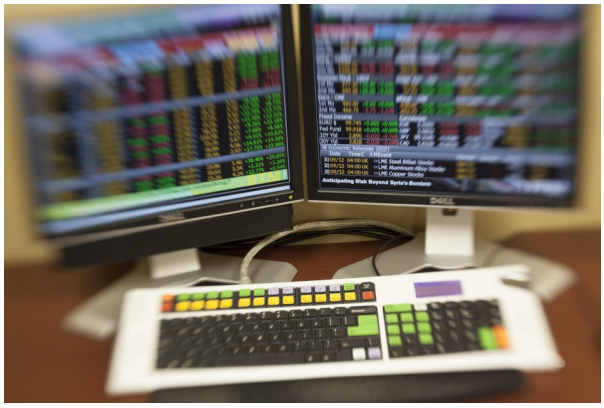
Wallington
ASSET MANAGEMENT

QUARTERLY NEWSLETTER

2022: SECOND QUARTER **134TH EDITION**



"History provides a crucial insight regarding market crises; they are inevitable, painful and ultimately surmountable."

~ Shelby M.C. Davis

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

~ Warren Buffett

TABLE OF CONTENTS

8900 Keystone Crossing, Suite 1015, Indianapolis, IN 46240 **www.wallingtonasset.com**

CAPITAL MARKETS SCOREBOARD

Equities					
Indices	2Q22 Total Return (%)	2022 Total Return (%)	Index Characteristics		
Domestic			NTM P/E	P/B	Div. Yld. (%)
S&P 500	-16.1	-20.0	15.9	3.7	1.6
DJIA	-10.8	-14.4	15.4	4.0	2.1
NASDAQ	-22.3	-29.2	21.7	4.5	0.9
Russell 1000 Growth	-20.9	-28.1	21.0	9.3	0.9
Russell 1000 Value	-12.2	-12.9	12.8	2.2	2.2
Russell 2000	-17.2	-23.4	17.0	1.9	1.3
International*					
MSCI EAFE	-14.3	-19.3	11.8	1.6	3.1
MSCI Emerging Markets	-11.3	-17.5	11.0	1.7	2.3
MSCI United Kingdom	-10.5	-8.8	9.6	1.7	4.0
MSCI France	-14.3	-21.7	11.2	1.6	2.8
MSCI Germany	-17.5	-28.1	9.7	1.3	3.0
MSCI Japan	-14.6	-20.1	12.3	1.2	2.6

Fixed Income		
Indices**	2Q22 Total Return (%)	2022 Total Return (%)
Domestic		
U.S. Corp - Gov (1-3 Years)	-0.6	-3.2
U.S. Corp - Gov (3-5 Years)	-1.8	-6.5
U.S. Corp - Gov (10+ Years)	-11.5	-21.1
U.S. Treasuries Master	-3.8	-9.2
U.S. Corporates Master	-6.7	-13.9
U.S. Municipals Master	-3.3	-9.3
U.S. High Yield Master	-10.0	-14.0
International*		
Developed Markets Sov Bond	-8.9	-14.8

Commodities		
Resource	2Q22 Total Return (%)	2022 Total Return (%)
Precious Metals		
Gold	-7.4	-1.3
Silver	-17.7	-11.6
Industrial Metals		
Copper	-21.7	-16.6
Aluminum	-31.6	-14.6
Energy		
Brent Crude Oil	11.6	55.1
WTI Crude Oil	7.2	43.1
Natural Gas	-3.9	45.4

Key Rates				
Rates	6/30/2022	3/31/2022	12/31/2021	6/30/2021
U.S. Target Fed Funds Rate	1.75	0.50	0.25	0.25
2-Year U.S. Treasury	2.92	2.28	0.73	0.25
10-Year U.S. Treasury	2.98	2.32	1.52	1.45
30-Year U.S. Treasury	3.14	2.44	1.90	2.06
10-Year German Bund	1.38	0.55	-0.18	-0.21
10-Year Japanese Bond	0.22	0.22	0.07	0.06
30-Year Fixed Mortgage	5.52	4.17	3.10	2.98

