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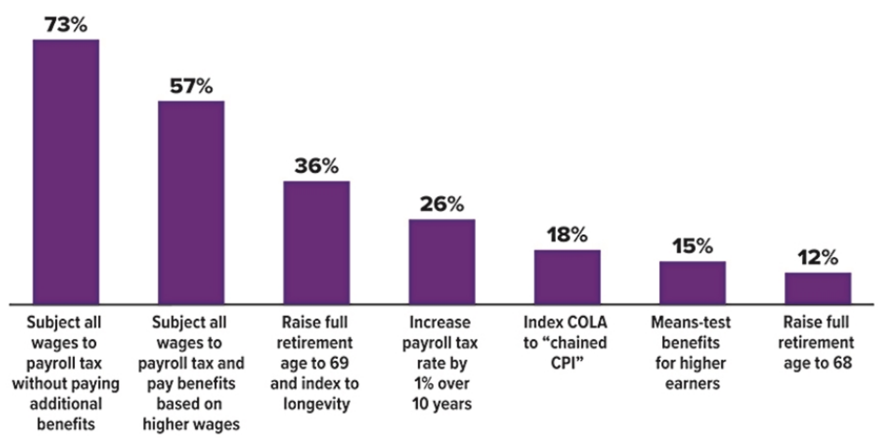
Be sure to read John Stewart's article, "No Refuge for Markets" below.

Closing the Social Security Funding Gap

According to the 2021 Social Security Trustees Report, the reserves that help fund Social Security retirement and disability benefits will be depleted in 2034, one year earlier than last year's projection due to the pandemic. At that time, the program will be able to pay only 78% of scheduled benefits. Numerous bills have been introduced to address the shortfall, but lawmakers have stalled because potential fixes require increased taxes and/or benefit reductions. The chart below shows the estimated percentage of the 75-year Social Security funding gap that would be closed by some proposed changes.



Source: Social Security Administration, December 13, 2021

No Refuge for Markets

Earlier this month, the Federal Reserve announced it was hiking its target Fed Funds rate by 0.50% to a range of 0.75%-1.00%. This was widely anticipated by most market participants. The central bank also plans to reduce its monster $9 trillion balance sheet at a rate of $47.5 billion a month starting in June. Markets rallied on the news, presumably on the fact that the Fed didn't announce anything more restrictive than was already expected. In addition, Fed chairman Jerome Powell took the possibility of a 0.75% rate hike at the Fed's next meeting off the table, which was something markets had been pricing in. It didn't last long, however; by the end of the week the stock market reversed its Fed-driven gains and then some. Markets accelerated their move to the downside this past week, and the S&P 500 very nearly reached the bear market definition of a drawdown of 20% from its January peak. Our take is that it's likely we'll experience further market volatility in the weeks and months ahead given a still slowing economy and weakening earnings outlook. Therefore, we're advising clients to stay relatively defensive for the time being.

The first four months of this year were one of the worst starts to a year for financial markets in recorded history. What has made this stretch particularly challenging for investors is that BOTH stocks and bonds have come under intense selling pressure as prices for most all financial assets have moved lower – typically, stocks and bond provide a bit of yin and yang in a portfolio – that has not been the case in 2022 thus far. Despite our recommendation for investors to exercise caution – DO NOT PANIC! Investors tend to lose money when they let their emotions take hold and sell their assets when they are falling in price. This is almost never the right course of action. In the long run, stocks have always trended higher over time. Yes, there are occasional bouts of volatility. Some even last for many years. Nevertheless, you are rewarded as an investor for holding your assets. Selling into weakness eliminates your ability to take advantage of the long term trend. Bonds actually have stated terms of interest and principal repayment. As long as they're held to maturity, and assuming the bond doesn't default of course, you should never lose money on a bond. Don't panic and sell a bond just because it has temporarily moved lower in price.

With that being said, we do expect further volatility and the potential for stocks to go even lower before they eventually find a bottom. Therefore, make sure your asset allocation matches your risk tolerance and your need for income or liquidity. Money you're going to need within the next 12 to 18 months should be held in cash or very short-term fixed income instruments. Even though most financial assets are underwater thus far in 2022, maintaining a well-diversified portfolio remains key to long-term success. One individual company can go bankrupt and its stock can go to zero, but a diversified portfolio of stocks and bonds can weather any storm as long as you have the patience to avoid selling assets in the middle of the storm.

Food Inflation: What's Behind It and How to Cope

As measured by the Consumer Price Index for food at home, grocery prices increased 3.4% in 2020, a faster rate than the 20-year historical average of 2.4%.[1] More recently, food inflation accelerated by 6.5% during the 12 months ending in December 2021, while prices for the category that includes meat, poultry, fish, and eggs spiked 12.5%.[2]

Food prices have long been prone to volatility, in part because the crops grown to feed people and livestock are vulnerable to pests and extreme weather. But in 2021, U.S. food prices were hit hard by many of the same global supply-chain woes that drove up broader inflation.

