HUGHES | FINANCIAL SERVICES, LLC

Q1'22 Economic *update*

The past few years have proved Greek philosopher Heraclitus right when he proclaimed that, "the only thing constant is change." Just when a sense of normalcy seemed to come to fruition, the world was thrown another monkey wrench during the first quarter of 2022 when Russia invaded the Ukraine. For investors, this added more fuel for market volatility. Combined with inflation and rising interest rates, the first three months of 2022 became a roller coaster ride that challenged even the steadiest investors.

The first quarter of 2022 can clearly be described as volatile. After experiencing its worst January since 2009, the S&P 500 hit correction territory in February. After several more drops, equity markets began to rally towards the end of the quarter. In March, the S&P 500 rose more than 3% while the Dow Jones Industrial Average (DJIA) rose 2.2%. Yet even after those increases, both bellwether indexes did not reach the same values they started the quarter at.

For the quarter, U.S. stock markets closed their first losing quarter since March of 2020. The S&P 500 closed at 4,530.41, down 4.9% and the DJIA closed at 34,678.35, down 4.6%.

During the past three months, the cost of living saw a sizeable uptick as the consumer price index rose to its highest level since January of 1982. Due to the Russia/Ukraine war, consumers experienced an average 24% jump at the gas pump from February to March, which meant as much as a 53% increase over the past year.

In February, inflation rose 7.9% from 12 months earlier, increasing inflation to a 40-year high. Although there is no established formal inflation target, the Federal Reserve generally considers an inflation rate of approximately 2% acceptable.

All eyes were on the Federal Reserve and interest rates as the Federal Open Market Committee (FOMC) met in March and raised their federal funds interest rates range for the first time since 2018. This move set the tone for anticipating several more rate hikes in 2022 and 2023, and at possibly higher basis points than previously expected.

It's virtually impossible to avoid being affected by the current environment of inflationary pressure somewhere in your daily life. Whether it is at the gas pump or the grocery store, consumers are feeling squeezed and are looking for ways to cut costs and spending in their daily lives.

Q1 HIGHLIGHTS

- Equity markets have experienced the worst quarter since Q1/2020
- The Fed raised the interest rate range to 0.25 – 0.5%
- Expectation of accelerated interest rates faster than expected back in December depends on the rate of inflation
- Inflation highest in 40 years
- Many variables including global conflicts, COVID variants, and quantitative tightening are key factors in our economic recovery
- Volatility is here

MONEY RATES

(as posted in Barron's 4/3/2022)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction)c	0.33%	0.07%
Bank Money Marketz	0.07%	0.08%
12-month CDz	0.20%	0.19%

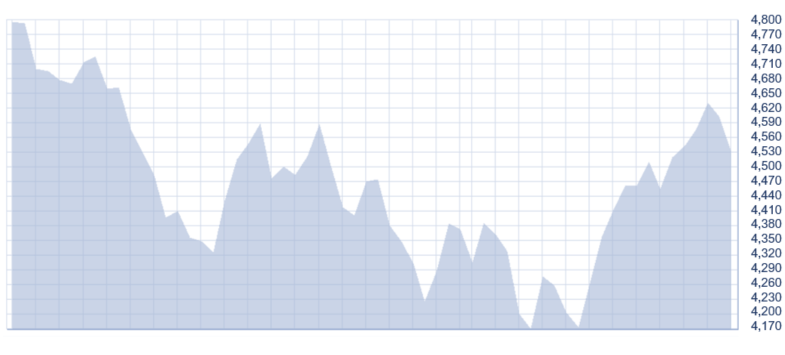
c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

At the FOMC's March meeting, Chairman Jerome Powell expressed the need to support a strong labor market. "We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. We know that the best thing we can do to support a strong labor market is to promote a long expansion, and that is only possible in an environment of price stability. As we emphasize in our policy statement, with appropriate firming in the stance of monetary policy, we expect inflation to return to 2 percent while the labor market remains strong." He added, "We will need to be nimble in responding to incoming data and the evolving outlook."