Currencies				
Indices/ Exchange Rates	6/30/2022	3/31/2022	12/31/2021	6/30/2021
ICE U.S. Dollar Index	104.69	98.31	95.97	92.44
USD per EUR	1.05	1.11	1.14	1.19
USD per GBP	1.21	1.32	1.35	1.38
JPY per USD	135.86	121.38	115.16	110.99
CAD per USD	1.29	1.25	1.26	1.24

*Returns denominated in U.S. dollars

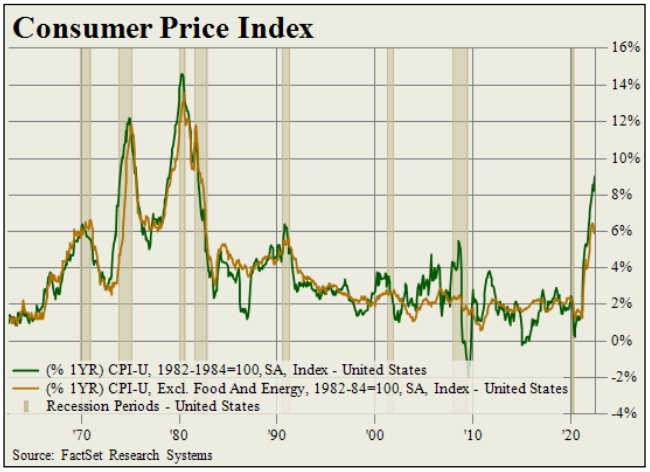
**ICE Bank of America Merrill Lynch (BofA-ML) indices

ECONOMICS

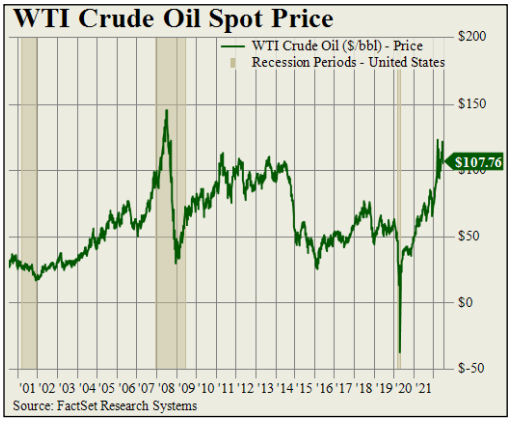
Written by: Robert Klemkosky

Much of the news flow in the second quarter centered on inflation and the responses to it by central banks, particularly the Federal Reserve (the Fed) and Chair Jerome Powell. The Fed signaled its belief inflation is a persistent longer-term problem with its 0.75% rate hike in June, the largest increase since 1994. This followed rate hikes of 0.25% in March and 0.50% in May. Chair Powell also combined the aggressive rate hikes with hawkish statements before U.S. House and Senate congressional committees and then recently at a European Central Bank forum. He said he was more concerned about the risk of failing to stamp out high inflation than he was about the possibility of raising interest rates too high and pushing the economy into a recession. Powell stated, "Is there a risk we could go too far? Certainly there is a risk, but the bigger risk to make would be to fail to restore price stability."

Chair Powell's focus on inflation is warranted with the Consumer Price Index (CPI) at a level not seen in more than 40 years. Inflation increased to an annual rate of 9.1% in June following an increase 8.6% in May. After receding to 8.3% in April from 8.5% in March, some economists thought it had peaked. Core CPI, excluding food and energy, was up 5.9% in June, a small deceleration from the 6.0% year-over-year (Y/Y) increase in May. Economists emphasize core inflation because food and energy prices are volatile, but this brings little comfort to consumers who are paying record prices for gasoline and food. The Producer Price Index (PPI), what suppliers charge businesses, was up an annualized 11.3% in June, increasing 1.1% for the month. These costs will be passed on to consumers if possible.



