securities Total Return	-3.71%
Source: Morningstar		

U.S. Economic Data	
GDP	6.9% increase (annual rate) – 4th Quarter 2021
Inflation	6.5% CPI (less food and energy) and 8.5% CPI (all items) over last 12-months ending March. (Energy index up 32%)
Interest rates	Federal Funds Rate range = 0.25 – 0.50%. First change since March 2020. Expect additional increases in 2022 due to higher inflation.
Jobs	March 2022 data - Unemployment at 3.6%; non-farm payroll employment rose by 431,000 jobs; Labor force participation rate 62.4%; Demand for workers remained strong but hampered by widespread reports of worker scarcity. Wage growth continued.
Manufacturing	Manufacturing activity expanded for the 22nd consecutive month; March ISM Manufacturing Index registered at 57.1; demand registered slower month-over-month growth and the sector continued to feel the effects of a supply chain-constrained environment.
Business Spending	Private non-residential investment continued to improve (above pre-COVID levels); New durable goods orders decreased slightly in February following four consecutive monthly increases.
Corporate Profits	4th Quarter 2021 - U.S. corporate profits increased by 0.7%. S&P 500 Earnings per share = $56.73 (one-year increase of 73%).
Housing	February 2022 year-over year data - New home sales down 6.2%; Existing home sales fell 2.4%; Median sales price of existing homes rose 15.0% ($357,300); Housing starts increased 22.3%; Building permits rose 7.7%; Housing inventory decreased 15.5% from last year; Unsold inventory = 1.7-month supply; MBA fixed 30-yr mortgage rates = 4.80% ending 3/30/2022.
Consumer Spending	Disposable income weakened; Consumer Confidence Index was higher in March after declines in the first two months of 2022; Retail and food services sales increased; Total vehicle sales improved from the 2021 decline; Personal durable and nondurable spending remained elevated; Personal savings rate remained at a low level.
Energy	Oil price (West Texas Intermediate) = $100.53/bbl – 03/31/2022 (1st QT increase of 33%); Gas price (U.S. average regular unleaded) = $4.231/gal – 03/28/2022 (1st QT increase of 29%)