Stock markets can fall as an immediate response to rising interest rates. This time, markets defied conventional history and rallied. After an initial drop, the S&P 500 closed the day that the Fed announced the rate hike on a very strong note with the S&P 500 closing 2.2% higher than the day's opening and the DJIA closed 1.6% higher.

There are always multiple factors in the economic environment that need to be watched because they can directly affect equity markets. With an excessive number of media sources nowadays, investors are being barraged with data and news making it difficult to keep up with the facts and information that may affect their personal situation. Our role as your financial advisor is to keep an active eye on any issues, changes and activity that could directly affect you and your situation.

S&P 500 — Q1/2022 — - 4.9%



DJIA — Q1/2022 — - 4.6%

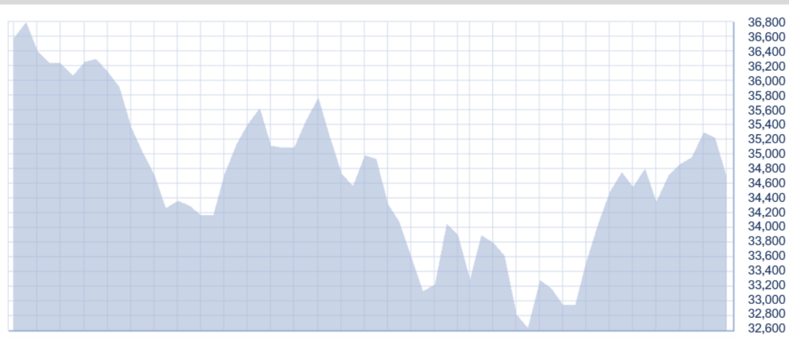


Chart Source: www.bigcharts.com

& INFLATION INTEREST RATES

The much-anticipated rise in interest rates came in March, the first rate hike since 2018. The benchmark federal funds rate was increased by a quarter percentage point to between 0.25-0.5%.

Also in March, the Fed released new projections for future interest rate increases. This past December, their projections suggested 3 quarter percent increases in 2022. Now, officials are signaling there may be six more rate hikes this year and expect to see the fed funds rate at nearly 2% by the end of this year. This will bring interest rates to just above pre-pandemic rates.

The Fed also suggested the percent of increase could rise as well, with half-percent (or 50 basis points) increases on the horizon to meet the near 2% target rate by the end of this year.

Federal Chairman Jerome Powell stated, "The labor market is very strong, and inflation is much too high. There is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability." He added that, "if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so."

With interest rates combating the rapid inflation uptick, the median federal funds projections show interest rates at or near 2.75% by the end of 2023, bringing it to its highest rates since 2008.

These new projections are a product of the larger than expected rise of inflation. Additionally, COVID-19 is still playing a role in supply chain disruptions which are contributing to a sharp rise in the cost of goods. Add in Russia's war on Ukraine and the sharp increase in the price of oil and you have an unhealthy inflation environment. Although United States oil prices have increased, many people may not know that the U.S. is currently one of the largest oil producers in the world and has been able to stave off drastic oil shock better than it has in the past.

As your financial advisor, we are committed to keeping a watchful eye on the economy and how interest rate hikes and the trajectory of inflation impacts our clients. **If you are concerned about how these key items could affect you, please connect with us to discuss possible hedges against inflation and rising rates.**

Inflation Rates – Five Year Chart

Although there are a few ways to measure inflation, The Consumer Price Index (CPI), created by the Bureau of Labor Statistics (BLS), is most used to measure inflation.