Filling up at the pump provides the most definitive evidence of inflation. According to the EIA, average gasoline prices in the U.S. are up 47.7% in 2022 and set a national record of $5.02 per gallon in June. Oil prices were up more than 40% over the same period. The Organization of Petroleum Producing Countries (OPEC) promised to increase production by 650,000 barrels per day in July and August, but many oil-producing countries are struggling to produce their allotted quotas. Production fell 2.8 million barrels per day below May quotas for OPEC+, which includes Russia. U.S. oil firms do not have much incentive to invest in more production given ongoing labor shortages, governmental policies, and strong negative dialogue against fossil fuels. Thus, much if not all of any easing in oil prices may have to come from the demand side. Meanwhile, household energy costs were up 19.6% for the 12 months ending in June primarily due to more expensive natural gas. Prices more than doubled in the U.S., increasing to $9.3 per million British thermal units (BTUs), the highest price since 2008. They then dropped back to $5.4 per million BTUs at the end of June. Still, natural gas prices are up 45.4% for the year. Natural gas prices in Europe hit over $30 per million BTUs earlier in June. Given constrained supply from Russia, Europe will have a difficult time keeping the lights on and homes heated next winter.



The U.S. is not alone in battling high inflation, as the Eurozone reported record annual inflation of 8.6% for June. Even Japan experienced inflation of 2.5% in April and May after three decades of deflationary pressures. This was partly due to the weakness in the Japanese yen relative to the U.S. dollar (USD) and other major currencies. The ICE U.S. Dollar index is at a two-year high, up 13.3% in the past year and 9.1% in 2022. It is at the highest level against the yen since 1998 and the euro since 2002. A stronger U.S. economy and economic woes abroad have strengthened the USD. This has resulted in large trade deficits; the March trade deficit was a record $109.8 billion. While the deficit has come down since then it remains elevated. A strong dollar helps U.S. inflation because it makes imports cheaper, but it also makes U.S. exports less competitive, impeding domestic economic growth.

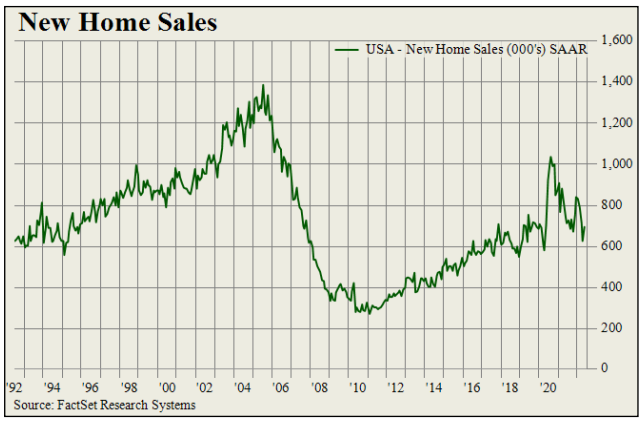
ECONOMICS

U.S. gross domestic product (GDP), the final output of goods and services, grew 5.7% in 2021, the best annual growth in any calendar year since 1984. For the first quarter of 2022, however, the Bureau of Economic Analysis (BEA) reported GDP decreased at an annual rate of 1.6%. The decline was skewed downward by a large trade deficit and a large decline in private inventories, both of which may have been affected by the supply chain issues of 2021. Still, consumer spending only increased 1.8% for the quarter, the lowest annual growth since the economic expansion started in May 2020. Consumer spending comprises about two-thirds of GDP, so investors pay it close attention. Consumer spending rose only 0.2% in May but fell 0.4% when adjusted for inflation. For the month, spending on services increased 0.3% while outlays for goods decreased 1.6%, again adjusted for inflation, the biggest drop this year. Retail sales also fell 0.3% in May leaving stores such as Target, Walmart, and Nike with excess inventory. High inflation has prompted consumers to draw down their savings this year as the savings rate in May decreased to 5.4%, the lowest level since 2009. High inflation is also eroding consumer confidence. The University of Michigan Survey of Consumer Sentiment, which fell to an all-time low in June, is down more than 40% in the last year. This erosion in confidence was confirmed by the Conference Board's survey which recently declined to its lowest level since 2013.

