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—THE— CENTRAL ISSUE

APRICUS

THANK YOU

It's been three short years since Apricus Wealth was founded to pair experienced advice with very personal service for a select group of clients. We are all grateful for your support and for our relationship with you. As a result of our growth, AdvisorHub, an investment management trade publication, named Apricus to its 2022 Advisors to Watch list. We are looking forward to our next conversation, Joe, Jim, Ernie, Susi, and Lisa.

SECURITY!

Your financial and personal security is very important to us, which is why we partner with world-class organizations that have systems and procedures in place to secure your safety. We only share personal, non-public information with encrypted emails and secure links and we are happy to answer any questions you might have to make sure you stay safe. Please help us protect you by not sharing personal information in texts or unencrypted emails.

We observed in our Summer 2022 note that consumers were spending more and buying less. Indeed, consumer spending has increased in dollar terms as prices have risen, while tighter budgets mean that quantities purchased of some goods have fallen. Constrained demand in units for goods and services limits production growth, which is a prerequisite for a healthy economy. Inflation without growth, also called stagflation, is the economic reason why persistent or sticky inflation is so worrisome.

Central bank monetary policy is a blunt instrument that impacts marginal demand through marginal employment. The Federal Reserve Bank (The Fed) is currently raising interest rates at a historic pace, hoping to drive down high inflation, and the average 30-year mortgage interest rate in the U.S. has increased from 3.1% to 6.7% this year. Rising interest rates increase the cost of debt, which reduces the demand for houses, cars, and other financed purchases. Home sales and home prices, which have been supported by unnaturally low interest rates, have begun to moderate and inventories of cars on dealer lots are growing. Rock-bottom unemployment, which is currently boosting wages in the U.S., stands in the way of price stability. Simply put, the Federal Reserve will need to ignore its mandate of full employment to pursue an arbitrary goal of 2% inflation.

Last winter, we suggested that central planning is an inelegant way to manage supply and demand. The 21st century has given us multiple examples of well-intended policies leading to suboptimal outcomes. While rising interest rates are a boon to savers who prefer income, higher yields arrive with a cost of lower investment prices. The combination of higher interest rates and slowing growth in 2022 has negatively impacted capital market prices, with the S&P 500 index declining 23.87% and the U.S. Aggregate Bond Index falling by 13.45% in the first nine months of 2022.

In times of economic uncertainty, the strongest and most consistent businesses are often prized by the stock market. We have confidence that world-class companies that pay material and growing dividends and are trading below fair value, will continue to perform relatively well through 2023.

LOOKING AHEAD

As we look ahead into 2023, we expect inflation to continue to fall for the first half of the year, but stay above the Fed's target rate of 2%. Falling inflation and the currently strong labor market will buffer the economy, and we expect nominal corporate profits to be more stable than feared through 2023. If price increases slow and the labor market weakens, interest rate increases may include a pause in the first half of 2023. However, in the back half of 2023, a strong consumer, weak U.S. dollar, and stubborn inflation could force the Federal Reserve to resume raising interest rates higher than currently forecast. It is our belief that the technical recession that we noted last summer could return as an actual recession, but probably not before 2024.