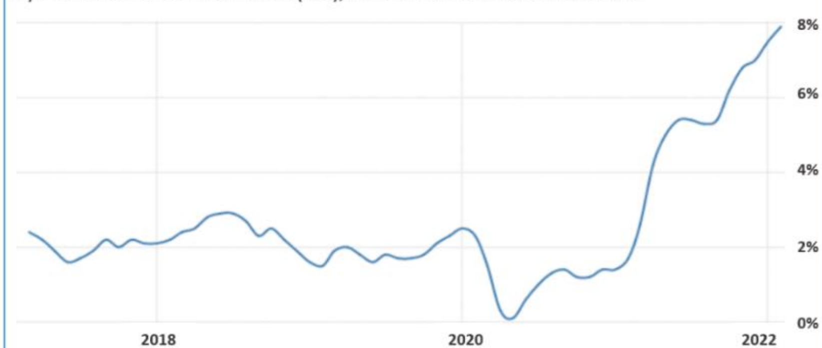


Chart Source: tradingeconomics.com

Wednesday, April 20 | 12:00 – 12:20 pm
Tax Planning for 2022: Let's Maximize Your Savings!

Wednesday, May 4 | 12:00 – 12:30 pm
Headwinds & Tailwinds: An Economic Update

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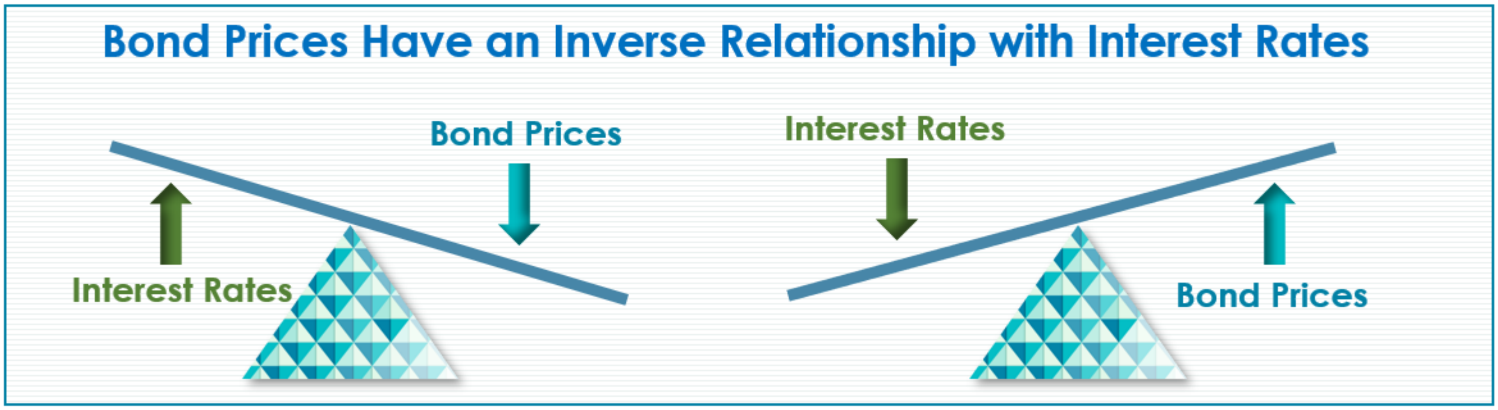
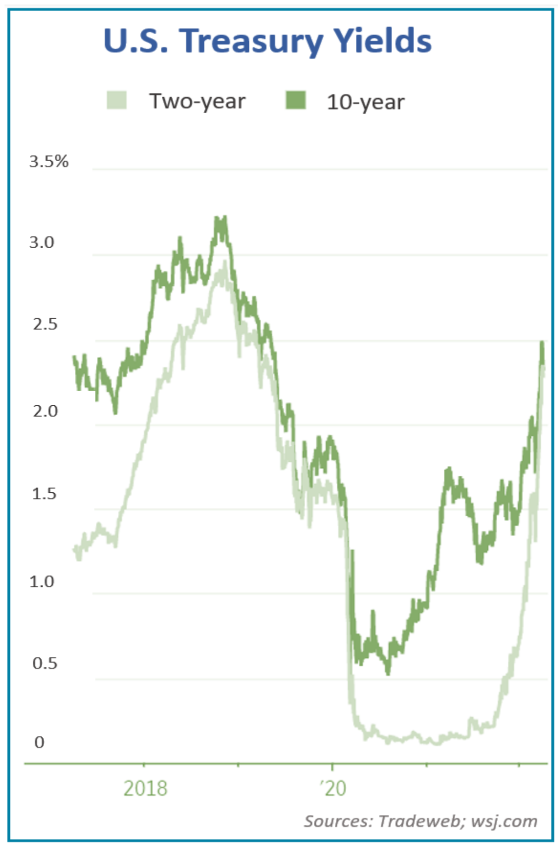
The Bond Market & Treasury Yields