The hot labor market appears to be cooling. Employers added 372,000 new jobs in June bringing the second quarter monthly average to 383,000. This compares to an average in the first quarter of 600,000 new jobs per month but still is above the pre-pandemic monthly gains of around 200,000 per month. There were 6 million workers unemployed, but the unemployment rate remained at 3.6% for the fourth consecutive month as 353,000 people left the workforce. Most of those who left were in the prime working age of 25-54. Average hourly earnings increased 0.3% in June and 5.1% for the prior twelve months. While these are large increases, real wage gains are still negative due to the high rate of inflation.

The housing market has been a dichotomy with prices increasing, albeit at a slower rate than earlier in the year, while demand has been decreasing. The median existing home sale price rose 14.8% Y/Y to a record high of $407,600 in May, according to the National Association of Realtors. Higher home prices filter into the CPI calculation through an "owners-equivalent rent" which is the hypothetical amount you would have to pay to rent your house. Higher house prices result in higher implied rents and thus higher inflation. One reason prices have increased is because of a 2.6-month inventory of existing homes at the existing rate of home sales versus a normal four- to five-month supply. Home builders have not produced enough housing units since the Great Recession of 2007-2009.

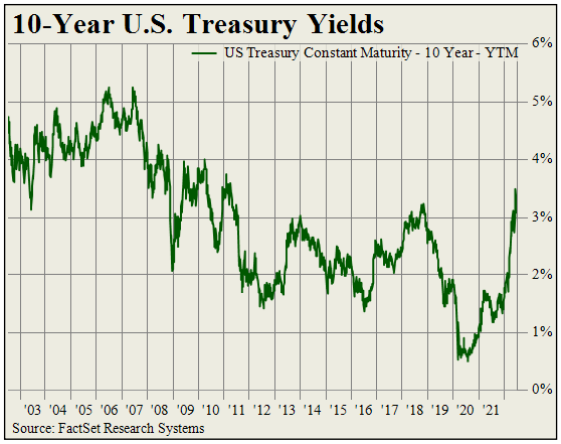
Demand for housing is slowing not only because of higher prices but also increased financing costs. The average 30-year fixed mortgage rate jumped to 5.81% in June, the highest level since 2008. The affordability of homes is at a 16-year low, making it especially difficult for first-time home buyers. Sales of previously-owned homes have declined for four straight months and Y/Y sales of new homes have declined in 11 of the past 12 months. Higher mortgage rates and higher home prices are forcing many potential buyers to give up and rent. Rents for single-family homes have risen at a record pace, according to S&P Core Logic, with apartment rents also increasing 15.0% nationally for the 12 months ending in May. Estimates show the U.S. is short more than 2 million housing units based on household formations since 2010. There have even been reports of bidding wars for rental space in some locations and landlords raising rents between application dates but before approval dates.



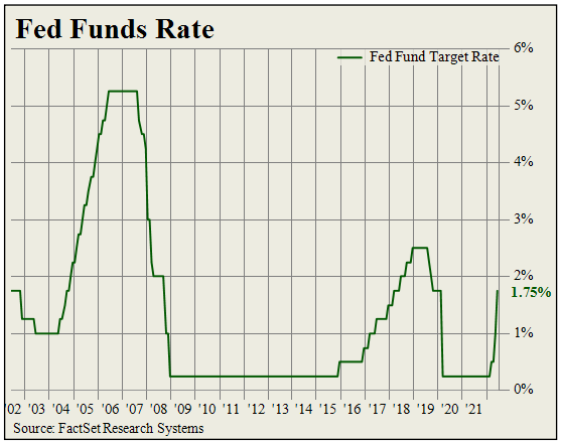
FIXED INCOME

Written by: Daniel Klemkosky

Persistent inflation continued to roil the fixed income markets. U.S. Treasuries (USTs) provided a total return of -3.8% in the second quarter, bringing their year-to-date (YTD) return to -9.2% as measured by BofA-ML indices. According to an analysis utilizing investment proxies by Deutsche Bank AG, 10-year USTs had their worst first half of a calendar year since 1788, the year before the U.S. Department of the Treasury was established. Long-term corporate and government bonds with over ten years until maturity lost 11.5% during the second quarter, bringing their YTD loss to -21.1%. Comparable shorter-term bonds with one-to-three years until maturity have provided relative shelter, returning -0.6% for the quarter and -3.2% for the year.



