CAPITAL WEALTH PLANNING, LLC
Investment Advisory Firm

M.M.O.
Monday
Morning
Observations

Markets Decline Third Straight Week

We have experienced a tumultuous time this year and the volatility is likely to continue.

"Stay committed to your decisions, but stay flexible in your approach. It's the end you're after."
– Anthony Robbins

First and foremost, before we delve into the financial picture, our thoughts and prayers are with our friends, family, and anyone affected by Hurricane Ian! We will recover and, hopefully, be stronger than ever.

The markets experienced a wild week after the Bank of England's pivot and comments from the Fed reiterating calls for an aggressive policy to combat stubbornly high inflation. Markets rallied +2% on Wednesday only to lose that and more on Thursday and Friday amid a stock market sell-off that saw major indexes hit new lows for the year.

The Dow Jones Industrial Average finished at 28,725.51, down 2.92% for the week. The S&P 500 closed at 3,585.62, down 2.91% for the week. The Nasdaq ended the week at 10,575.62, down 2.69%. Cleveland Fed President Loretta Mester told CNBC last Thursday that inflation remains too high and warned the Fed still has room to raise rates more.

This was the third straight weekly decline for the broad indices, which has brought them all into bear market territory, marked by a greater than 20% decline from their highs. The gains from the rally in July and August have been lost as investors process the reality of a high inflation environment. As the third quarter comes to a close, markets are still experiencing volatility and selling pressure as they adapt to the evolving global landscape.

Download our 2022 Q2, 5-star Morningstar rated Enhanced Dividend Income Portfolio Brochure

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EDIP Update

Earning Releases (EPS):
No earnings to report this week.

Dividends:
DE $1.13 per share.

Equity Trades:
No equity trades to report this week.

Options Update:
No options trades to report this week.

Weekly Thought – Last week, the S&P 500 hit its 200-week moving average for the first time since March 2019 during the Covid pandemic. We believe we're nearing an area with a higher probability for a bear market rally. This week we will be looking to write more calls into any sustained strength. Crude oil fell as low as $77, the lowest since November 2021. The VIX index traded as high as 35.

Market Snapshot:

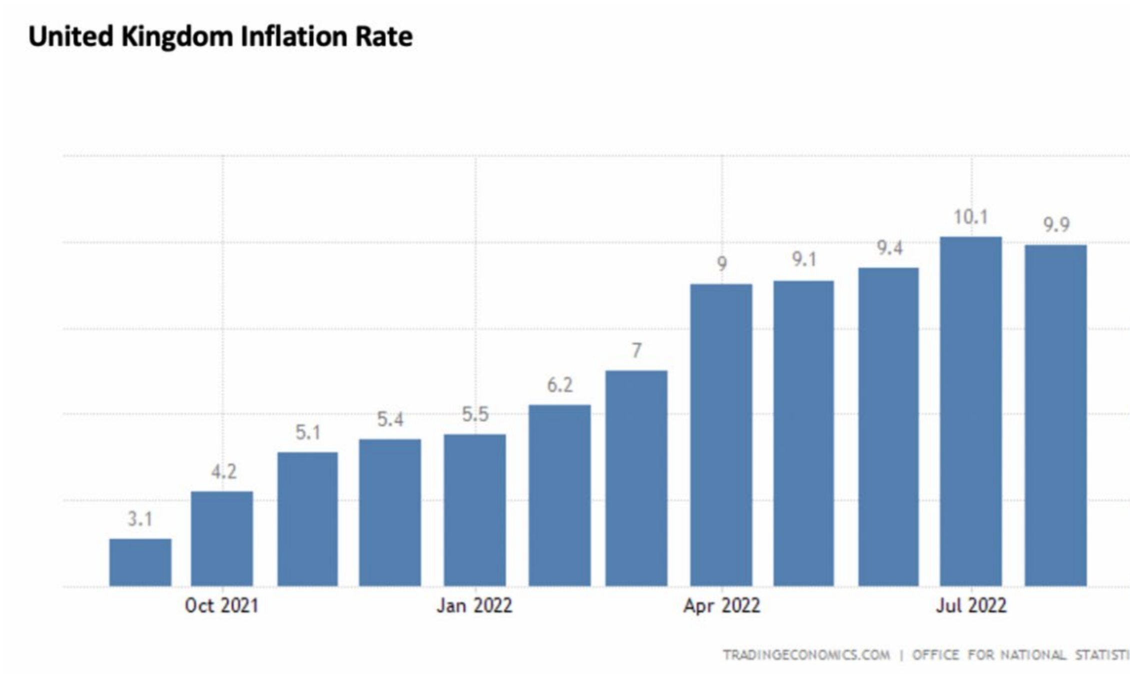
• **Oil Prices** –West Texas Intermediate declined 51 cents to end the day at $80.72/barrel, while Brent crude fell 29 cents to $88.20/barrel.

