Advisory Notes

March 2022

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35

Years

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First Quarter in Review

As we enter the second quarter of 2022, the Russian invasion into the Ukraine continues and the resistance to Moscow has proved to be more formidable than expected. Our prayers and concerns go out to the citizens of the Ukraine as they fight to protect their country from its aggressor.

Energy, inflation and interest rates are the future hurdles the markets are trying to evaluate and grasp. The energy complex, consisting of oil, natural gas and coal, is increasing as economic sanctions on Russian exports to Europe and the U.S. have been banned. The U.S. and other allies are trying to fix the short-term supply constraints and long-term dependence on Russian exports. This will hopefully help production increase in other parts of the world and ease pressure on prices.

Increasing energy prices drive inflation, which has spiked in the U.S. in the last two quarters as evidenced by the consumer price index toping 7%. Consumers spending more at the pump and for goods and services, leaves less for disposable income.

While the Federal Reserve is targeting a much higher Federal funds neutral rate between 2.5% and 3%, Chairman Powell needs to balance the "teeter totter" of the U.S. economy delicately as well as target a soft landing. We expect positive data to print in the coming quarters, as the U.S. is poised for more re-openings while COVID-19 fears remain low, amid geopolitical concerns.

Quarterly returns were negative across the board led by the NASDAQ at -9.10% and fixed income averages posted at -5.93%, but seemed

See **First Quarter** *on Page 2*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-21 THROUGH 03-31-22

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-21 to 01-31-22	-3.24	-5.17	-8.96	-9.63	-2.15	-2.96	-3.13	-0.03
01-31-22 to 02-28-22	-3.29	-2.99	-3.35	1.07	-1.12	-0.39	-2.04	-0.03
02-28-22 to 03-31-22	2.49	3.71	3.48	1.24	-2.78	-3.51	-2.56	-0.06
Cumulative Returns 12-31-21 to 03-31-22	-4.10	-4.60	-8.95	-7.53	-5.93	-6.72	-7.53	-0.12

The highest compliment our clients can give is the referral of their friends and family. Thank you for your trust!

Director's Chair

Gaius Helen Mohiam: The test is simple. Remove your hand from the box and you die.
Paul Atreides: What's in the box?
Gaius Helen Mohiam: Pain.
From: *Dune*

So it begins. For the first time in over three years, the Federal Reserve (Fed) increased the federal funds rate, which is the rate at which banks lend reserve balances to other depository institutions. This is important because this rate affects interest rates for mortgages, auto loans, personal and corporate loans, margin borrowing, etc. Changes in such key rates affect business and investment markets.

Two competing camps emerged from the FOMC (Federal Open Market Committee). The dove side believed that the Fed would take a more cautious path to rate hikes due to rapidly rising oil prices coupled with the invasion of Ukraine. They believed swift and numerous rate hikes were not needed to cool inflation. This side viewed perhaps three rate hikes in 2022. The hawk side believed that inflation is running too hot and at rates not seen since the early 1980s. Also, that the Fed was "behind the curve" meaning interest rate markets were already signaling that rate increases were expected and needed. This group envisioned seven coming rate hikes.

Federal Reserve Chairman Powell and the Fed have gone on the hawk path with the March 16 policy statement and 25 basis points rate hike. The median Fed outlook is for seven rate hikes in 2022 bringing the federal funds rate to 1.88% with an additional four rate hikes in 2023 bringing the rate hike cycle to 2.8% at its end. The Fed will also begin reducing the balance sheet, by selling the bonds that the organization has been buying for the past two years to inject money into the economy. Selling the bonds removes money from the economy and, in the words of Chairman Powell, run off the balance sheet may equal another rate hike in terms of effect to the economy.

Of course, there was language indicating that the Fed would monitor the many data points that flow into the organization and is currently taking a close look at how the Ukraine invasion would affect interest rates and supply chains. Some have come away from the March 16 meeting feeling that the Fed was not as hawkish as it appears.

Here are examples of the outcomes from the Fed's action to curb inflation; 30-year mortgage rates were 3.75% in February versus 4.95% post rate hike, while the average forty-eight month auto loan has increased 0.3%. For savers, the 9-month top decile (highest paying banks) certificate of deposit (CD) rate has gone from 0.10% to 1.00%. These actions will reward savers and begin to make borrowing a more expensive activity.

This is the box the Fed has put itself in with over a decade spent with over accommodative monetary policy that acted as fiscal stimulus or "spice" as they say in *Dune*, to the economy and investment markets. Now that inflation is running at a pace not seen in decades, the Fed is forced to act and accept the pain that may come to the economy if they are unable to orchestrate a soft landing.

Louis F. Ruize
Director of Research/Portfolio Manager

First Quarter
(Continued from Page 1)

to rebound in March as interest rate hikes loom on the horizon (See Market Table).