Bonds and interest rates move in the opposite direction. When interest rates rise, existing bond prices tend to fall, and conversely, when interest rates decline, existing bond prices tend to rise.



Recent times have not been very beneficial for bond holders. Bonds are often considered to be more stable than equities for investors. This quarter, volatility in the bond market was high and U.S. bonds had their worst quarter in over 40 years. As an example, the Bloomberg U.S. Aggregate bond index, which includes mostly U.S. Treasuries, corporate bonds, and mortgage-backed securities, had a -6% return in the first quarter – its biggest quarter loss since 1980. Short- and mid-term bond yields also experienced rate increases this quarter. The 10-year Treasury yield finished the quarter at 2.35%. This is a significant jump from the 1.5% yield that 10-year bond holders had at the end of 2021.



With interest rates rising, investors are expecting short-term yields to reach 3% in 2023, significantly higher than the current near 0.5%. This is a good time for any bond investors to review their holdings.
In addition to rising interest rates, "quantitative tightening" could affect bonds. The Fed is beginning the task of reducing its $9 trillion balance sheet in part created by its bond buying program – or quantitative easing – that helped stimulate the economy during the pandemic. Although the Fed stopped purchasing bonds this quarter, the impact of "quantitate tightening" on bonds will depend on how much and how quickly the Fed moves.

David Sekera, Morningstar's Chief U.S. Market Strategist stated, ``Based on how much and how fast the Fed decides to unwind the balance sheet could have a significant impact on the supply-demand characteristics of the bond markets."

Eddy Vataru, Lead Portfolio Manager of the Osterweis Total Returns Fund, believes that Treasuries, which are typically viewed as "safer" investments, are also being impacted by the "calamity that's driving inflation through the roof and trumping the flight-to-quality nature of the asset class."

Remember, bonds can typically be a key component in a diversified portfolio and can provide a good shield from equity volatility. However, keep in mind that investors who placed a large percentage of their portfolio in bonds with the expectation of generating stable returns may have seen lackluster results. If you'd like to explore any exposure you have to bonds and whether they are still a good fit for your personal goals, please contact us. We are monitoring how the Fed's movements and rising interest rates are affecting bond yields.

Would You Retire on a Cruise Ship?

When people leave their jobs and transition into retired life, one major decision is where to live. Some choose to stay put while others decide to move to a different city, perhaps to be closer to friends or children. More adventurous retirees, looking for adventure and (sometimes) lower costs of living, decide to retire abroad. But a certain select group of retirees choose an even different lifestyle: living much of their year on cruise ships.

Retirees interested in the cruise lifestyle have many options to choose from. At the most expensive end are cruise ships that constantly sail the world and allow retirees to purchase or lease apartment units on board (apartments on one of these ships cost between $1 million and $8 million, with 12- and 24-month leases starting at $400,000). Retirees can choose to remain on board for extended periods or intersperse time on the ship with stints back in their home country. Another option is to sign on for an extended sailing of one of the major cruise lines, which can cost more than $25,000 per person. For example, Holland America offers an annual 128-day Grand World Voyage that allows passengers to travel around the world without having to plan extensive flights or hotel stays (and perhaps escape the winter in their permanent home!). And for those who would rather spend shorter periods on the water, other retirees link several shorter cruises together to spend a month or longer on the water, taking advantage of the amenities cruise ships have to offer (from housekeeping service to meals onboard).