The pandemic spurred shifts in consumer demand, slowed factory production in the United States and overseas, and caused disruptions in domestic commerce and international trade that worsened as economic activity picked up steam. A shortage of metal containers and backups at busy ports and railways caused long shipping delays and drove up costs. Severe labor shortages, and the resulting wage hikes, have made it more difficult and costly to manufacture and transport many types of unfinished and finished goods.[3]

As long as businesses must pay more for the raw ingredients, packaging materials, labor, transportation, and fuel needed to produce, process, and distribute food products to grocery stores, some portion of these additional costs will be passed on to consumers. And any lasting strain on household budgets could prompt consumers to rethink their meal choices and shopping behavior.

Seven Ways to Master the Supermarket

The U.S. Department of Agriculture expects food inflation to moderate in 2022, but no one knows for certain how long prices might stay elevated.[4] In the meantime, it may take more effort and some planning to control your family's grocery bills.

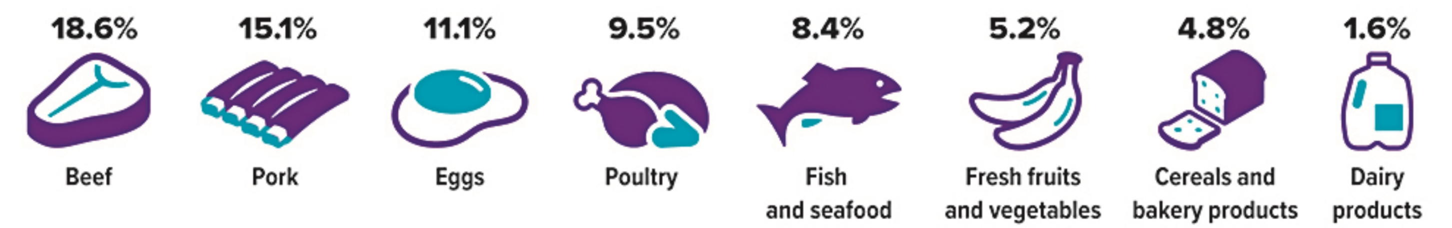
1. Set a budget for spending on groceries and do your best not to exceed it. In 2021, a typical family of four with a modest grocery budget spent about $1,150 per month on meals and snacks prepared at home. Your spending limit could be higher or lower depending on your household income, family size, where you live, and food preferences.[5]
2. To avoid wasting food, be aware that food date labels such as "sell by," "use by," and "best before" are not based on safety, but rather on the manufacturer's guess of when the food will reach peak quality. With fresh foods like meat and dairy products, you can usually add five to seven days to the "sell by" date. The look and smell can help you determine whether food is still fresh, and freezing can extend the shelf life of many foods.
3. Grocery stores often rotate advertised specials for beef, chicken, and pork, so you may want to plan meals around sale-priced cuts and buy extra to freeze for later. With meat prices soaring, it may be a good time to experiment with "meatless" meals that substitute plant-based proteins such as beans, lentils, chickpeas, or tofu.
4. Stock up on affordable and nonperishable food such as rice, pasta, dried beans, canned goods, and frozen fruits and vegetables when they are on sale.
5. Select fresh produce in season and forgo more expensive pre-cut and pre-washed options.
6. Keep in mind that a store's private-label brands may offer similar quality at a significant discount from national brands.
7. Consider joining store loyalty programs that offer weekly promotions and personalized deals.

1, 4–5) U.S. Department of Agriculture, 2021

2) U.S. Bureau of Labor Statistics, 2022

3) Bloomberg Businessweek, September 15, 2021

Annual Change in Consumer Price Indexes for Food (through December 2021)



Source: U.S. Bureau of Labor Statistics, 2022

Avoiding Probate

Probate is the process of proving the validity of a will and supervising the administration of an estate usually in the probate court. State law governs the proceedings in the probate court, so the process can vary from state to state. Supervising the administration of an estate can result in additional expense, unwanted publicity, and delays in the distribution of estate assets for a year or longer, which is why planning to avoid the probate process may be beneficial.

There are several ways in which assets may transfer on death directly from the decedent/owner to others without probate. The following are some of the more common ways.

Create a living trust. A revocable living trust is a separate legal entity that can be set up to hold assets. You can transfer most assets to a living trust while you're alive and have complete access to and control of those assets during your lifetime. You can also direct who is to receive assets held in trust upon your death. *The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate planning professional before implementing a trust strategy.*

Name a beneficiary. Many types of contracts allow you, as the account owner, to designate a beneficiary or beneficiaries to receive the assets directly upon your death, avoiding probate. Examples include life insurance, annuities, and retirement accounts such as IRAs and 401(k)s.

Additional ways to avoid probate include making lifetime gifts and designating a transfer on death beneficiary for motor vehicles.

Make accounts payable on death. Certain other types of accounts, such as bank accounts and brokerage accounts, also allow you to designate a beneficiary to inherit the account at your death without going through probate.

Own real estate jointly or create a life estate. Owning property jointly, as joint tenants with rights of survivorship, is another way to transfer property at death while avoiding probate. When one joint owner dies, property ownership automatically transfers to the surviving joint owner. You can also create a life estate in the property. In this case, you transfer ownership of the property to others, often called remainder beneficiaries, while you retain a life estate in the property. This means you have the right to use and control the property during your lifetime. Upon your death, complete ownership of the property passes to the remainder beneficiaries.