We will continue to review incoming data and manage your portfolios with your goals and objectives in mind. Please see additional articles in our Advisory Notes for more in depth details.

Joseph M. Valicenti
President/CEO

Check-up Time

As we do once a year, we remind you to get certain documents in place or updated.
You have already gathered up the required documents to file your taxes for 2021, so why not continue along a similar path and get the rest of your "house in order."

The documents that I am referring to are as follows:

- Durable Powers-of-Attorney
- Healthcare Proxy
- Last Will and Testament
- Living Will
- Trusts

In addition, certain items, as listed below, need to be reviewed from time to time:

- Beneficiaries of Retirement Plans
- 401(k), 403b Plans, etc.
- Pension Benefits
- Health Insurance
- Life Insurance
- Business Insurance
- Refinance of Mortgage

Planning for now and the future will not only benefit you but also your heirs. As any of the following may apply to you, we suggest that you address them:

- Educational Expenses
- Gifting
- Major Repairs to Your Home
- Purchase/Lease of a Car
- Purchase of a Home/Second Home

Ralph H. Roberts, Jr.
Vice President of Client Services

Electronic Delivery of Valicenti Statements

Valicenti Advisory Services, Inc. is always looking for better ways to keep you informed and updated. In 2018, we decided to go paperless with our publications. Not only is this a fast and convenient way to keep you up-to-date, but it also helped us toward our goal of "going green" and being more eco-friendly. Publications are emailed on a monthly basis, so if you are not receiving them, please call us to update your email address.

Our next goal of "going green" is to have our Valicenti statements delivered electronically to you. Doing this will cut down on the paper used and will save a few trees along with the time to mail these to you. By choosing electronic delivery of statements, you will receive an email when reports upload to the secure client vault on our website and you can log in to view items as soon as they are ready. This goes for our 1099 Reconciliation reports as well as our quarterly reports. The vault keeps these reports available on a rolling 12 months, but we are always able to go back further if needed. Of course, you may keep receiving these statements in the mail if that is what works best for you.

If you would like to start the process to have your statements sent electronically, please email mickleymb@valicenti.com or call (607) 734-2665.

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

Bond Ladders

You have probably heard the term bond ladders, but do you actually know what they are? I hope that this article will clarify the meaning.

When referring to a bond ladder, investors are talking about a way to create an adjustable rate income stream by buying a series of bonds or bond funds within staggered maturity dates. When each bond matures, the proceeds are reinvested in a new security at the top of the ladder, which becomes the new longest dated security.

If interest rates are rising, the new bonds will have higher coupon rates than the bonds at the bottom of the ladder and your yield will gradually rise.

As an example, if you were to create a bond ladder today, as an example, you could buy bonds maturing in 2023, 2024 and 2025. When the year 2023 bond matures, you invest the proceeds in a 2026 bond, which may be offering a higher interest rate than you currently have.

Ralph H. Roberts, Jr.
Vice President of Client Services

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Investment Strategy

The first quarter of 2022 has had many twists, turns and difficulties with no shortage of volatility. The first quarter brought about a horrific invasion of the Ukraine by Russia. Our hearts go out to the Ukrainian people as they fight to maintain their sovereignty.

Here in the U.S., the Federal Reserve continues to try to navigate slowing inflation without stalling the U.S. economy. The Federal Reserve will be inclined to raise rates gradually while reducing the balance sheet over the next several months, as they continue to receive data on the state of the economy. The anticipation of Federal Reserve actions aided the bond market woes in the first quarter. Rising energy prices continue to affect economic conditions in 2022 as they did in 2021. While not getting the same headline news as in the past, Covid continues to negatively affect our lives.

Despite the negative headwinds, the U.S. equity markets have shown resiliency and have moved off the lows from February and March, aided in part by strong consumer and corporate spending. Additionally, U.S. workers are gradually seeing wage increases, employment levels continue to produce strong numbers week over week, and the ISM new order index and building permits are also showing continued strength.

During this period, we remain focused on companies with strong fundamentals and strong management teams that are able to navigate the challenges such as higher input costs, supply chain disruptions and labor shortages, to name a few. Our asset mix will vary based on client risk levels, income needs and specific directives, thus our asset allocation will remain nimble with money markets 5-10%, fixed income 25-35% and equities 45-55%.

Jeffrey S. Naylor
Executive Vice President/CFO

Analyst Corner

Summing up the first quarter of 2022, one can observe that intermediate term (1 to 3 years) inflation expectations have risen, growth expectations for the current year have been reduced, consumer sentiment has waned and financial conditions are tightening against a backdrop of Federal Reserve actions meant to inflect away from an extraordinary period of accommodation. The second dominant feature of the current landscape is the much scorned invasion of the Ukraine by the Russian Federation, which has interjected geopolitical risks more prominently into investor psyche.

