METIS WEALTH
MANAGEMENT & PLANNING

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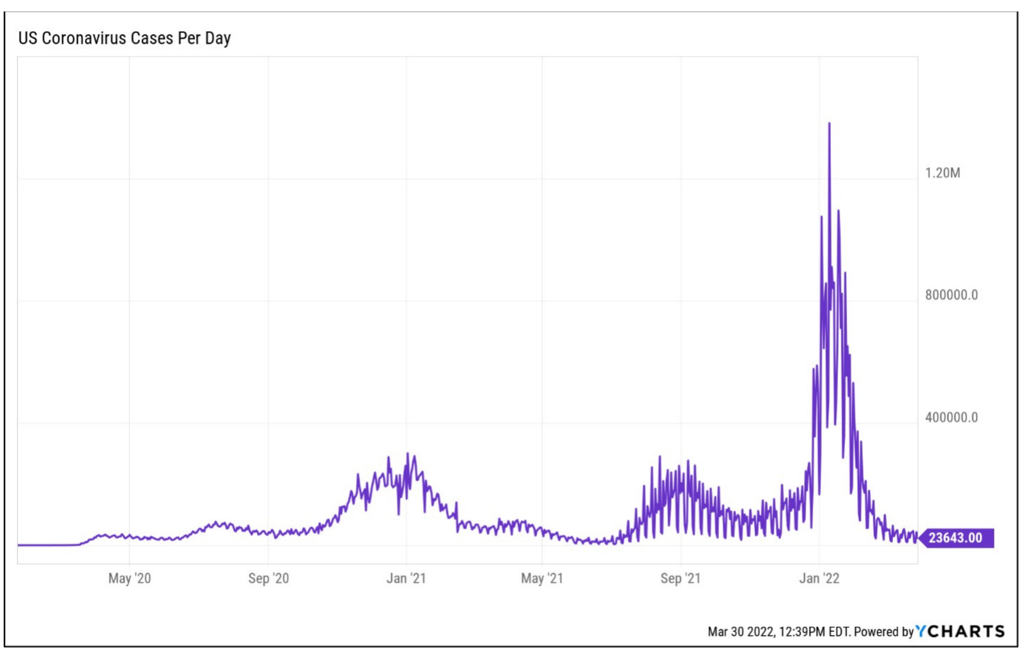
Inflation Nation

by Robert Sokolowski

A banner 2021 gave way to the worst quarter for stocks in two years. That being said, the quarter was far from disastrous. The S&P 500 returned -4.6% for the quarter despite being down over 12% at two different points during that period. International stocks fared worse falling 6.2% year-to-date. Unfortunately, bonds did not provide a cushion with the U.S. Aggregate Bond Index down 5.9%. At the current juncture, stock and bond prices are extremely closely linked and much of the fall in stock prices can be attributed to rising yields in the bond market (bond prices move inversely to yields). Encouragingly, the selloff was remarkably orderly and the vast majority of the action we observed made logical sense.

As has been the case for some time, the most important thing to watch for both stocks and bonds is what the Fed is doing. The Fed has clearly pivoted to focusing intently on curbing inflation after years of policy that encouraged inflation. In fact, a few years ago, the Fed had questioned why inflation hadn't been higher and in an effort to foster continued progress on labor force participation, Fed officials publicly pondered what could be done to cause inflation to be higher going forward. Some economists even questioned whether the relationship between inflation and unemployment had been permanently broken. It's clear now that higher inflation is here and consumers are less than thrilled with its effects.

The question investors have been asking for some time is- "How much of the observed inflation is being caused by COVID and war-related supply chain issues and how much is being caused by stimulative fiscal and monetary policy?" We likely won't know the answer to this question until the supply chain issues truly abate, but it's clear that the Fed can't wait for this to happen without risking runaway inflation.



