HUDOCK CAPITAL GROUP, LLC
WEALTH PARTNERS WITH PURPOSE®

Navigating Turbulent Times

Remember when you were learning to drive, how new and scary it could be? The first time you merged onto the freeway. The first time you switched lanes during heavy rush hour traffic. The first time you parallel-parked on a busy street. The first time you drove in heavy rain or in the snow.

Eventually, though, each of these actions became easier and less stressful…to the point they became second nature. After all, you'd seen it all before. You'd done it all before. No matter what bumps in the road you encountered, you always knew exactly what to do.

We were thinking about this while studying the markets recently. As you probably know, market volatility has been persistent since the middle of January. The S&P 500 has moved in and out of correction territory for the past two months and the NASDAQ is technically in a bear market. (Quick reminder: A "correction" is defined as a drop of 10% or more from a recent peak, while a "bear market" is a drop of 20% or more.)

As you can imagine, this sustained volatility has a lot of investors gripping tight on the wheel — metaphorically, at least. And make no mistake; it's clear that we are living in turbulent times right now. Some analysts are warning of a potential bear market across the entire stock market; some economists, meanwhile, are even forecasting the possibility of a new recession.[1] (Though it's worth noting this prediction does not seem to be the prevailing one among most economists.)

No one enjoys investing during times like these, just as no one, we imagine, enjoys driving a big rig in a snowstorm. But as your financial advisors, we decided to write this letter to assure you that we have a major advantage; we are not rookie drivers. We are not practicing for our driver's test. Our advantage is that we've seen this, lived through this, and even benefited from this all in the very recent past!

Let us explain what we mean by quickly recapping why the markets are so volatile. The various reasons are all interconnected, so we can untangle the knot of events fairly easily.

On Monday, April 25, health authorities in Beijing, China, rushed around the city to conduct as many Covid 19 tests as they possibly could. By the end of the day, they had tested almost 3.7 million people.[2] Their goal? Identify and quarantine every infected person in the vicinity so that they could avoid the city-wide lockdown that nearby Shanghai has been dealing with for the past four weeks.

The reason this matter is because the world depends on China for a *lot* of things: foodstuffs, rare earth metals, computer chips, cars, steel, plastics, etc. The worry is that if China goes on lockdown again, production on all these items will plummet. That would throw a *major* wrench into global supply chains, which are still – *still* – struggling to recover from the pandemic.

This is something the world can ill-afford at the moment, especially given the ongoing war in Ukraine. Much of the world depends on both of these countries for the goods they need. Wheat and neon gas from Ukraine, for example. Oil and natural gas from Russia. Thanks to this conflict, and due to the sanctions imposed on Russia as a result of it, it's now not only more expensive to *buy* certain items, it's more expensive to *ship* them, too.

All these supply chain issues, of course, have contributed to the rampant inflation we've seen this year. For example, take something as simple as chicken eggs. Russia exports a huge percentage of the components that go into agricultural fertilizer. When it becomes more expensive for farmers to buy fertilizer, the price of corn goes up. When the price of corn goes up, the price of chicken feed goes up. When the price of chicken feed goes up, the price of raising chickens goes up. That leads to higher-priced eggs, which is further compounded by higher oil prices making it more expensive to *ship* those eggs to the market and…well, you get the point.

Understanding how the world's issues, like COVID and war, contributes to supply chain problems makes it easier to see how they also contribute to inflation. And what does inflation have to do with the stock market?

Simple, inflation doesn't just affect consumers, it affects companies too. During periods of high inflation, it becomes more and more costly for companies to produce the products they sell. They can – and usually do – raise their own prices to compensate, but this can backfire if it leads consumers to go elsewhere. Either way, the company's profit margin suffers – which means they return less value to shareholders. Shareholders, in response, then start selling their stock, driving the price down. These are the reasons we've seen such sustained volatility in the markets – and why that volatility will likely continue for some time.

These are indeed turbulent times we live in. **But here's the good news.** If you look closely, nothing we've just explained to you is *new*, is it? We've been dealing with COVID since 2020; with inflation since 2021. In the last two years, we've lived through both a bear market *and* a recession and come out on the other side. We've been reading about supply chain issues for months; trade issues with China for *years*. The sources of today's volatility are largely the same as yesterday's.

Much of the market volatility that we are experiencing is based on the uncertainty of "what comes next"? Will the Federal Reserve hike rates forever? Will inflation keep rising forever? Will the Russia/Ukraine conflict last forever? Will the shutdown in China last forever? Although we can't tell you when all of these concerns will end, we don't believe they will last forever. History tells us that some of the best investing opportunities come from periods just like this, but it's not identified until we are in a position of hindsight. When it feels like the bad news will never end and the market will never stop going down, it's time to evaluate what we want to own for the recovery. Our view is once all the bad news is priced in, the market will be in a better position to grow with some of these major concerns behind us.

We know that patience and planning will not only help us avoid making major mistakes, they'll also help position us for when the markets eventually rebound. We know that diversifying our holdings and sticking to our long-term strategy eliminates the need for relying on guesswork or shots in the dark. We know that doing all these things together will not only help us get through today, it'll help us seize tomorrow too. That's why, despite the headlines, despite the gloomy forecasts, we remain confident in our direction and excited about the future. We've navigated volatility before, and we'll do so again…all with a steady hand on the wheel.

As always, thank you for your continued trust in us and our team. If you ever have any questions or concerns about the markets, don't hesitate to let us know!

Sincerely,

Barbara B. Hudock, CIMA®, CPM®
Chief Executive Officer
Founding Partner

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President and Founding Partner
Wealth Consultant

1 "A major recession is coming, Deutsche Bank warns," *CNN Business*, https://www.cnn.com/2022/04/26/economy/inflation-recession-economy-deutsche-bank/index.html

2 "Beijing Orders Citywide Covid-19 Testing," *The Wall Street Journal*, https://www.wsj.com/articles/beijing-braces-for-omicron-wave-with-hoarding-and-testing-11650866581