Recalling that Q4 of last year saw the S&P 500 advance 11.03%, while gaining 28.71% for all of 2021, the first quarter was down sharply through the middle of March, after which we saw a semblance of a rally. All told, the main equity benchmark was down -12.27% at the trough and, currently post rally, sits down at -4.60%. Given the shifting and serious circumstances previously discussed, the market seems to have weathered events well and is displaying a resilience of sorts at this time.

The Energy Sector is the clear return leader gaining 38.99% due to the spike in energy prices that was already in motion but accelerated after the invasion of the Ukraine. The Utilities Sector is the only other positive sector returning 4.77%. The clear laggard is Communication Services, which is down -11.92%, as mega cap giants such as Facebook and Netflix saw serious downturns in their stock prices in the quarter.

Positive Market Influences	Negative Market Influences
Strong Labor Market	Russian Federation Invasion of the Ukraine
Positive GDP Expectation	Inflation
	Sentiment

The fixed income asset class has seen headwinds quarter to date as well. The necessity of having to price in quicker rate hikes due to the higher price instability being absorbed by consumers has shifted the entire curve for both shorter-term rates and longer-term rates outward, which is negative for the prices of the instruments. The FTSE USBIG Corporate Bond index is down -7.53% in the quarter and the broader Bloomberg Barclays U.S. Aggregate Bond index, which includes U.S. Government securities and mortgage backed paper, is down -5.93%. The U.S. 10YR bond yield currently sits at 2.34%at the end of March and, for reference, in the last rate hike cycle which ended in 2018, this key risk-free rate topped out in the vicinity of 3.2%. With the additional leverage in the system, it may be a challenge to achieve that level again. The inflation and growth outcomes will certainly have a say in the matter.

Positive Market Influences

- **Strong Labor Market** – The current U-3 Unemployment Rate as of March is 3.6%. While there are issues regarding people not coming back into the workforce post COVID-19, the rate indicates that a reasonably strong level of opportunity exists for those looking for work. Additionally, year to date nonfarm payrolls have added 1.7M jobs through Q1.
- **Positive GDP Expectations** – The economic projections of the Federal Reserve Board members currently hold a central tendency of GDP growth coming in between 2.5% and 3.0% for 2022. This is down from the projection level of 3.6% to 4.5% in December, though it is still much stronger than the trend growth rate for the U.S. economy, which is generally thought of as being near 2.0%.

Negative Market Influences

- **Russian Federation Invasion of the Ukraine** – While seemingly stalemated at the moment, the war in the Ukraine, which kicked off on February 24, is a significant geopolitical event with ramifications globally due to resulting sanctions regimes and inflated commodity and energy prices.
- **Inflation** – Inflation above a nominal level, if not contained early enough, can tend to have negative outcomes for companies and stock prices. Mitigating the 7.9% Headline CPI rate at the moment is still a reasonably anchored longer term inflation expectation in the market, as well as a Federal Reserve that is beginning to act in earnest to address it.
- **Sentiment** – The University of Michigan's Index of Consumer Sentiment has seen quite a decline, falling from 88.3 in April of 2021 to 59.4 in March of 2022. This level has not been seen since 2011, when the spillover from the European sovereign debt crisis led to concerns of a double dip recession here in the US after the Global Financial Crisis.

Daniel P. Burchill
Security Analyst

How Rising Interest Rates Affect Your Finances

At the start of the pandemic in 2020, the economy plunged into a brief recession. The Fed cut its key short-term funds rate to near zero and ramped up its bond-buying program to stimulate growth to revive the economy. Soaring demand coupled with supply shortages as the global economy works to bounce back has sent inflation to new highs. The Fed is now trying to cool the economy and combat spiking inflation by raising borrowing costs, one of the main ways central banks may use to try to slow rising prices.

The near zero rates that have starved your savings accounts but made it cheaper for you to borrow are expected to move steadily higher in 2022 and beyond. Higher interest rates, in theory, mean people receive a better return on their savings, which should encourage them to save rather than spend, although savers should not expect a windfall overnight. While rates are moving higher, they are starting from such a low point that the gains savers see on cash in money market accounts and CDs will probably be modest. Moreover, if inflation remains elevated, the returns on savings will not likely keep pace with the rise in prices for basics, such as food and gas. Interest costs, the price you pay for borrowing money, will rise on things tied to the Fed's key rate – adjustable rate mortgages, home equity lines of credit, auto loans and credit cards.

