

MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT

CHARLOTTE, NORTH CAROLINA

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

Greetings from your team at Gaskin Asset Management. We believe this year's market volatility is directly linked to the current economic conditions and outlook. This may seem obvious. However, the markets can sometimes seemingly disregard economic conditions and trade up or down as if unhinged from economic reality. In fact, some would say that's what the markets experienced in 2020 and '21. We believe that the financial markets may now be reacting rationally given the economic outlook. The goal of this letter is to provide a high-level view of where we are now and an outlook of how things may play out in the next few quarters balanced with a bit of historical perspective.

Before we get into the newsletter, we have a quick announcement. If you haven't logged into our website lately, please take a look at our "New & Improved" website at www.GaskinAsset.com. It's the same web address, but thanks to Ivey's hard work, it is not the same website. You will find lots of interesting information including videos and a link to a website that may help you update your current risk comfort level. We will be adding articles and videos to the website in the coming weeks. Stay tuned.

As we write this letter to you, many families in Florida and along the path of Hurricane Ian are just beginning to rebuild in the aftermath of one of the worst hurricanes to hit Florida's west coast. We know several families who were directly impacted by this devastating storm. Our thoughts and prayers go out to these friends and all those who must now begin the long task of rebuilding. This is a reminder, once again, of our limited human ability to manage things beyond our control and a nudge to focus on the things we can control.

Months before Hurricane Ian's arrival, the CEO of J.P. Morgan Chase, Jamie Dimon, made a comparison between hurricanes and economic upheavals. He stated "You know, I said there's storm clouds but I'm going to change it ... it's a hurricane," and then he went on to say, "You'd better brace yourself."ⁱ As he spoke at a financial conference in New York, he was thinking of Superstorm Sandy which hit close to home ten years ago for his New York audience. Dimon's warning was not directed at those in the path of what would become Hurricane Ian, but to all investors and every person impacted by inflation, recession and the economy, in general.

Comparing economic and market conditions to natural weather events can be helpful in illustrating a point. For instance, you may have noticed that there has been little "dry ground" thus far in 2022 as we have experienced a perfect storm this year for both stocks and bonds. As of September 30, 2022, the S&P 500 Index* was down -23.87% and the Bloomberg US Aggregate Bond Index** was down -14.61%. However, it's important to acknowledge a few critical differences. For starters, hurricanes can and do literally take lives as Hurricane Ian just did. By contrast, the stock and bond markets reprice securities; they don't take lives. The devastation that hurricanes leave in their wake can take years to repair or replace, if ever. Hurricanes are regional with the worst effects on coastal communities; whereas the economy affects everyone, everywhere. Finally, it's also important to note that we humans can neither create a hurricane nor stop one. We can only prepare for the inevitable, react, and then rebuild.



Economic disasters, on the other hand, are quite manmade. We can and do create them. That's the bad news. But it's also the good news. What we can create, we can fix. And that's precisely where we are today.

In previous newsletters, we commented on the fiscal and monetary policies that we believed would lead to inflation. We shared the results of our research regarding the growth of the U.S. money supply and low interest rates. In very simple terms, money supply represents demand. As money supply grows, demand grows. That is, there are more dollars available to spend on whatever supply of goods and services are available. We're talking about basic supply and demand here. Have you purchased or built a house in the last two years? As you surely know, the Covid pandemic and our national and state level responses to the pandemic resulted in a devastating effect on global supply chains. Here's a synopsis of the problem as we see it ...

- The pandemic shutdown yielded less available supply of goods and services as factories shut down and workers stopped working in both goods and services sectors. RESULT = Supply → DOWN.
- The Federal Government responded by increasing the supply of funds available through various measures to include increasing the money supply, federal payments to businesses and individuals, and exceptionally low interest rates. RESULT = Demand → UP.
- With less goods and services available and more dollars to purchase those limited goods and services, prices could go nowhere but up. To expect otherwise would be a denial of basic economic reality in our judgement and likely a failing grade to any freshman student in an Economics 101 class.