With inflation remaining stubbornly high, the Federal Open Market Committee (FOMC) accelerated its planned policy response. Although fed funds futures markets entered the quarter implying three 0.25% rate increases combined in May and June, higher than anticipated CPI prints compelled the committee to hike rates twice in May, then three times in June. These actions and anticipation of more rate increases to come helped lift the 10-year UST yield from 2.32% on March 31 to 3.49% on June 14, the highest level since April 2011. As investor fears began to shift from inflation itself to the resulting policy response leading to a sooner than anticipated recession, investors once again began to seek out USTs as a safe haven, and the 10-year UST ended the quarter yielding 2.98%.



Concerns over the durability of the economy through the rate hike cycle were evident in the corporate credit market. Investment grade credit spreads (the differential in yields between government and corporate debt) increased from 1.22% at the end of the first quarter to 1.64% at the end of second quarter. Investor anxiety was reflected even more in the high yield (or junk) bond market with spreads widening from 3.43% to 5.87% over the course of the quarter. Credit spreads tend to widen in times of elevated economic uncertainty. This is due to investors needing to be compensated for the increased risk of companies not being able to meet their debt obligations. The federal government is usually considered a "risk-free" debtor with the ability to print money and tax. Spread widening caused corporate credit to underperform USTs in the second quarter with U.S. investment grade bonds returning -6.7% and high yield bonds returning -10.0%. This brought their respective YTD returns to -13.9% and -14.0%.

Inflation and accompanying rate increases have been a global phenomenon. Many Eurozone countries with previously close economic ties to Russia have been particularly impacted as evidenced by Estonia and Latvia reporting inflation greater than 20%. Given these pressures, the European Central Bank (ECB) is set to end its bond-buying stimulus program and raise interest rates for the first time since 2011 in July. The Bank of Japan (BOJ) has continued to enforce a 0.25% yield cap on its government bonds, although the global trend in yields has created significant headwinds for this endeavor. The BOJ purchased an unprecedented 10.9 trillion yen ($81 billion) of bonds in one week to stabilize its government bond yields. Despite this intervention, developed market sovereign bonds in aggregate returned -8.9% during the second quarter, bringing their YTD return to -14.8% when priced in USD. With inflation accelerating, negative yielding debt outstanding globally has decreased almost 90%, as these bonds were issued by countries in Europe and Japan.

EQUITIES

Written by: Samuel Oliphant

The first half of 2022 was the worst for the Standard & Poor's 500 (S&P 500) index since 1970, providing a total return of -20.0% for the year. After a modest 4.6% decline in the first quarter, the index posted a -16.1% return in the second quarter. Rising interest rates have been the primary driver of stock re-valuations. Higher rates increase the discount rate applied to equities, making their future cash flows less valuable. Rate increases have a more pronounced impact on growth stocks, which pay little or no dividends, due to their longer path to return cash to investors. The Russell 1000 Growth Index finished the quarter losing 20.9% while its counterpart, the Russell 1000 Value Index, returned -12.2%. Concentration to growth names within the S&P 500, which comprise the lion's share of its largest weightings, has led the index lower this year. Technology-focused growth names represent seven of its ten largest constituents. All seven underperformed the S&P 500 in the first six months, while the three in relatively value-oriented sectors (Johnson & Johnson, Berkshire Hathaway, and UnitedHealth Group) are positive for the year.

From a total wealth perspective, this bear market has been the most destructive in history. Over $13.6 trillion has been lost in U.S. total equity market capitalization in the current drawdown, more than the $12.5 trillion in the COVID recession (2020) and the $11.0 trillion in the Great Recession (2007-2009) according to Crescat Capital. The current decline has barely surpassed bear market status (a decline of 20% or more), with more room to run in the context of previous bear markets. Bear markets tend to be more severe when they coincide with a recession. On average, bear markets paired with a recession have declined 35% compared to 28% without a recession. For context, the current bear market's peak-to-trough decline is approximately 22%. Hypothetically, a -35% bear market would put the S&P 500 at 3,115, below its pre-COVID peak.