What can you do to keep the effects on your finances as minimal as possible? First, make sure you work to keep your credit score as high as possible, since lending institutions and credit card companies offer lower rates to lower-risk customers with high credit scores. Secondly, work to become as debt free as possible. Some basic tips to follow to help manage debt are to create and work to live within a budget. Pay off the most expensive debt first, paying extra on higher interest rate debt while paying minimum payments on lower interest debt. Pay off smaller debts first, which will cut the number of payments and provide some momentum to your goal. Pay more than the minimum payments. Stop credit card spending. Increase cash flow during debt repayment focus by selling unwanted property or getting a second job and using the additional money to pay on debt. Consider debt consolidation or credit counseling services if needed. Finally, avoid returning to poor spending habits.

Those that have student loan debt have enjoyed a reprieve from required payments as part of pandemic relief. If you are not enrolled in an existing loan forgiveness program, it is not wise to count on blanket loan forgiveness, as has been tossed around loosely in political discussion. Whether or not the payments resume as currently scheduled on August 31, 2022, prepare for that debt to return. Reacquaint yourself with the student loans you have – what are the balances, the interest rates and the service companies. This will help you to make a plan to apply the tips discussed above. Make sure your contact information is up to date with the student loan service providers. Determine what your required monthly payment will be when payments resume and review payment options if you do not feel you will be able to afford the payment. Most importantly, if you can afford to do so, pay on the student loans before the payment pause ends. Interest is currently set at zero, so all payments made now go directly to the loan principal.

Find the methods for managing your finances that work best for you to take advantage of higher savings rates and reduce your borrowing costs and debt where possible. Stay positive and without emotion, keep your long-term investment portfolios on track to best achieve the goals that matter to you.

Kelly S. Diehr, FPQP®
Administrative Assistant

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Schwab Updates – How Schwab Protects Your Information

Protecting your accounts and information is Schwab's top priority. Here are some important points you should know.

Cybercrime and fraud are serious threats and constant vigilance is key. Schwab and your financial advisor play important roles in safeguarding your accounts and data, there are preventive steps and actions you can take, too. Many involve common sense activities, like checking your monthly statements to confirm that reported account activity is legitimate. Ask your advisor for additional information— and learn more by visiting Schwab's Client Learning Center at content.schwab.com/learningcenter and clicking the Safeguard Online Information tab at the top.

How Schwab Protects Client Data

Schwab's comprehensive approach integrates complementary tools and technologies, stringent processes and controls, and specially trained employees.

Cutting-Edge Tools and Technology

Below are some examples of how we leverage technology to keep you safe.

- **Behavioral analytics.** We use software to help identify atypical patterns, such as alerts that notify us when a client transaction appears atypical based on the client's history.
- **Hardened infrastructure.** Employee access to software, tools, systems and websites is restricted to align with their particular job function.
- **Secure login capabilities.** To ensure that your login is as secure as possible, we set up stringent system requirements such as strong passwords and account lockout after a number of failed password attempts.
- **Robust phone call verification.** During calls, our service teams leverage tools, such as "Schwab's Voice ID service," to streamline the process of verifying an account holder's identity, Schwab offers secure caller authentication tools.
- **Additional safeguards.** We have other tools, policies, and reinforcements, such as automatic log off if your online session times out due to inactivity and use of one-time codes if you log in using a device that our system does not recognize.

Stringent Operational Controls

- **Limited employee access.** Only designated employees can access your information and account.
- **Stringent validation of your identity**. We secure all channels through which you access your Schwab accounts. When you call us, we authenticate your identity before you can conduct transactions. When you visit a branch, we require you to verify your identity to conduct business.
- **Validation of key transactions.** When sensitive account events occur, such as money being moved in or out, the purchase or sale of a security, or a change in your personal information, we can send you an alert.

Our People and Our Commitment

- **Schwab's Privacy Policy.** We do not and will not sell your personal information to anyone, for any reason, at any time.
- **Strong culture of data security.** When it comes to protecting data, Schwab's employees are one of our strongest defenses. They are required to complete ongoing security training and we continually reinforce data protection importance in various ways.
- **Seamless, continuous account access and service.** Schwab has comprehensive business continuity plans to limit our exposure and protect your assets and account accessibility.

Incident Response

- If you suspect data compromise or fraud, call your financial professional or the Schwab Alliance team immediately at 1-800-515-2157.
- Schwab has a Data Incident Response plan in the event of a data breach incident. Based on an analysis of the situation, Schwab will take the necessary actions defined by our plan, such as working with third parties, including law enforcement, examiners, and regulatory agencies, as appropriate.

The Schwab Security Guarantee

Schwab will cover 100% of any losses in any of your Schwab accounts due to unauthorized activity. Transactions initiated by your independent investment advisor or others to whom you have granted authority to act on your behalf are considered authorized and are not covered. To read the terms and limitations of Schwab's Security Guarantee, visit https://advisorservices.schwab.com/risk-regulation/ asset-safety.

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- Life Insurance
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- Customized Benefit Insurance

The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.

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