So, where do we go from here? First, recognize that while history may not exactly repeat itself, oftentimes it rhymes. Investors and investment managers are notoriously known for crying, "*It's different this time.*" They eagerly shout these words during times of irrational exuberance as they pay exceptionally high prices for inflated technology stocks for instance. We would need to add various disclaimers if we provided examples, so we won't, but you know the names. And then they wail, "*It's different this time*" as they throw the baby out with the bathwater during times of market turbulence. That's fear and greed doing their tag-team work on us.

We cannot nor will we attempt to minimize the seriousness of today's economic and geopolitical problems. Inflation, recession, wars, political unrest, rising crime rates, health crises, energy shortages and so many other challenges face our nation and the global community. While all these issues require solutions and time for correction, neither the velocity nor the direction of the financial markets is easily predictable. With history in mind, let's take a look at a few relevant historical data points for perspective. You will note that our data includes the early 1980's since that was the last time we experienced significant inflation.

- From March 1980 through March 2020, there have been 32 S&P 500 Index corrections of greater than 10% with an average decline of -18.56%. However, the average market return one (1) year later was +24.91% with 29 of the 32 years posting a positive return. Source: Bloomberg as of 9/30/22. Of course, past performance is not indicative of future results.
- There have been 18 midterm U.S. elections since 1950. The average S&P 500 Index return in the year of the election was +8.5% with six (6) negative years not including this year. However, the average election month (November) return was +2.8% with the 11-month return following November averaging +17.7%. Since 1950, the year following a Midterm Election has always produced a positive return for the S&P 500 Index. Source: Bloomberg. Data from 10/31/1949 – 12/31/2021.
- Since 1926, dividends have contributed approximately 32% of total return for the S&P 500 Index.ⁱⁱ Source: S&P Global. Dividend paying stocks tend to fall into the category of Value Stocks while Growth Stocks tend to be those that forgo dividends in search of higher growth rates.

- According to Russell Global Research, as of Sep 30, 2022, the Russell 1000 VALUE index has outperformed the Russell 1000 GROWTH index by nearly 13%. That's a significant difference and it matters.

Allow me a quick personal anecdote that may apply here. One of scariest things that can happen when flying a helicopter just a few feet above treetop level at night is to unexpectedly lose sight of the ground. This condition is referred to as Inadvertent IMC (Instrument Meteorological Conditions). In other words, you're flying along looking at the trees just below your feet and all the sudden you're in fog or a cloud. Everything that was clearly discernable is now hidden. But you're still in the air and traveling at 120 knots only feet above the trees. Confusion can instantly ensue. What do you do? Well, the more immediate question is what do you NOT do? You don't panic even if strongly tempted to do so. You do not attempt to get yourself out of the situation by pushing the aircraft down toward earth. That won't end well. Instead, you immediately acknowledge that your visual flight has unexpectedly changed to an instrument flight. You switch to your instruments, you trust your previous experience with them, and then fly higher into the clouds as you recalculate next steps. This is how you survive the unexpected.

Things seemed to be just fine just a few months ago. Now they aren't fine. In fact, things may seem rather lousy and scary. So, what do we do? Again, maybe the better question is what do we NOT do?

Do not despair. Do not be discouraged. Do not abandon a prudent investment strategy designed and built before the storm clouds appeared. Stick with the plan. Stick with the basics. Trust your strategy.

We have experienced inflation, recessions, and wars in the past. The current economic troubles, while painful and new to many, are not entirely unique. Remember, history may not exactly repeat but it does rhyme. We've been here before. We've survived every other economic and market calamity and we'll get through this one too.

If you would like to discuss specific investment strategies with us, please give us a call or shoot us an email. We look forward to speaking with you. In the meantime, we hope you enjoy a safe and enjoyable holiday season with those who you hold dear.

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

*S&P 500 Index – [a registered trademark of the McGraw Hill Companies] is an unmanaged index of common stocks representing 500 industrial, utility, transportation and financial companies of the US markets (mostly NYSE issues).

**Government bonds in this example are represented by the Bloomberg US Aggregate Bond Index and Bloomberg U.S. Long-Term (20-Year) Government Bond Index. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

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ⁱ Son, Hugh. "Jamie Dimon says 'brace yourself' for an economic hurricane caused by the Fed and Ukraine war", [CNBC online](#), June 1, 2022

ⁱⁱ <https://www.spglobal.com/spdji/en/research/article/a-fundamental-look-at-sp-500-dividend-aristocrats/>