For those who think the cruising lifestyle may be appealing, items that should be reviewed include the range of potential costs from cruise fares and amenity fees to ensuring proper travel health insurance coverage.

Excerpts from Condé Nast Traveler

HELP US HELP OTHERS

A theme you will hear from us this year is our **"HFS Growth Initiative"** in which we look to you to help us grow.

When we look back at the growth of HFS, we find that many of our new client relationships often started with introductions from our best clients and we are so honored by your trust in us.

In 2022, we're asking for your continued support by:

ADDING family/friends' names to our mailing list to receive our timely reports and updates

INVITING a guest (or two or three!) to any of our educational webinars that feature timely financial planning topics

REFERRING someone to us for a complimentary, no obligation consultation

What does all this mean for investors?

As we continue onto the second quarter of 2022, many factors could complicate equity market performance and the speed and direction of the economy, including Russia's war on Ukraine and COVID-19 variants. Savers may need to become more disciplined and focused. Volatility isn't likely to go away in the coming months, so investors will need to be prepared.

Interest rates will continue to be at the forefront of our watch list. They can be complex and affect investors differently depending on their goals and timelines. These five items are usually partnered with rising interest rates:

- Mortgage rates increase
- Interest rates increase on savings accounts and Certificate of Deposits (CDs)
- Existing bond prices decrease
- Commodity prices decrease
- Equity markets may become more volatile

The FOMC is set to meet again the first week of May. It is widely anticipated that they will approve another rate increase. With interest rate hikes on the horizon, we suggest you consider:

- reviewing all income-producing investments
- locking in your mortgage rates
- maintaining liquidity for all near-term needs
- contacting us to review your personal financial plan, including risk management, diversification, time horizons, and any major life changes

While stocks are typically not directly affected by interest rates, they can be indirectly affected when rising interest rates cause banks to increase their rates for consumer and business loans. Additionally, reduced consumer and business spending could lower the stock value for many companies.

Borrowing has become more expensive with the rise of interest rates. Jacob Channel, Senior Economic Analyst at LendingTree, noted the average 30-year fixed mortgage rate is now 4% and likely to increase. This reflects a sharp spike from 3.85% to 4.16% the day after the Fed increased the fed funds rates and shared news of more rate hikes.