Continued on page 2

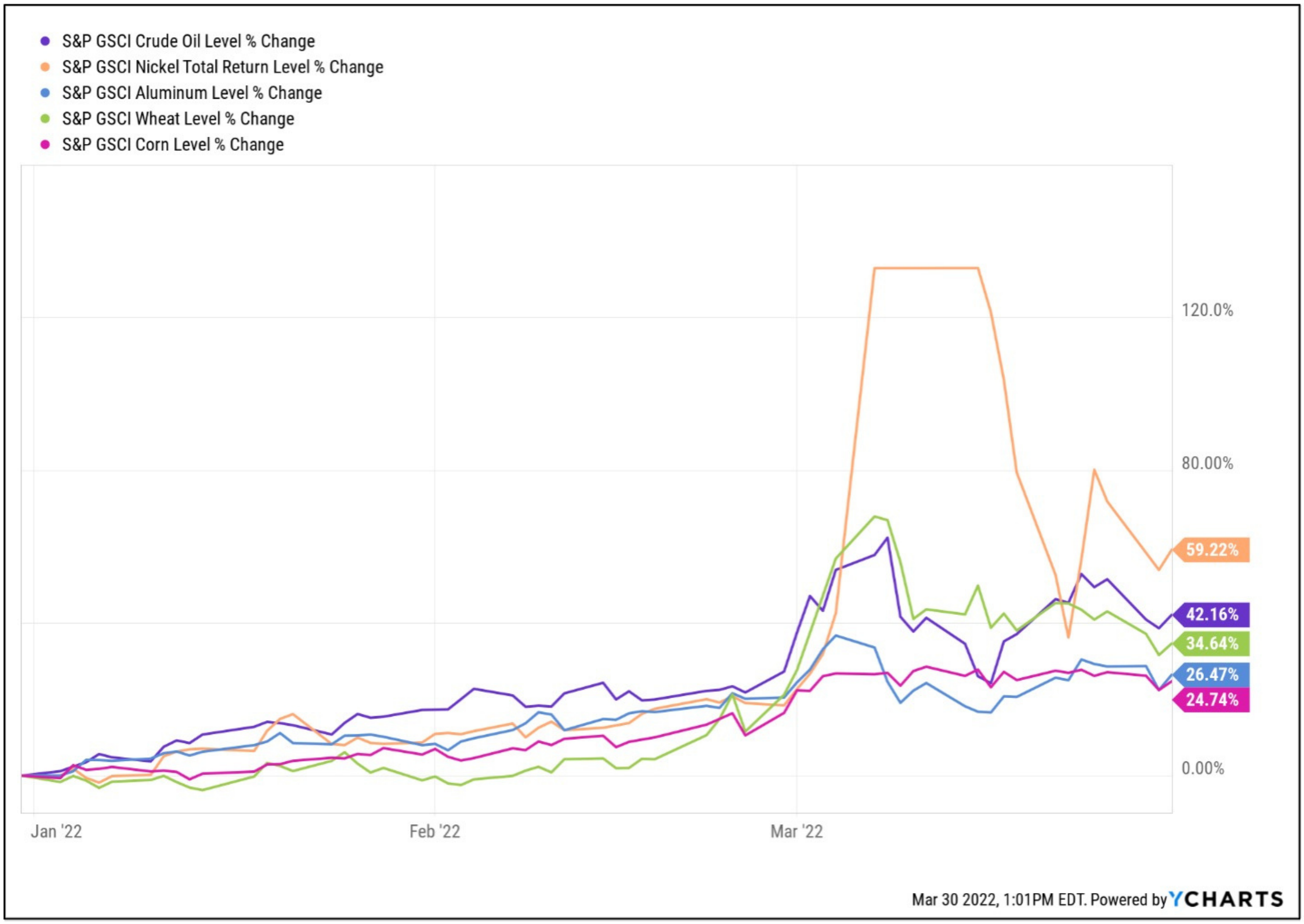
INSIDE THIS ISSUE

SPECIAL POINTS OF INTEREST

- **Our new office in Bluffton is still not complete. We do not have a move in date yet, but we are hoping for June or July. We will keep you updated.**
- Our office will be closed Friday April 15th, 2022 in observance of Good Friday.
- Tax Day 2022 is Monday, April 18th.
- Contact us if you would like to schedule a portfolio review or financial plan update.
- If your family or friends could use our help, please pass along our contact information.

