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QUARTERLY COMMENTARY

Given today's elevated uncertain state of economic and political conditions, both here and abroad, financial markets unsurprisingly remain turbulent. Everyone is aware that our nation's central bank, the Federal Reserve (Fed), is raising interest rates, which influences much of the world to do the same. But are they moving too far, too fast to reduce inflation? Will they cause a recession or steer our economy toward a softer landing? Nobody knows for certain, not even the Fed. Many of the measures of economic activity, including inflation, that influence Fed actions look to the recent past rather than provide perfect insight into the future. Nevertheless, their decisions can have consequences that materially impact the welfare of all societies around the globe. That is the reason for such strong attention focused on every Fed talking point.

The Fed is on an extremely resolute course, having clearly stated that it will do whatever it takes to get inflation under control. It is well known that peoples' decision-making process is most influenced by recent events and circumstances, including Fed comments, actions and implications. Therefore, the widespread belief that elevated inflation will persist and weigh down financial markets is understandable. What is less clear is why so many people believe the U.S. is already in a recession when many factors, including unemployment at a 50 year low, do not support this presumption. Abraham Lincoln was fond of saying, "How many legs does a dog have if you call his tail a leg? Four, because calling a tail a leg does not make it so."

Although investors now cling on to every word from Federal Reserve board members, especially Chairman Jay Powell, that wasn't always the case. Wall Street icon, Lazlo Birinyi, cited that thirty years ago, when Mr. Greenspan oversaw the Fed, there were no speeches from Fed officials nor any hints regarding the direction of interest rates. Instead, the media and investors alike looked at the thickness of Chairman Greenspan's briefcase to try and anticipate the outcome of the next Federal Open Market Committee meeting. Wall Street Journal commentator, James Mackintosh, refers to today's markets as stuck in overreact mode. We suggest that investors pause and reflect that headline news does not move financial markets but how, why, and when investors emotionally react to the news does.

There are less obvious financial indicators giving very different signals contrary to stubbornly high inflation. For instance, Federal Express has long been regarded as a barometer for consumption in our economy. The global delivery company is closing 90 Fed Ex stores, five corporate office locations, parking cargo aircraft, and instituting a hiring freeze after recently witnessing declining volumes of transporting packages across the globe. People are buying less according to research firm SJ Consulting Group. And Norway's Central Bank, one of the first to raise rates to fight higher inflation, is now beginning to change course. Yet the Department of Labor indicates job openings remain plentiful but declining. Home prices are reversing downward but rents take longer to fall.

Therefore, reports regarding near-term inflation will remain high for a while due to this lagging economic indicator. So, evidence does exist that our economy's growth is moderating, and given time, that can work to cool inflation.

The Fed has raised interest rates at the last five consecutive meetings, 3.00% over the last six months, and has indicated it will continue raising another 1.25%-1.50% more before year end. Investors want to know if the Fed will pause on or before December's meeting to evaluate the impact of its decisions to date on the economy's health before further action. Can investors get any reprieve from financial market volatility tied to the Fed? Third quarter corporate earnings announcements coming soon also can influence equity markets. Wall Street analysts are already anticipating lower earnings. One question is will earnings releases exceed or fall short of estimates? An even bigger question is can corporate earnings come down without falling too low and cause the economy to stumble into an economic recession? The answer can serve as a catalyst for rising equity prices if better than expected, resulting in a reason to celebrate. For the last fifteen years, 71% of companies have exceeded Wall Street estimates. The verdict is still out, so keep an eye to see if history repeats.

Despite the overabundance of opinions whether the Fed will cause a recession by raising rates too far, most are hesitant to call for a short versus long or a shallow versus steep recession. Jamie Dimon, CEO of J.P. Morgan, the largest bank in the world, has recently expressed his reluctance on the subject. We understand that the Fed needs to see convincing evidence that inflation has been tamed before changing course. Furthermore, we recognize that the impact of Fed actions and higher interest rates take at least 12-18 months before slowing the economy. It has only been six months since the first Fed rate hike.

The market is an emotional indicator over the short-term. Investors that react to short-term events and news have always done so at their own peril with unfavorable results for most. We cannot rule out the possibility of many scenarios materializing, but the process of building long-term wealth has always been uncomfortable at times and has required patience as well as discipline. There is no evidence to imply that these investor attributes will be less important in the future. To suggest otherwise is to believe that investors are entitled to make money all the time and can steer clear of occasional volatile markets. Not even the investment industry's best asset managers have been able to sustainably achieve these feats. More commonly, those that attempt to avoid the worst of occasional market behavior also miss the majority of history's longer upward trends. Therefore, we accept together with Steve Jobs, Warren Buffett, Barron Hilton, J.P. Morgan and countless others less known that short-term market volatility is part of long-term wealth appreciation. There are other paths to growing wealth but with less certainty and more risk, such as moving in and out of markets.

We always closely monitor our clients' performance in relation to overall market movements, opportunities, and risks. Given the present economic, political, and investment climate, we are confident in our Company's current diversification strategy providing the attractive combination of risk management and upside potential.

If you have $1 million or more in investable assets and would like to discuss how the Investment Counsel Company can help you work toward achieving your financial objectives and all that is important to you, please call to schedule a meeting with our financial advisors.

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