The forward (next twelve months) price-to-earnings (P/E) ratio for the S&P 500 declined from 19.6x to 15.9x during the quarter. According to FactSet, analyst estimates for S&P 500 earnings have held firm through the selloff, with the mean 2022 earnings number at $227.33 versus $221.91 to begin the year. The economic rebound from the pandemic created incredible earnings growth as margins continued to hit all-time highs. As of June 30, the S&P 500's trailing twelve month net profit margin was at 12.9%, the highest reading on record. These margins may prove difficult to maintain, as some S&P 500 companies have already cited pressures in quarterly reports. Target and Walmart saw their share prices decline over 20% the day following earnings announcements mid-May, when both warned of declining margins due to increased costs, excess inventory, and changing consumer demand. Other companies' earnings have yet to be adjusted or revised due to Regulation FD ("Fair Disclosure"), which enforces strict rules on how information may be disseminated to investors. As a result, fewer companies issue public revisions to margins prior to earnings calls.

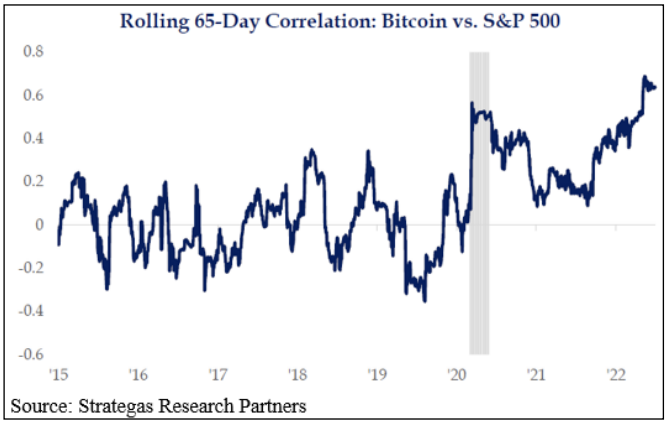
Companies have also warned of the impact of a strong USD on earnings. McCormick & Co., for example, traded down more than 7% upon announcement, citing persistent pressure from currency exchange in their outlook for the remainder of 2022. As the dollar strengthens, the value of revenues from abroad decreases when converted to USD. With roughly 40% of S&P 500 revenues generated outside of the U.S., continued USD strength could be an ongoing heading for broad-based earnings growth.

By some metrics, the first half of 2022 was the most volatile since 2009. According to Strategas Research Partners, 90% of trading days in the year's first half had an intraday range greater than 1%. That is the highest since 99% of trading days reached that level in 2009, the bottom of the Great Financial Crisis. However, despite the volatile quarter, the CBOE Volatility Index (VIX) remained relatively muted. The VIX peaked at 34.75 for the quarter. For reference, there were 46 days surrounding the COVID decline when the VIX closed at a higher level.

CRYPTO

Written by: Jacob Reynolds

The pain of rising interest rates and the re-valuation of risk assets has been felt acutely in cryptocurrency markets. Bitcoin pundits have repeatedly marketed the flagship coin as a hedge against inflation and diversifier to equity markets due to the negative correlation it displayed for the first ten years of its existence. Since the onset of the pandemic, however, that correlation has turned squarely positive.



Bitcoin declined 57.2% in the second quarter, its worst quarterly return in over a decade. The theme of no place to hide resonates with those attempting to diversify their crypto holdings with Ethereum. The world's second-largest cryptocurrency fell 68.2%, its worst quarterly performance on record. This crypto selloff may have a material impact on many companies' third quarter earnings reports, as regulation requires firms to write down these assets for unrealized losses. They cannot, however, revise upward for unrealized gains, so these assets will remain de-valued on company balance sheets until they are liquidated.