Despite daily case counts collapsing in the US since the beginning of the year, COVID is still a drag on the global economy. In particular, China has continued to pursue their zero-COVID policy and on March 28th they instituted a lockdown in Shanghai- a city of over 26 million. Residents are currently restricted from leaving their homes or apartments for any reason other than getting a COVID test- even the hallways of apartment buildings are off limits. China's continued pursuit of this policy will not help ease the supply chain and manufacturing constraints being felt across the world.

Likewise, the war in Ukraine is affecting commodity prices. As we have mentioned in previous notes, Russia is a huge supplier of energy globally and Ukraine produces a massive amount of agricultural goods. The economic consequences of the conflict between the countries have rippled through energy and agricultural markets. Moreover, it seems to have placed additional upward pressure on commodity prices broadly.



Continued supply chain issues and commodity price increases will do nothing to ease the pressures on inflation which sits at 7.87%- a 40-year high. The unemployment rate is down to 3.6% - well within the range typically considered full employment. Furthermore, though labor force participation is improving, the level remains quite low on a historical basis, and employers across the country are still struggling to hire.

Absent a marked uptick in productivity (or an increase in population), it is difficult to imagine a scenario where the U.S. is able to achieve significant GDP growth with labor in such short supply. This has a direct effect on what economists refer to as "aggregate supply" or the total supply of goods and services produced by the economy. All else equal, a decrease in aggregate supply causes an increase in prices (inflation). The upshot of the situation with commodities, inflation, and labor is that the Fed will likely need to do more than we initially thought to control inflation. This increases the risk of recession.

Continued on page 3

Inflation Nation (continued from page 2)

While yields have risen substantially since the beginning of the year, the treasury yield curve has also flattened. During the last week of March, the yield curve became inverted at times. Yield curve inversions are a very common warning sign that recession is on the horizon. The predictive power of an inverted yield curve is not perfect, but its record has been strong lately- “predicting” each of the last six recessions. That being said, there can be quite a large lag between a yield curve inversion and a recession. Yield curve inversions usually indicate a recession is likely within the next 1-2 years. Surprisingly, the stock market returns between a yield curve inversion and the onset of a recession are typically above average.

While we have become markedly less bullish on the economy in the intermediate term, we feel we are well-positioned for whatever comes our way going forward. We have been underweighting international stocks for quite some time and we still feel the U.S. offers the best opportunities going forward. We were underweight bonds until yields rose substantially off their lows and our investments in TIPs, senior loans, and high yield debt have cushioned the fall in bond prices.

When we look at all available investments, we always try to find what we believe will be in short supply. Looking ahead, we continue to believe that investors will have a difficult time finding high-quality companies that are growing and income (either bond interest or dividends). We have remained invested in the US tech giants which are growing substantially and also have fortress balance sheets. We have maintained our exposure to the health care sector which underperformed in 2021 and looks attractive going forward. Health care is also a “defensive” sector that tends to hold up well in rough markets. Most clients are overweighted on utilities- another defensive sector that offers good income and is well-positioned to weather the effects of inflation. The utilities sector outperformed every other sector except energy in the first quarter - gaining 4.7% to the S&P 500’s 4.6% loss.

We still believe in the power of the U.S. economy and public companies and we are confident they will continue to perform over the long term. What ultimately happens with inflation and its causes is unknown, but we feel confident in our current positioning and we will react as needed going forward.

