

## Inflation Concerns Persist

The S&P 500 Index fell sharply to end the week. Investors went on the defensive after the May Consumer Price Index (CPI) reading indicated that most major categories of inflation have not slowed their ascent. The S&P 500 ended the week -5.0%, the Dow was -4.6%, and the NASDAQ was -5.7%. The 10-year U.S. Treasury note yield increased to 3.165% at Friday's close versus 2.941% the previous week.

The May CPI report showed consumer prices increased 8.6% year-over-year and core CPI, which excludes food and energy prices, increased 6.0% year-over-year. Food prices were +10.1% year-over-year and energy prices were +34.6% year-over-year. At the same time, the price of gasoline was making headlines as the national average price for a gallon of regular gasoline exceeded \$5.00 for the first time ever.

The Federal Open Market Committee (FOMC) will hold a two-day meeting on June 14th and 15th. We expect the FOMC to increase the Fed funds target rate by 0.50% to a range of 1.25% to 1.50%. The Fed's balance sheet reduction is also underway and should be reduced by \$47.5 billion in June. As discussed below, the FOMC will also provide an update to its Summary of Economic Projections.

As we head into the end of the second quarter, the current consensus for second quarter earnings growth is 5.3% on 9.6% revenue growth. Full-year 2022 earnings growth is currently forecast at 9.4% on 10.7% revenue growth.

In our *Dissecting Headlines* section, we preview the upcoming FOMC meeting.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-5.0%	-17.6%	Aggregate Bond Index	-1.3%	-9.8%
Dow Jones Industrial Average	-4.6%	-12.8%	U.S. Dollar Index	2.0%	8.5%
NASDAQ 100	-5.7%	-27.2%	WTI Crude Oil	1.5%	60.4%
Russell 2000 (Small Cap Index)	-4.4%	-19.4%	Gold	1.1%	2.3%
International Stocks (MSCI ex-US)	-3.4%	-14.3%	Real Estate (US REIT Index)	-5.7%	-20.3%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: FOMC Meeting

The June Federal Open Market Committee (FOMC) meeting will wrap up on Wednesday afternoon. It is widely expected that the committee will raise the Fed funds target rate by 0.50%. This would increase the Fed funds target rate from 0.75% - 1.00% to 1.25% - 1.50%. Based on the CPI report from last week, there has been some speculation that the FOMC would need to raise rates higher.

June is also the month the Fed announced it would start reducing the size of its balance sheet. The Fed's balance sheet is approximately \$8.9 trillion in size and the announced plan has been to reduce the balance sheet by \$47.5 billion each month for June, July and August. Following the first three months, the monthly reduction would then ramp to \$95 billion. These balance sheet reductions would include a combination of Treasury and mortgage securities maturing and via sales. Any update on the balance sheet reduction program would be of interest.

The FOMC will also provide an update to its quarterly Summary of Economic Projections. In addition to the committee's outlook for short-term interest rates, the projections include outlooks for Gross Domestic Product (GDP), Unemployment, and Inflation (PCE Prices). These data points are helpful in understanding how the Fed officials view the economy and how it shapes their policy views.

## The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



**Frederick Wright, CFA / Managing Director & Portfolio Manager / [fwright@novapointcapital.com](mailto:fwright@novapointcapital.com)**

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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