In Wallington's first quarter newsletter, we noted a significant step forward between decentralized finance and traditional finance as a Blackrock-led syndicate pledged to assist in managing the stablecoin U.S. Dollar Coin, a cryptocurrency designed to maintain the value of a dollar. Currently, there are two significant types of stablecoins – those that hold dollar assets to support their dollar peg and those that rely on high-frequency trading algorithms to keep their dollar peg by buying and selling a linked cryptocurrency known as a balancer token. The algorithmic approach relies on arbitrage pricing theory, where market makers can earn a profit by providing liquidity on both sides of the transaction. However, if the market makers are not able to make a profit on their transactions, the arbitrage argument fails, severely impacting both coins. This was the case for Terra and its balancer token Luna when several large Terra holders liquidated their holdings in May, fearing issues in the fundamental structure between the two tokens. Market makers could not deploy enough capital to prevent additional investors from taking 97 cents for every dollar. According to the blockchain analytics platform Nansen, the arbitrage argument eventually reversed course, making it more profitable for market makers to exacerbate the spread and further de-peg the "stablecoin." On June 30, Terra, the stablecoin meant to maintain the value of one U.S. dollar, was worth a little over 6 cents a coin.

While it is difficult to spot a silver lining in the loss of billions for investors, the collapse of Terra may accelerate the intervention of regulators to prevent similar events from occurring in the future. Federal regulation should have a significant positive impact on investor confidence in the crypto space. Unfortunately, the process can be long and grueling, as noted by The Security and Exchange Commission's recent denial of Grayscale Investment's Bitcoin Trust (Ticker Symbol: GBTC) application to convert the trust to a spot exchange ETF. The commission cited inadequate responses from the issuer on investor protections and the prevention of market manipulation.

A Look to the Future – The Fed is Walking a Tightrope

Price stability and full employment are the two mandates the Fed is required by law to maintain. In regard to the first mandate, if they do not raise interest rates high enough, the economy will continue to grow but inflation will stay elevated and inflation expectations will become entrenched. Chair Powell recently stated, "the Fed doesn't have the luxury of following its normal operating procedures of moving interest rates up gradually because of concern that high inflation may lead consumers and price-setters to expect high inflation to persist and feed into future inflation." In other words, if consumer psychology should change in ways that sustain inflation, the Fed may have to raise interest rates even higher than otherwise. Currently, inflation expectations are higher than average but not yet out of control.

If the Fed raises interest rates too high, however, inflation will recede, but the economy could head into a deep recession. Some economic data currently point to a slowing economy; growth in consumer spending, home sales, industrial production, manufacturing, and home construction activity has either moderated recently or been negative. Many commodities such as oil, natural gas, copper, lumber, corn, soybeans, and wheat are off sharply from their peak levels. Even the yield on the 10-year Treasury bond has fallen from 3.49% in mid-June to 2.98% at the end of the quarter. Higher unemployment rates might be a necessary consequence of their efforts to dampen inflation, marking a reversal of the last two years when their policies provided strong monetary stimulus aimed at spurring the labor market's recovery from the pandemic. While there were 11.3 million job openings at the end of June, layoffs have been announced in the retail industry and at some manufacturers such as Tesla. The International Monetary Fund (IMF) has reduced global growth forecasts to 3.6% for 2022 and 2.8% for 2023, down from 6.1% in 2021. The Fed forecasts U.S. GDP growth of 1.7% for both 2022 and 2023 and 1.8% longer term. The Atlanta Fed GDPNow model forecasts a contraction of 1.2% for the U.S. in the second quarter. Contrary to conventional wisdom, two consecutive quarters of negative GDP growth does not guarantee an official recession. A committee of economists at the National Bureau of Economic Research will take a variety of factors into account before belatedly announcing if or when a recession has started.

Historical evidence favors a recession. The Fed has raised interest rates 12 times since the WWII and caused a recession 9 times. The three "soft landings" all occurred when the Fed *proactively* tightened to prevent inflation increasing from a low level. When the Fed *reactively* tightened to subdue already high inflation, it resulted in a recession. Former U.S. Treasury Secretary Lawrence Summers noted that when inflation was above 4% while unemployment was below 5%, like now, a recession has always occurred within two years. Economists surveyed by *The Wall Street Journal* put the probability of a recession at 44% in the next 12 months; this is the highest probability seen outside of an actual recession. If enough people expect a recession is inevitable, just like with inflation, it could become a self-fulfilling prophecy.