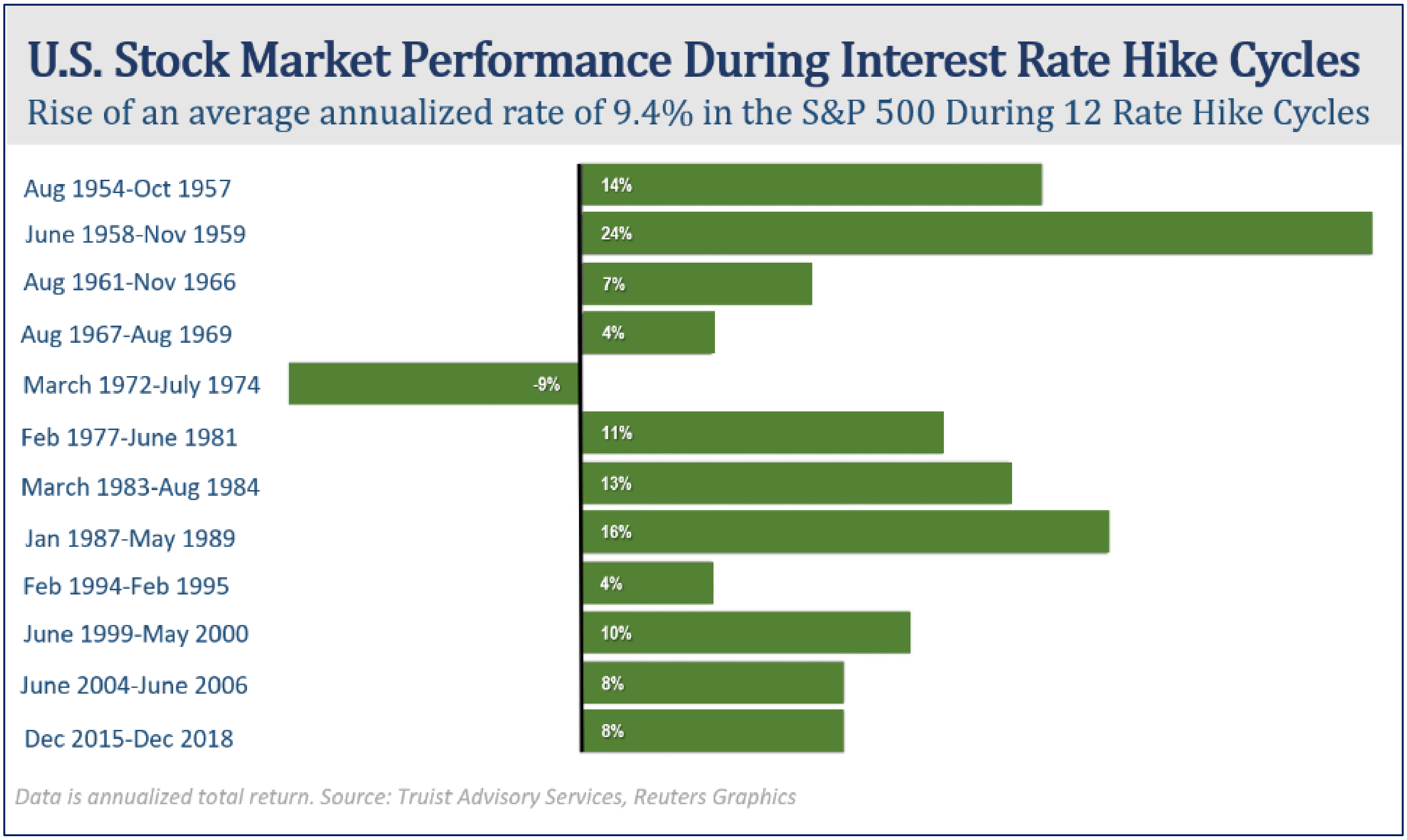
The Fed is expected to make several more rate moves this year and in 2023. With a lower unemployment rate and better supply chain movement, it's hopeful that the increase in interest rates will help quell rising inflation. Fed officials are also estimating that as energy prices ease and supply chains return to more normal operations, we may see inflation drop down to 2.6% by the end of 2022.

The good news is that historically, after an initial reaction, U.S. equity markets have risen during a period of rising interest rates. This is because interest rates typically increase in a healthy economy.

According to a Deutsche Bank study of 13 interest rate increase cycles, the S&P 500 returned an average of 7.7% in the first year the Fed raised rates. An analysis by Truist Advisory Services of 12 rate hike cycles showed the S&P 500 posting a total return average of 9.4% with 11 out of those 12 periods having positive returns.

Moving forward, we still stand by our mantra of “Proceed with Caution.”

There is currently a lot of noise that can distract investors: equity market volatility; interest rate increases; inflation; global unrest; and pandemics have all given the media, analysts, and economists much to talk about. Recently, two words that have been widely used are “stagflation” (high inflation, high unemployment, and slow or no economic growth) and “recession” (recognized as two consecutive quarters of economic decline). However, irrespective of what is presented, it’s wise to not try to predict the future, but instead focus on your long-term goals and objectives.



Now is an ideal time for a proactive approach to your financial goals. Having a solid investment strategy is an integral part of a well-devised, holistic financial plan. Staying disciplined and following that strategy during times of volatility is equally important. As your financial advisor, we are here to help you pursue your goals. Call our office to discuss any concerns or ideas you have or bring them up at your next scheduled meeting. Prior to making any financial decisions, we highly recommend you contact us so we can help determine the best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon fluctuations when changing anything in your financial plan.

As always, connect with us via phone or email with any concerns or questions you may have. We are here for you!

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Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families in or near retirement to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- tax planning
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services proudly hold a variety of professional designations and certifications and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the country.