Market Index	Q1 Total Return	YTD Total Return	1 Year Total Return
S&P 500	-4.6%	-4.6%	14.3%
DJIA	-4.2%	-4.2%	6.0%
Nasdaq Comp	-9.0%	-9.0%	6.2%
MSCI EAFE	-5.8%	-5.8%	1.1%
Russell 2000	-7.5%	-7.5%	-7.2%
US Aggregate Bond	-5.9%	-5.9%	-4.5%

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6 Interesting Things About Social Security
By Jenn Sokolowski

Full Retirement Age Depends on When You Were Born

People assume that their Full Retirement Age (FRA) is 66, but that may not be the case. You must be born between 1943 & 1954 for your FRA to be 66. People born between 1955 & 1959 FRA is between 66 & 67. 1955 is 66 and 2 months, and every year it goes up by 2 more months. Anyone born in 1960 or later has an FRA of 67… for now. Full Retirement Age is not your maximum benefit. You will have to wait until 70 to get your biggest monthly payment. The earliest someone can receive Social Security is 62, unless they are claiming survivor benefits which can be claimed as early as 60. Claiming early will reduce the benefit permanently.

Suspending Benefits

If you are between Full Retirement Age (FRA) and 70, you can suspend your benefits. You can restart them at any time before age 70, or they will automatically start again the month you turn 70. You will earn delayed retirement credits for each month that you suspend your benefits. This will ultimately increase your monthly payment once you begin taking social security again. This can be a great option for anyone who finds they have more income than they need either from a pension or working. If you choose to suspend your benefits, keep in mind that anyone collecting benefits on your record will also have their payments suspended except for divorced spouses. You will be billed directly for Medicare Part B premiums that were being deducted from your social security payment.

Children Can Receive Benefits

This is one of the lesser-known benefits of Social Security, but it's true! Children can receive benefits if one of their parents receives retirement or disability payments. The child can receive social security until they are 18 (or 19 if they are still in high school). A child will not automatically receive benefits, so if you think your child may qualify, you will have to apply with the SSA. In 2020, 4 million kids received benefits.

Remarriage

Will getting remarried have an impact on the Social Security payments you may have been entitled to from a previous spouse? It depends. If your previous spouse has passed away, whether you were married or not at the time of their death, remarriage before age 60 will have an impact on potential benefits. Remarriage before age 60 will disqualify you from benefits unless you divorce. Remarriage does not affect any benefits your children may be receiving. If your divorced spouse is still living and you get remarried at any age, your benefits from your previous spouse will no longer be available to you. Death and divorce are two of the most complicated parts of SSI and individual circumstances can be different. It is always a good idea to check directly with the SSA with questions about your situation.

Working & Receiving Social Security

If you are thinking about starting social security but are still making income or might start making income again in the near future, it might be worth it to wait. You can earn income and draw Social Security at the same time, but if you are under FRA, your benefits may be reduced. If you are under FRA for the entire year, any income you earn over $19,560 (for 2022) your social security benefit will be reduced $1 for every $2 you earn above the limit. In the year that you will reach FRA, the limit increases to $51,960 (for 2022) and benefits are reduced by $1 for every $3 over the limit that you earned. However, only income earned up to the month of your birthday is counted, not the entire year. Once you reach your Full Retirement Age you can earn as much income as you want and it will not affect your social security benefits. If you do have your benefits reduced, it's not gone forever. The SSA will recalculate your benefit when you reach FRA and give you credit for the months your payment was reduced.

Changing Your Mind About Social Security

If you started Social Security less than 12 months ago, you can change your mind. This is called withdrawing your application. You will have to repay everything that has been paid out to you and you can only do this once. It is different than suspending benefits which was discussed earlier, but it can be the solution for someone who started social security but started earning income and they would like to stop benefits.

These are a few quirks of Social Security that many people are not aware of. Social Security is simple in concept, but complicated in practice and making the wrong decision can be costly. If you would like to discuss your own Social Security, contact us! We would be happy to help you sort through it.