• **Gold** – Gold rose for the week but was headed to its worst quarter. Spot gold was 0.06% higher at $1,661.79 per ounce, while U.S. gold futures added 0.5% to $1,669.10 per ounce.
• **U.S. Dollar** – The dollar index dropped down 0.8% at 112.17.
• **U.S. Treasury Rates** – The yield on the benchmark 10-year Treasury note was at 3.829%.
• *Asian shares were mixed in overnight trading.*
• *European Markets are trading lower.*
• *Domestic markets are indicated to open in the green this morning.*

Central Bank Stance

Both governments and central banks are struggling to find the best way to calm inflation. In the U.S., the Fed is raising interest rates, and the government is releasing oil reserves from the Strategic Petroleum Reserve. Both are working relatively in tandem toward a common goal, reducing inflation. St. Louis Fed President James Bullard said the Fed is expecting a “fair amount of additional moves this year” to put “meaningful” downward pressure on inflation.

On the other hand, in the UK the Bank of England (BOE) and the government are working at odds with each other. Last week, Great Britain’s new prime minister announced a round of tax cuts. Their plan would fund households and businesses over the next six months as they struggle with soaring energy costs and Euro zone inflation hit a new record high of 10% in September.



Traditionally, tax cuts put more money in consumers' pockets and spur consumer spending. This will probably help families cope with the rising energy costs over the winter but will likely not help reduce inflation for the country. This is at odds with the BOE which has raised rates 200 bps. since last November in its effort to SLOW consumer spending. It also needs to reverse its bond sale operation which was set to start this week and meant to reduce its balance sheet. Instead, bonds will need to be purchased in order to fund the deficit created by the tax cuts and stabilize the fixed income markets which saw massive selling after the announcement.

The BOE shift marks the first "pivot" of a major central bank in this hiking cycle. Pivot meaning a transition from a restrictive monetary policy to an expansionary monetary policy. As economic times get worse, more pivoting may happen in some countries or blocs to alleviate financial hardship.

The European Union is in the midst of an energy crisis which has drawn discussion and debate around price caps and levies against profitable fossil fuel companies. Even though it is facing a comparable situation to the UK, the European Central Bank (ECB) seems likely to raise its key interest rate by another 75 bps. at its meeting this month. The ECB has not committed to a specific magnitude but comments from its members last week alluded to such an action.

The Fed is also going to continue its rate hikes and has specifically said it is not going to change its course until inflation has been brought in check. It seems every other day now, a Fed President reiterates this point making it seem like all are more hawkish than ever. Expectations for rate hikes climbed amid the comments.

European Energy Turmoil

European countries have been reeling due to rising energy prices and too heavy a reliance on Russia as its primary supplier. The tension between Europe and Russia rose when President Putin cut off natural gas supplies to the continent until sanctions against his country are lifted.

Europe has pledged to reduce its reliance on Russian oil and gas imports by finding new suppliers and building a new renewable energy infrastructure. These actions all take time, with some countries unlikely able to completely transition for years to come. The summer months hit citizens especially hard with heat waves causing prices to skyrocket even further. Putin's plan, however, focuses more on the cold months to come. It is likely that European countries will have to make some concessions or accelerate their other plans in order to keep their heaters on come winter.

Watch this recap on 'Closing Bell: Overtime' as I discussed our case for slowly adding to our Apple position

The Road Ahead

This week we will receive new manufacturing data as well as new employment data. We will be watching the employment numbers and job openings. As the summer months wind down, some of the seasonal jobs will be transitioning and there could be a decrease in openings. A stronger-than-expected jobless claims report added to the current sentiment that this is a sign of a cooling labor market. Additionally, the labor force participation rate ticked up in August. This indicator is the one labor-related number which has not quite reached its pre-pandemic level.

Through three quarters, this is the fourth worst year for the S&P 500 in its history. We have experienced a tumultuous time this year and the volatility is likely to continue. Inflation still hasn't been contained and geopolitical tensions are mounting on multiple fronts: Russia-Ukraine and China-Taiwan.

Despite the headwinds our economy is facing, we believe that markets may be a little too negative right now, much as they were a little too positive over the summer when they believed inflation had peaked.

We will continue with our investment process of investing in strong companies with fortress balance sheets and which have so far withstood the test of time.

Thank you for your continued trust and confidence.

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PLEASE READ: The above information is deemed to be accurate and obtained by reliable and noted sources.

Indices Descriptions: The **Standard & Poor's 500** Index (S&P 500) is an index with 500 of the top companies in the U.S. and represents approximately 80% of the total value of the U.S. stock market.The **Dow Jones Industrial Average (DJIA)** is one of the oldest, most well-known, and most frequently used indexes in the world. It includes the stocks of 30 of the largest and most influential companies in the United States and is known for its listing of the U.S. markets best blue-chip companies with regularly consistent dividends.The **Nasdaq Composite Index** is a market-capitalization-weighted index of all the stocks traded on the Nasdaq stock exchange.

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All General Market Statistics and price quotes are sourced by Yahoo Finance.

5-Star Overall Morningstar Rating™ out of 29 Derivative Income funds as of March 31st, 2022.

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