Those predicting a recession expect it to be mild. The job market is strong, the banking system is in good shape, and corporate debt, while high, was generally financed at low rates and with long-term structures. Most importantly, consumer balance sheets have not been this financially strong in three decades and are in great shape to weather a recession. At the end of the first quarter of 2022, consumers had $17.9 trillion of cash and cash equivalents compared to $13.7 trillion at the end of the first quarter of 2020. In fact, consumers have more cash than total debt, including mortgages, even though debt levels are at record highs. While stock prices are down, total U.S. home equity increased to $27.8 trillion in the first quarter of 2022.

With the S&P 500 more than 20% below its all-time high and its forward P/E ratio near its 20-year average to end the second quarter, equity investments arguably look much more attractive than during the stretch of lofty valuations in 2020 and 2021. Should the current "average" valuations lead to the "average" returns of the last 20-years, many investors would not be disappointed. This narrative faces several headwinds, however. One simplistic rule of thumb for market valuations is the "Rule of 20" where the market's P/E ratio should equal 20 less the annual rate of inflation. While far from precise or timely, this relationship has historically served as a baseline due to the interconnected nature of inflation, bond yields, and market valuations. Given recent CPI reports, this would imply reductions in either inflation, valuations, or a combination the two are necessary for the relationship to normalize.

Another issue justifying current valuations are analyst earnings estimates. Although estimates have come down recently, they may not have priced in the impact a recession can have on company earnings. The severity of an economic slowdown and the path of interest rates will be impactful not only for the equities market as a whole but also on select companies. Should a recession ensue which is deeper than current forecasts imply, growth stocks with more stable earnings would likely reassert the relative outperformance over their value counterparts, the latter of which have performed in a less negative manner for the first six months of the year.

While bonds generated historically poor performance in the first half of 2021, the silver lining for fixed income investors is that higher interest rates provide the opportunity for higher returns prospectively. With UST yields well above 2% across almost the entire yield curve, forward-looking nominal returns are well above what investors expected to realize during the fixed income environments of 2020 and 2021. Although higher yields allow for a more constructive starting point for bond investments, both interest rate risk and credit risk must be given the utmost consideration given the current economic environment. If the Fed is unable to meaningfully reduce inflation, yields could continue to build in longer-term embedded inflation expectations in the form of higher rates, and broad-based prices of fixed income instruments could continue to fall, even the most creditworthy of instruments such as USTs. Alternatively, if the Fed acts too aggressively and creates a deep recession, the creditworthiness of various companies and industries could be impaired, creating headwinds for some segments of the corporate bond market, especially the high-yield (junk) bond space. Currently, the partially-inverted yield curve and fed funds futures markets are implying the Fed will be forced to stop raising rates in early 2023, short of the Fed's own forecasts. Some forecasts are now looking past the rate hike cycle to when the Fed will need to ease rates in support of a slowing economy. Fixed income investors would certainly welcome a goldilocks scenario, where fixed income markets offer high enough returns to surpass inflation going forward while avoiding a recession which would force the Fed to reverse course and cut rates.

With investors facing so much uncertainty and so many negatives in the world today, the associated volatility can certainly test one's resolve. This is particularly true for those investors whose portfolio values moved upward significantly by following a disciplined approach and reaping the rewards provided by the financial markets following the 2007-2009 financial crisis. While volatility on a percentage basis now may be the same or even lower, with higher portfolio values, the dollar level of volatility has certainly grown for many investors. It is that volatility to which we relate as human beings because, after all, it is dollars, not percentages, that allow us to consume and possibly save for the future. We are reminded of a quote by Peter Bernstein, "Volatility is often a symptom of risk but is not a risk in and of itself. Volatility obscures the future but does not necessarily determine the future." In other words, volatility can create opportunity, although many times without instant gratification. As Josh Brown noted on CNBC, the three-year periods following the National Bureau of Economic Research officially declaring a U.S. recession have always exhibited positive S&P 500 returns, many of them robust. Investing success over time is not an easy endeavor by any means, regardless of what the last 10+ years seemed to imply. To help ease the discomfort, we are also reminded that time horizon is an important component of that success. Not only does it mitigate downside risk in portfolios, but also it provides a rearview mirror look to see that there is a lack of permanency in many of the issues that challenge us in the present.